

BRIEFING ON THE FUEL POVERTY (TARGET, DEFINITION AND STRATEGY (SCOTLAND) BILL

Introduction

Under section 88 of the Housing (Scotland) Act 2001, the then Scottish Executive set a target date of ensuring, so far as reasonably practicable, that people were not living in fuel poverty in Scotland by November 2016. A fuel poverty statement was published in 2002, which set a definition and a requirement to report on progress. In June 2016 the Minister for Local Government, Housing and Planning advised Parliament that this target would not be met.

In late 2015 two independent working groups – the Scottish Fuel Poverty Strategic Working Group and Scottish Rural Fuel Poverty Task Force – were set up by Ministers to look anew at the issues and make recommendations to inform the approach to tackling fuel poverty and improving the energy efficiency of people's homes wherever they live in Scotland. Both groups recommended a new approach, including: undertaking a review of the definition to ensure those most in need, no matter where they live in Scotland, were better identified which would enable better targeting of support, and setting a new target in legislation. Scottish Ministers agreed to the two group's high level recommendations, including commissioning an independent academic review of the fuel poverty definition.

A panel of academics reviewed the definition which resulted in proposals which have been agreed, with some minor amendments, following consultation with relevant stakeholders. This proposed new definition and a proposed target to contribute to the eradication of fuel poverty was consulted on in late 2017. The consultation set out an ambition to tackle fuel poverty by addressing the four drivers of fuel poverty (energy prices, the energy efficiency of homes, incomes, and behaviours in the home).

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

On 26 June 2018 the Scottish Government introduced the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill 2018. The Bill has four key aims:

- to set out a new target relating to the eradication of fuel poverty that is ambitious but achievable;
- to introduce a new definition of fuel poverty that focuses our support on those low income households which need it most;
- to mandate the production of a new long-term fuel poverty strategy;
- to oblige the Scottish Ministers to publish and lay before the Scottish Parliament periodic reports every 5 years

Scotland is one of only a handful of European countries to define fuel poverty, let alone set a goal to eradicate it. Achieving the target will place Scotland amongst the very best in the world in terms of tackling fuel poverty. By setting a challenging target and bringing the definition of fuel poverty closer to the definition of relative income poverty, we aim to achieve a fairer and more socially just Scotland.

A new target for fuel poverty

The proposed fuel poverty statutory target is to ensure that, by 2040, no more than 5% of households in Scotland will be in fuel poverty. This target recognises that there will always be households that move in and out of fuel poverty due to changes in their incomes and energy costs.

The target is challenging, and can only be achieved by taking actions across all four drivers of fuel poverty. Achieving these aims will mean intervening to improve people's homes and the way that they live in them in a way government has never done before to make them easier and more affordable to heat. We must therefore ensure that the public understands and supports the steps needed using a mix of advice, support and other incentives. Everyone – local government, businesses, the third sector, landlords, tenants and home owners – will all need to play their part.

Improving the energy efficiency of our homes is a long term permanent way to help tackle fuel poverty. This must be closely linked with ensuring that our homes have efficient heating systems. We know that low carbon heating must be part of how we heat our homes in future. We will achieve this in a way that balances the need to meet our fuel poverty targets alongside our decarbonisation and greenhouse emission reduction targets.

A New Definition of Fuel Poverty

The creation of a new definition of fuel poverty which targets our support to low income households is vital to the fight against fuel poverty.

Our initial analysis of the proposed new definition indicates that around 24% of Scottish households (584,000) were living in fuel poverty in 2016.

Proposed changes to the definition of fuel poverty

The current definition of fuel poverty is that a household is in fuel poverty if, in order to maintain a satisfactory heating regime, it would be required to spend more than 10% of its income (including Housing Benefit or Income Support for Mortgage interest) on all household fuel use.

The proposed new definition of fuel poverty establishes a two pronged test. A household must fulfil both of the following criteria

- The first element of the test retains a fuel cost to income ratio whereby, in order to qualify as fuel poor, a household requires to spend over 10% of its income on household fuel. As is the case with the current definition, the applicable fuel costs are those deemed necessary to heat the home as opposed to those fuel costs which the household actually incurs. However, unlike the current definition, the income used in this part of the test is the household's after housing costs ("AHC") net income. This means that rent or mortgage costs, council tax and charges for water and sewerage are deducted from the household's net income whereas under the current

definition, household income is defined as income before housing costs with only council tax, water and sewerage charges deducted.

- The second element of the test introduces an income threshold whereby a household is in fuel poverty if, after the deduction of its necessary fuel costs and its childcare costs (if any), its remaining AHC net income is 90% of the UK MIS for its household type after the deduction of the notional costs applicable within MIS for housing, council tax, water rates, fuel and childcare.

