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Dear James

The Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill

In my response to the Committee's first stage report I said I accepted your recommendation that a Remote Rural, Remote Small Town and Island Minimum Income Standard be introduced. I also said I would examine the options and ask for your views.

I therefore enclose information on the 3 options I have examined for a Remote Rural, Remote Small Town and Island Minimum Income Standard. After having carefully considered these options, my preference is option 3 as it is the most comprehensive option and is realistic and achievable.

Before I take the final decision, I would be grateful for the views of the Committee on these options, or I can attend Committee to discuss if that is your preference. I would appreciate your feedback ahead of the time I will need to table amendments in Stage 2.

Kind regards

KEVIN STEWART

Annex

Remote Rural, Remote Small Town & Island (RRRSTI) Options Minimum Income Standard (MIS)

The Scottish Government has developed 3 options for the delivery of a Remote Rural, Remote Small Town and Island (RRRSTI) MIS. All of these options have been informed by information and advice provided by Professor Donald Hirsch, Director of the Centre for Research in Social Policy at Loughborough University, responsible for the production of the UK MIS.

There are some key underlying themes across the 3 options, reflecting the expert advice from Professor Hirsch:

- a) That the extensive research that goes into the production of the UK MIS can be utilised, as there are many common goods and services that will be required across various different household types across the whole UK.
- b) That the focus of additional work in Scotland for developing an RRRSTI MIS should be on identifying any differences in required goods and services and ensuring the pricing reflects additional costs faced by households living in these areas.
- c) That extensive primary research need only to be carried out periodically, with Professor Hirsch suggesting that every 8 years would be sufficient. A suggested starting date for this research would be 2020.
- d) That desk based analysis could be undertaken in intervening years to update the prices for basket of goods and services to take account of inflation.
- e) That collection of local price data every 2 years could be undertaken along with an analysis of impact of any changes to the UK MIS on RRRSTI areas.
- f) That the scheduling of primary research and analysis for the RRRSTI MIS could be aligned with scheduled updates to the UK MIS, which are staggered across years by main household types.
- g) There is much greater variation in MIS by main household types, which ought to be reflected in separate uplifts by household type.
- h) There is less variation in MIS by geographic area within RRRSTI, whereby an average compiled by sampling various locations within these areas would suffice for fuel poverty purposes.

The 3 options that have been developed take differing account of these key themes, which is also reflected in the indicative costs. These are presented in the table below.

It should also be noted that RRRSTI areas are defined by categories 4 & 6 of the Scottish Government Urban Rural Classification.

	Option 1	Option 2	Option 3
Using UK MIS as starting point then identifying price differences in remote rural, remote small town and island areas	✓	✓	✓
Using UK MIS as starting point then identifying specific basket of goods and services required in remote rural, remote small town and island	✓		✓
Exclusion of housing costs, domestic fuel bills & childcare costs - accounted for separately in Fuel Poverty definition	✓	✓	✓
Geographic coverage of remote rural, remote small town and island areas	✓	✓	✓
Single uplift - suggested at 110% of UK MIS (to be updated in 2020)	✓		
Separate Household Type uplift by 3 main groups: working age, pensioner, families (to be calculated based on previous research and re-based following extensive research in 2020 for Option 3)		✓	✓
Annual updating of prices for inflation	✓	✓	✓
Biannual updating and collection of prices from local stores in RRRSTI areas and analysis of impact of any changes to UK MIS		✓	✓
Extensive primary research every 8 years	✓		✓
Suggested date of extensive primary research	2020		2020
Total indicative cost for an 8 year cycle	£100k - £120k	£100k - £120k	£200k - £240k

Option 1 – is based on generating a single 110% uplift to a RRRSTI MIS, based on the evidence of previous work on the ‘Minimum Income Standard for Remote Rural Scotland’, funded by the Highlands and Islands Enterprise. This percentage will be applied until it is re-based following extensive primary research suggested in 2020. This option was suggested by Argyll & Bute Council and this simplified and cheaper option is based on periodically reviewing this percentage every 8 years. As this uplift will be applied to the UK MIS in interviewing years, it will also encompass price inflation and other changes made to the UK MIS.

Option 2 – focuses on applying RRRSTI prices to all the goods and services contained in the UK MIS. It includes annual inflationary updates as well as biannual collection of price data from RRRSTI areas. It also has the benefit of producing separate MIS uplifts for the 3 main household types. This option does not however consider the need for specific goods and services in RRRSTI areas and does not therefore include any extensive primary research into these issues.

Option 3 – is the most comprehensive approach. It includes a full assessment of prices in RRRSTI areas and combines this with extensive primary research to identify differences in the basket of goods and services required by households in RRRSTI areas. It will also produce separate MIS uplifts for the 3 main household types. It is envisaged that RRRSTI MIS percentage uplifts will be calculated using the previous research from Highland and Islands, similar to Option 1, but broken down by household type and then re-based following extensive research suggested for 2020. This option is therefore the most expensive.