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Our ref: Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill Stage 1 Call for Evidence Briefing

17 December 2018

Dear James

I am writing to you in your capacity as the Convener of the Local Government and Communities Committee, in order to provide a briefing paper on the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill ('the Bill'). I would be obliged if you could circulate the briefing paper to your Committee members in preparation for my appearance at your Committee on Wednesday, 19 December 2018.

This briefing is an update to the easy to read guide to the Bill which was published on 27 June 2018, and to the briefing provided for the session with officials on 21 November 2018.

I hope that the Committee finds the briefing helpful.

Kind regards

KEVIN STEWART

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See www.lobbying.scot

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

Introduction

On 26 June 2018 the Scottish Government introduced the Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill 2018.

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 constant changes in household incomes and energy costs. This is the same approach taken in the Child Poverty (Scotland) Act 2017.

The Scottish House Condition Survey published earlier this month indicates that around 613,000 households (24.9%) were in fuel poverty in Scotland in 2017. That is statistically similar to the finding in 2016 when 649,000 households (26.5%) were in fuel poverty. Our best available estimate for 2016 based on the proposed new definition is that 584,000 households (23.8%) were in fuel poverty.

This target is challenging and can only be achieved by taking actions across all four drivers of fuel poverty – income, energy costs, poor energy efficiency and how energy is used in the home – the former two, as you know, the Scottish Government does not have direct control over. Achieving these aims will mean intervening to improve people's homes and the way that they live in them in a way that has never been 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.

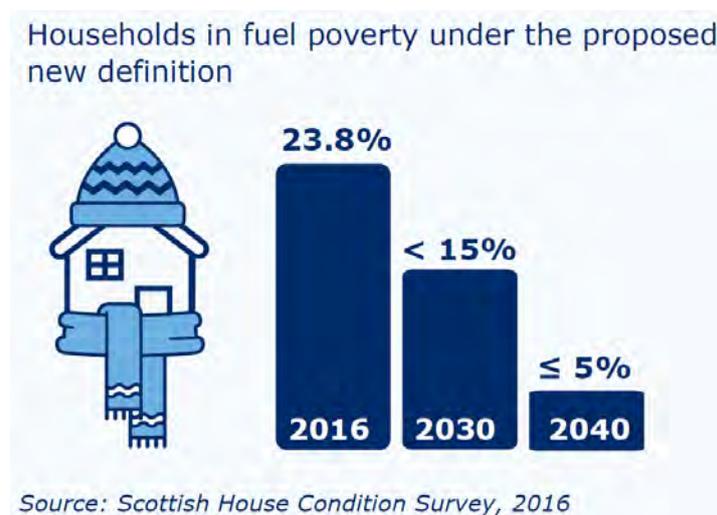
Within our draft Fuel Poverty Strategy we have set out challenging milestones. These are:

By 2030:

- The overall fuel poverty rate will be less than 15%
- The median fuel poverty gap will be no more than £350 (in 2015 prices before adding inflation)
- Progress will be made towards removing poor energy efficiency of the home, as a driver for fuel poverty.

By 2040:

- The median fuel poverty gap will be no more than £250 (in 2015 prices before adding inflation)
- Energy efficiency of the home, a driver for fuel poverty, will be removed.



Our [Energy Efficient Scotland Route Map \(the Route Map\)](#) is the delivery mechanism which will improve energy efficiency in all sectors and is the vehicle through which we can remove poor energy performance of the home as a driver of fuel poverty. In this respect, we state in our draft strategy that standards are to be confirmed as part of the Energy Efficiency Scotland programme. The Route Map provides that all homes with households in fuel poverty are to reach Energy Performance Certificate Band C by 2030 and Band B by 2040 where technically feasible, cost effective and affordable.

We are confident that through our delivery actions we will achieve all of the targets set out in the Route Map. We are doing everything in our power to ensure that the less than 15% by 2030 is achieved with the more challenging 5% by 2040 requiring technological enhancements and more innovative approaches to achieve this. The energy efficiency targets and milestones set out in the Route Map are illustrated in Annex A. It is important to recognise that work to achieve these is currently underway and that current programmes and investment will contribute towards this achievement.