We will be innovative and use as our acceptable standard of living criteria the UK Minimum Income Standard (MIS) produced by the Centre for Research in Social Policy at Loughborough University. This will be set at 90% of this standard, after the costs for fuel, housing, council tax, water rates and childcare are deducted. The MIS thresholds, for most household types, are considerably higher than the commonly understood measure of relative income poverty; the 60% median income after housing costs.

Under the proposed new definition, the measurement of fuel poverty would show a stronger relationship between fuel poverty and low income. Higher-income households which are not struggling to pay their fuel bills would be likely to come out of fuel poverty thus addressing a common criticism that the current definition does not focus on those who are most in need of support.

How these changes affect the number and type of households which would be defined as living in fuel poverty

As per the diagram below, our initial analysis indicates that 23.8% of Scotland's households would have been in fuel poverty under the new definition in 2016¹, versus 26.5% under the current definition.

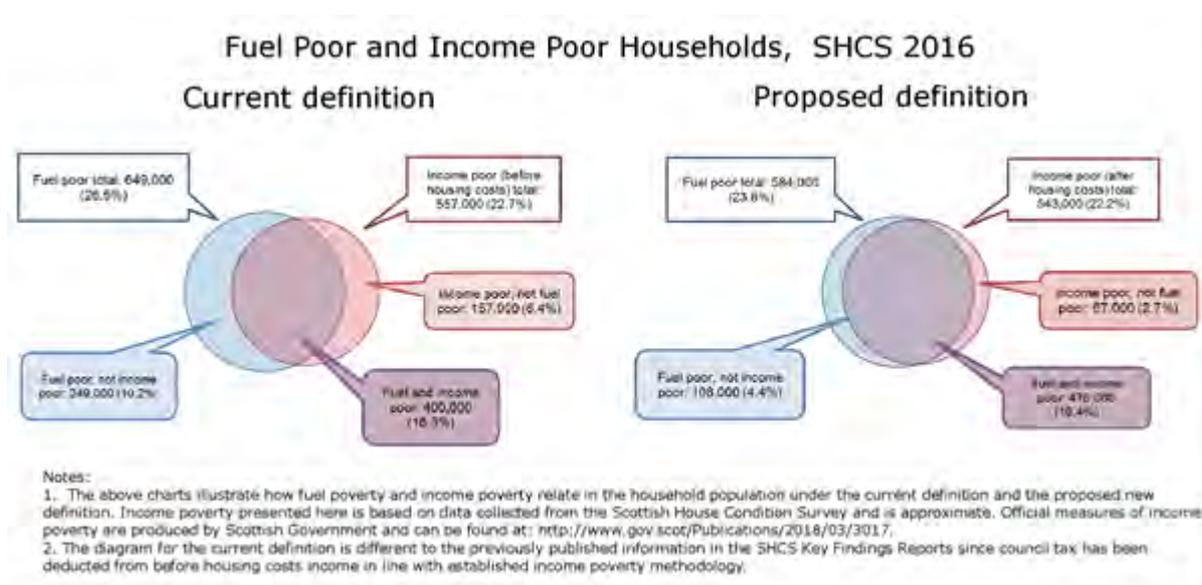
As a result, while more aligned with relative income poverty, the new definition also allows us to capture households which are above the threshold for relative income poverty but which struggle to pay their fuel bills. This means:

- Almost all households which meet the definition of relative income poverty will be below MIS.
- Just over 80% of households which are fuel poor are also income poor under the proposed new definition compared to just over 60% under the current definition.
- Households in the lowest income band will have higher rates of fuel poverty.
- For families, younger households, private and social rented tenants, and households living in energy efficient dwellings, fuel poverty rates are higher

¹ All data presented in this paper relating to the proposed new definition of fuel poverty is our best available estimate based on data from the Scottish House Condition Survey ("SHCS). SHCS findings are published annually in respect of the preceding year. The SHCS report on key findings from 2017 is due to be published in December 2018 so that the most recent report pertains to the findings from 2016. Further work is in progress to develop our measurement of the new definition going forward and details can be found in the Technical Annex to the Draft Fuel Poverty Strategy. However, relatively small numbers of households will be affected by most of the developments and we do not expect them to have a substantial impact on the overall results.

under the new definition. This is mainly as a result of the move to measuring household income after housing costs.

- Older households, outright owners, households where at least one member has a long-term sickness or disability and households occupying dwellings in the bottom energy efficiency bands have lower fuel poverty rates under the new definition. This is mainly as a result of including an income threshold in the definition.
- The combined impact is a greater reduction in the fuel poverty rate in rural areas compared to urban areas.



