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Dear James

Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill (“the Bill”) – Proposals on Extreme Fuel Poverty

As you know in the Stage 1 debate on 20 February, I announced that I would act on the Committee’s recommendation to both define, and set a target for reducing, extreme fuel poverty. To this end I will be tabling amendments which will ensure these issues are addressed on the face of the Bill. In support of these proposals I append a briefing for the Committee, which explains our approach to extreme fuel poverty.

I look forward to discussing these, and other amendments, with the Committee when we next meet on 27 March.

KEVIN STEWART

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

Extreme Fuel Poverty

March 2019

1. In their stage 1 report, the Local Government and Communities Committee asked the Scottish Government to bring forward proposals for a separate target for targeting extreme fuel poverty at Stage 2, and to ensure that there is specific reference to eradicating it in any strategy produced under the Bill. In its response to the Committee, the Scottish Government confirmed “we will carefully examine the options around defining extreme fuel poverty and what target could be set in relation to it and bring forward proposals for a separate target to target extreme fuel poverty at stage 2 and how this is taken into account in the fuel poverty strategy.” At the stage 1 debate the Minister for Local Government, Housing and Planning stated that an amendment would be lodged at stage 2 to define extreme fuel poverty and to set a target relating to its eradication.
2. A definition of extreme fuel poverty was referenced in the 2002 Scottish Fuel Poverty Statement¹, as *households who would need to spend more than 20% of their income on fuel, in order to maintain a satisfactory heating regime and on other required domestic energy*. This 20% definition has been widely used by Scottish Government, the Local Government and Communities Committee, key stakeholders, and reported on in the annual Scottish House Conditions Survey Key Findings Report.
3. The Fuel Poverty (Target, Definition and Strategy) (Scotland) Bill introduces a two part test for fuel poverty. The first part of the test is that, in order for a household to be in fuel poverty, more than 10% of its net income after housing costs requires to be spent on fuel. The second part introduces an income threshold in that the household’s remaining net income after housing costs, fuel costs and childcare costs (if any) must fall below 90% of the UK Minimum Income Standard after the deduction of the equivalent notional costs for housing, fuel and childcare pertaining to that standard.
4. The Scottish Government proposes that the new statutory definition for extreme poverty should be the same as the proposed new definition of fuel poverty with the exception that, for the first part of the test, more than 20% of a household’s income after housing costs is required to be spent on fuel.
5. The table below shows estimated levels of extreme fuel poverty based on the proposed new definition, compared with rates from the current definition^{2,3}. Over the period 2015 to 2017 the rates are 4.4% - 4.8% points higher, equating to 108,000 – 119,000 more households, which is an increase in the number of households of between 53% - 65%. These increases are mainly driven by the change under the new definition in the Bill which considers the percentage of income on required fuel spend on an After Housing Cost basis, rather than on a Before Housing Cost basis, effectively reducing the threshold for required fuel bills.

¹ <https://www2.gov.scot/Publications/2002/08/15258/9951> - section 4.2

² The estimated data presented here does not take account of any enhancements to MIS for remote rural, remote small towns or island households at this stage.

³ The information presented is our best available estimate based on data from the Scottish House Condition Survey. 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.

	Current Definition		New Definition		Difference		
	Rate	Number	Rate	Number	Rate	Number	% number
2015	8.3%	203,000	12.8%	311,000	4.4%	108,000	53%
2016	7.5%	183,000	12.3%	302,000	4.8%	119,000	65%
2017	7.0%	174,000	11.5%	283,000	4.4%	109,000	63%

6. This is in contrast to the overall level of fuel poverty, which by comparison in 2016 was 2.7% points or 65,000 households lower under the new proposed definition. This disparity occurs because households in or at risk of extreme fuel poverty will predominantly be low income households, which are less likely to be taken out of extreme fuel poverty or fuel poverty by the introduction of the Minimum Income Standard thresholds.

7. The challenge which exists in bringing households out of extreme fuel poverty is that, because these are predominantly low income households, they could remain in extreme fuel poverty due to lack of income and the price of fuel - key drivers of fuel poverty over, which the Scottish Government does not have direct control. This could occur despite all four drivers of fuel poverty being addressed in the Fuel Poverty Strategy and measures being taken to tackle the other two drivers (poor energy efficiency and behavioural change) as a priority in households which suffer from extreme fuel poverty.

8. Amending the Bill to incorporate the interim target that, in the year 2030, the median fuel poverty gap is no more than £350 in 2015 prices before inflation, will help focus attention on reducing the severity of fuel poverty across the country. However, since this target is based on an average level, its achievement will mean that half of fuel poor households will still have a fuel poverty gap greater than the median and some of these households may remain in extreme fuel poverty. As a consequence, the Scottish Government considers that, in order to further alleviate extreme fuel poverty, a discrete 2030 target should be set. Given our lack of direct control over both income and fuel prices and the fact that these are two key drivers of fuel poverty, it is important to set a target that is both challenging but achievable. We consider an interim target that, in the year 2030, no more than 5% of households are in extreme fuel poverty, to meet these criteria. The achievement of this target would lift 188,000 households out of extreme fuel poverty compared to the 2015 baseline and would strike an appropriate balance between realism and the ambition to eradicate extreme fuel poverty.

9. In recognition of the fact that, as is the case for fuel poverty overall, the potential will always exist for households to move in and out of extreme fuel poverty due to changing circumstances in income and fuel prices, a target that, by 2040, no more than 1% of Scottish households are in extreme fuel poverty seems challenging but achievable. This would provide for 25,000 households moving in and out of extreme fuel poverty in recognition of the fact that their circumstances may change depending on income and fuel prices, the two drivers of fuel poverty which are out with the Scottish Government's direct control.

10. Accordingly, the Scottish Government proposes to bring forward the following amendments to the Bill:

- i. A new definition of extreme fuel poverty is placed in statute which adopts the same wording as the two part test for fuel poverty introduced by the proposed new definition of fuel poverty with the exception that, in the first part of the two part test, more than 20% of household net income after housing costs will require to be spent on necessary fuel costs for a household to be in extreme fuel poverty.
- ii. An interim target is set that, by 2030, no more than 5% of households will be in extreme fuel poverty.

- iii. A target is set that, by 2040, no more than 1% of households are in extreme fuel poverty.