A Proposed New Definition of Fuel Poverty

The proposed new definition of fuel poverty targets our support to low income households and is vital to the fight against fuel poverty.

Under the new definition, the measurement of fuel poverty would show a stronger relationship between fuel poverty and low income. This is because, for the first time, we are introducing an income threshold – 90% of the UK Minimum Income Standard (further below) which means that we will consider whether, after deducting a household’s housing costs (including council tax), any childcare costs and required fuel costs from its net income, the household is unable to maintain an acceptable standard of living.

At Annex B we provide an example of ‘Ann’ who is income poor and who would be fuel poor under the proposed new definition but who is not fuel poor under the current definition of fuel poverty.

As per the diagram contained in Annex C, 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. Importantly, just 12% of income poor households are not considered fuel poor under the proposed new definition compared to 28% under the current definition.

As can be seen from the Annex C, while more aligned with relative income poverty, the new definition still allows us to capture households which are above the threshold for relative income poverty but which struggle to pay their fuel bills.

This alignment with income poverty will help Government and its partners better target support to those who need it most.

Use of Minimum Income Standard

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. This is demonstrated in the table below for a small number of household types:

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 was published in December 2018. That report focuses on the current definition of fuel poverty which remains the official measure until the new legislation receives Royal Assent. The most recent published statistics on the new definition are those relating to 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.

Household type	(a) 60% median income after housing costs, 2016/17	(b) 90% MIS on comparable basis to a), 2016	Difference (b-a)
Single adult with no children	£7,700	£8,330	+£630
Couple with no children	£13,300	£14,239	+£939
Single adult with children aged 5 and 14	£16,000	£18,324	+£2,324
Couple with children aged 5 and 14	£21,500	£21,965	+£465

A Fuel Poverty Strategy for all of Scotland

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 sets out our proposed actions across all four drivers of fuel poverty and we are continuing to work with stakeholders to develop the final strategy.

Energy Efficiency and behaviours as drivers of fuel poverty - We have been clear about our ambition to remove poor energy efficiency as a driver of fuel poverty by 2040. The Route Map describes how this will be achieved.

Energy costs as a driver of fuel poverty - These are primarily driven by powers reserved to the UK Government. Between 2003/4 and 2017 median household incomes in Scotland rose by 50% whilst fuel prices rose by 158%. Had fuel prices increased in line with inflation since 2002 (35%), the 2017 fuel poverty rate under the current definition would have been 8.5%.

The cost of energy is out-with the powers of the Scottish Government. Nevertheless, we are using our existing devolved powers to influence where we can. In order to mitigate the impact of rising energy costs we are developing proposals for a Public Energy Company that will have a focus on fuel poverty and currently through Home Energy Scotland have a partnership with a social enterprise Citrus Energy to provide supplier switching support to ensure households can access the best deal for their circumstances.

Household income as a driver of fuel poverty - The majority of the social security system remains reserved and we only have limited ways in which we can directly influence household incomes. Despite this, we are spending more than £125 million every year to help mitigate against the worst impact of UK welfare cuts and to protect those on low incomes, alongside a large number of other actions to support the poorest households in Scotland. We are putting in place support to ensure any client accessing support through our new agency, Social Security Scotland, is given advice and support around fuel poverty. In addition, our recently launched Financial Health Check service offers personalised advice on income maximisation. It, provides support for those in fuel poverty and helps all households to get the best deals on household bills.

The work outlined in the draft Fuel Poverty Strategy is being done in the context of the Fairer Scotland Action Plan and supports our efforts to boost jobs in a low carbon economy.