How the needs of rural, remote rural and island communities are taken into account in the measurement of Fuel Poverty

One of the key areas where research suggests there are higher costs in rural, remote rural and island areas is in domestic fuel bills. These higher costs are addressed in the measurement of fuel poverty under the proposed new definition by the use of BREDEM, a well-respected, state of the art model which is the industry standard, to estimate a household's required energy consumption and, hence, its required fuel bills. BREDEM already takes into account regional weather conditions. In response to concerns raised by rural and island stakeholders, we are further reviewing the weather information used in this estimation, together with the fuel prices pertaining to fuel types other than gas and electricity, with the aim of making these more localised where possible.

How the UK Minimum Income Standard calculated

Full details of the methodology can be found in the annual MIS reports². A summary, drawn from those reports, is provided below.

² <http://www.lboro.ac.uk/research/crsp/mis/reports/>

MIS addresses the question of how much money is required to achieve a minimum acceptable standard of living in the UK. It involves detailed research into the goods and services that people think should go into a minimum household budget. As highlighted in the MIS reports, this can range from household goods like toasters and toothpaste to aspects of social participation such as Christmas presents and weekly social activities.

Expert knowledge on key issues, such as energy use and nutrition, is also applied. The budgets apply to the whole of the UK, with the research mostly taking place in the Midlands. From 2018, budgets have been reviewed in other parts of the UK, including Dunfermline and Dundee.

Why there is no enhancement to the UK MIS for remote rural areas as recommended by the independent, academic Scottish Fuel Poverty Definition Review Panel (“the Panel”)

We considered the recommendations of the Panel closely and we believe that our approach to using UK MIS aligns with other measures of poverty such as the national minimum wage, minimum living wage and (real) living wage and other measures of poverty based on income, such as child poverty. Our approach aligns with other strategies to tackle poverty, reduce child poverty, improve health outcomes and make Scotland a fairer country.

By further reviewing the weather and fuel cost information applied in the BREDEM model, and using a model that takes house type and construction into account, we are doing all we can to take account of the fact that rural, remote rural and island dwellings may be harder to heat. In addition, we continue to work with all local areas to ensure that delivery is effective in different parts of the country. The additional costs of delivering energy efficiency measures in rural, remote rural and island areas are recognised, which is why funding per household is higher and grant caps per household are also higher in these areas.

Through the development of the Fuel Poverty Strategy, we will continue working with local authorities and partners to build on the innovative approaches taken across the country and, particularly, within rural, remote rural and island areas. We remain committed to taking a partnership approach and enhancements to delivery routes.

Why a remote rural MIS for Scotland should not be developed and maintained on an annual basis

It would be costly to develop and maintain regional MISs, around £0.5m over a 4 year period. The vast majority of the decrease in fuel poverty in rural, remote rural and island areas is due to the fact that an income threshold has been introduced at all rather than the value of that income threshold. The outcome is unlikely to produce the desired effect for many stakeholders. We feel that the resources required to develop this would therefore be better utilised in the delivery of support to fuel poor households, including those in rural, remote rural and island areas.

Overall, the greater alignment with income poverty which the new definition offers should help Government and its partners better target support to those who need it

most. This move has been broadly welcomed by stakeholders as it makes the definition more accurate and that it will better identify who is in need of assistance.

Actions being taken in rural, remote rural and island areas

We want to ensure all of our communities benefit from our programmes and so we will continue to work closely with all local authorities, including those representing remote rural and island areas, to further explore opportunities that will help ensure our programmes address the needs of all of our communities whilst helping to deliver real reductions in fuel poverty across Scotland.