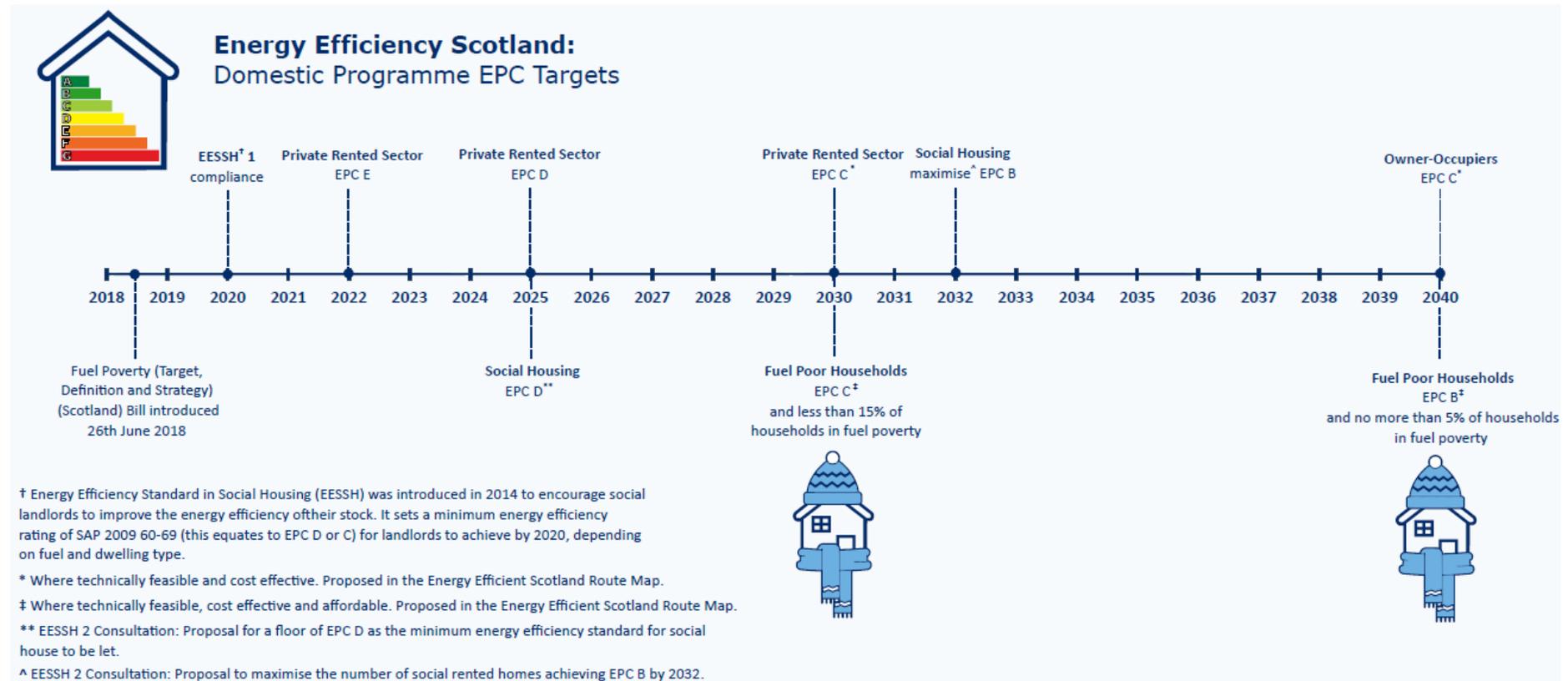
Remote Rural and Island Communities

In the previous paper to the Committee, we outlined the Scottish Government's commitment to ensuring that all fuel poor households receive the support they need no matter where in Scotland they live. We continue to reflect on the concerns that have been raised in relation to the unique challenges faced by remote rural communities and are committed to working with them to ensure the strategy benefits all.

In addition, we have committed to completing an Island Impact Assessment in the spirit of the Islands Scotland Act 2018. This will be ready prior to the commencement of Stage 3.