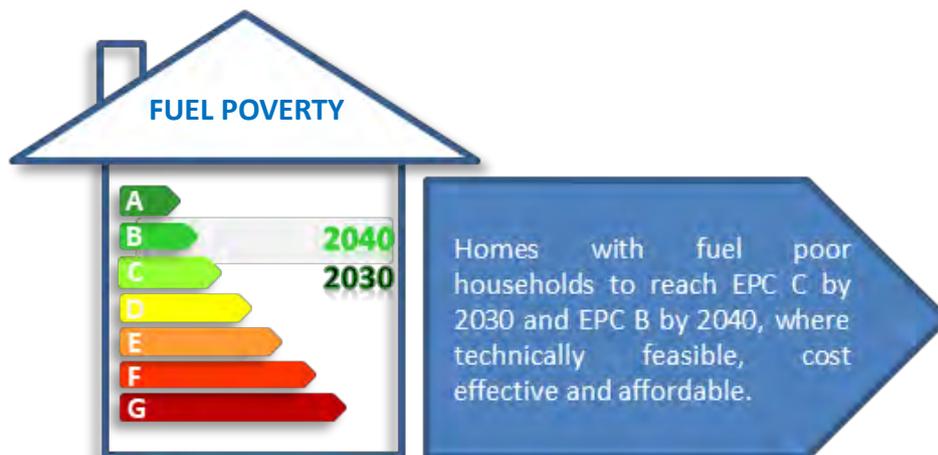
- We have been working with local Councils in Shetland, Orkney and Comhairle nan Eilean Siar to maximise the impact from our investment in Warmer Homes Scotland and the Area Based schemes delivered by local authorities. We are continuing to explore the scope to improve delivery in island communities by providing greater flexibility and working more closely with our local partners.
- We have extended our equity loan pilots to the Western Isles – allowing low income households to borrow up to £40,000 for energy efficiency improvements.
- Current delivery of our programmes allocates our HEEPS: ABS funding on the basis of need, taking higher levels of fuel poverty into account. This means island councils typically receive around three times the level of funding per fuel poor household than mainland councils.
- Households in very remote rural and island areas benefit from higher individual HEEPS: ABS grants levels to take account of higher costs (£9,000 per property compared to a maximum of £7,500 in other areas).
- We are currently reviewing our flexibility for delivery in rural, remote rural and island areas to ensure we can meet the needs of individual communities.
- In addition, our HEEPS: Warmer Homes Scotland scheme is being delivered on a regional basis, including a separate Islands region, to ensure that all households, including those living in more remote parts of the country, get the same level of service as those in urban areas. This is already helping to address some of the issues rural, remote rural and island communities can face, such as additional costs and time taken to assess properties and install energy efficiency measures.
- We are funding new renewable measures through our Warmer Homes Scotland scheme. These include: Ground source heat pumps; Micro-hydro; Micro wind; and Micro CHP. These will be of particular benefit to homes in remote, rural settings and provide opportunities for greener, more innovative solutions for heat and energy efficiency.
- We are also funding more enabling measures including: Energy Asbestos removal; replacement of existing unsafe oil storage tanks; and Energy efficiency lightbulbs. This will allow more homes to benefit from the Programme by removing the financial burden for fuel poor households of having to take on the costs of these enabling works.
- We have committed undertaking an island communities impact assessment for the Bill. Such assessments are due to be introduced under the Islands (Scotland) Act 2018 once the relevant sections are brought into force. While there is no statutory requirement to carry out such an assessment for the Bill, the intention is to do so as a matter of good practice. Through our extensive and on-going engagement with stakeholders in island communities, this process has

already begun. The intention is to confirm more detailed timings in respect of this assessment once the Parliamentary timetable for the coming year is known.

A Fuel Poverty Strategy for all of Scotland

The Bill requires Scottish Ministers to publish a strategy setting out how they will eradicate fuel poverty and regularly report to Parliament on it. The Strategy will explain how we intend to drive forward progress towards meeting the ambitious targets in the Bill. A Draft Strategy has been published alongside the Bill based on the principles of fairness and equality for all, reflecting the different needs of all of Scotland's urban, suburban, rural and remote communities.

This Bill sets out our statutory target to eradicate fuel poverty. Our [Energy Efficient Scotland Route Map](#) is the delivery mechanism which will improve energy efficiency and remove it as a driver of fuel poverty. To that end, have [consulted](#) on the proposal that all homes with fuel poor households should be EPC C by 2030 and then EPC B by 2040, where technically feasible, cost effective and affordable. The outcome of that consultation will be published shortly.



Income and energy costs are primarily driven by powers reserved to the UK Government such as energy policy and most of the welfare system. Between 2003 and 2016 median household incomes in Scotland rose by 38% whilst fuel prices rose by 155%. The cost of energy is out with the powers of the Scottish Government and there are limited ways that we can directly influence incomes. Nevertheless, we are using our existing devolved powers to influence where we can. We are spending more than £100 million every year to help relieve the impact of UK welfare cuts and to protect the incomes of some the poorest households in Scotland.

Home Energy Scotland (HES) will continue to provide advice on how best to use energy in the home as well as on energy efficiency schemes and funding. The Draft Strategy sets out how we will ensure consumers have advice and support on switching to the best offer available, which will help them reduce their fuel costs. It also sets out how we will maximise incomes, including through actions set out in our Fairer Scotland Action Plan and through our efforts to boost jobs in a low carbon economy.