Annex A



Annex B

Ann's Situation (costs in a year)

- Single Parent with a 6 year old child at school
- Net income of £18,500 (minimum wage of £7.83 for 35 hours a week totalling £11,750 plus benefits of around £6750).
- Required fuel bills of £1500
- Childcare costs of £500 (after school club and family care)
- Private rented 2 bedroom flat with poor insulation £5000

How the proposed definition applies to Ann:

Step 1

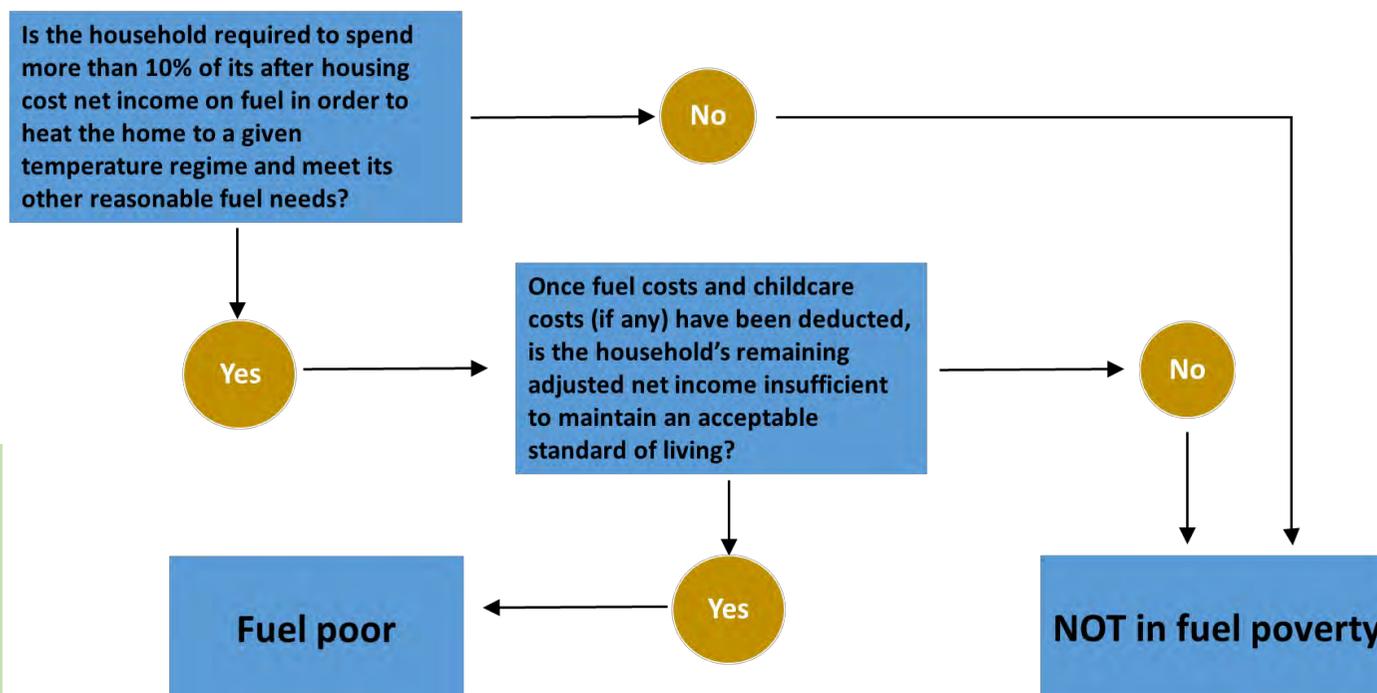
- After housing Ann has a net income of £13,500.
- Her fuel bills (£1500) are more than 10% after housing costs.

Step 2

- Once her housing costs (£5000) fuel bills (£1500) and childcare costs (£500) are deducted she has an income of £11,500
- The 90% Minimum Income Standard for her is currently £13,425 (after council tax, rent, fuel and childcare costs)
- As her remaining income is below this, Ann will now be considered fuel poor.

EXAMPLE –

How the proposed definition will work for lone parent Ann who would not be defined as fuel poor under the current definition



After housing cost income / adjusted net income – household net income with rent or mortgage costs, council tax, water rates and sewerage charges deducted.

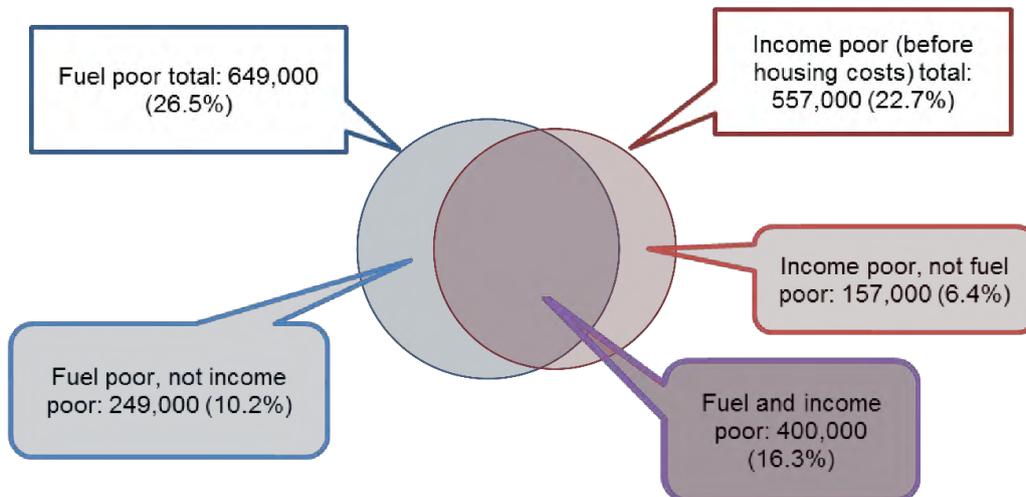
Acceptable standard of living – at least 90% of the UK Minimum Income Standard (MIS) applicable to the household after deduction of the notional costs allocated within MIS to rent, council tax, water rates, fuel and childcare.

Temperature regime – standard regime is 21°C in the living room and 18°C in other rooms for 9 hours on a weekday and 16 hours on a weekend. Enhanced regime is 23°C in the living room and 20°C for 16 hours a day.

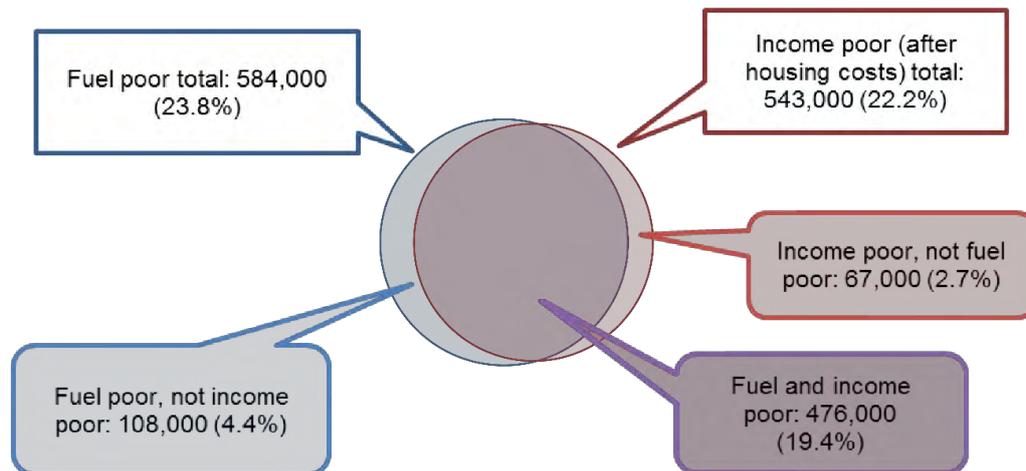
Annex C

Fuel Poor and Income Poor Households, SHCS 2016

Current definition



Proposed definition



Notes:

1. The above charts illustrate how fuel poverty and income poverty relate in the household population under the current definition and the proposed new definition. Income poverty presented here is based on data collected from the Scottish House Condition Survey and is approximate. Official measures of income poverty are produced by the Scottish Government and can be found at: <http://www.gov.scot/Publications/2018/03/3017>.
2. The diagram for the current definition is different to the previously published information in the SHCS Key Findings Reports since council tax has been deducted from before housing costs income in line with established income poverty methodology.
3. The data on the proposed new definition is our best available estimate based on the 2016 Scottish House Condition Survey data. The Technical Annex to the Draft Fuel Poverty Strategy provides more information on planned future developments of the data.