

ADDITIONAL 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 (“the Bill”). 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 within a year of the obligation to prepare such a strategy coming into force; and
- to oblige the Scottish Ministers to publish and lay before the Scottish Parliament periodic reports on the steps taken towards meeting the 2040 target, the progress made towards this and the steps to be taken in the next reporting period, with the reporting periods being set at every 5 years beginning with the day on which the fuel poverty strategy is published.

Scotland is one of only a handful of European countries to define fuel poverty, let alone set a goal to reduce it. Achieving the target will place Scotland amongst the very best in the world in terms of tackling fuel poverty. This ambitious Bill aims to tackle fuel poverty wherever people are experiencing it. 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.

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. This paper describes what the proposed changes to the definition of fuel poverty are, how these changes would affect the number and types of household which would be classified as fuel poor and what this would mean for the rates of fuel poverty across the local authority areas.

Thereafter, it focuses on rural, remote rural and island areas and explains how the needs of these areas are taken into account in the proposed new definition of fuel poverty by the continued use of the Building Research Establishment’s Domestic Energy Model (“BREDEM”) to calculate a household’s required energy consumption. It also looks at the work which is being undertaken to further refine the calculation of a household’s required energy consumption so that, if possible, local circumstances in rural, remote rural and island areas are better reflected.

The paper then goes on to examine the UK Minimum Income Standard (“MIS”) which is used in the calculation of fuel poverty under the proposed new definition. It explains why there are no proposals for a remote rural MIS uplift to reflect the higher costs of living in these areas. Finally, the paper outlines the actions which are being taken on the ground relating to the eradication of fuel poverty in rural, remote rural and island areas.

What are the proposed changes to the definition of fuel poverty?

The current definition of fuel poverty is contained in the Scottish Fuel Poverty Statement published by the Scottish Executive in 2002. This provides 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.

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 ("ACH") 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.

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.

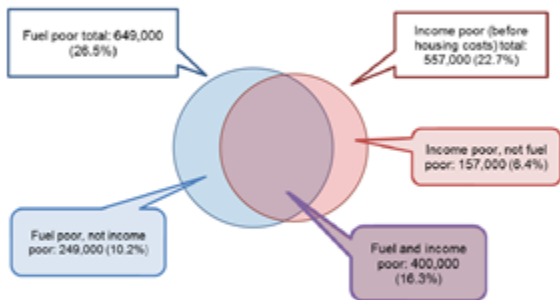
How would these changes affect the number and type of households which would be defined as living in fuel poverty?

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.

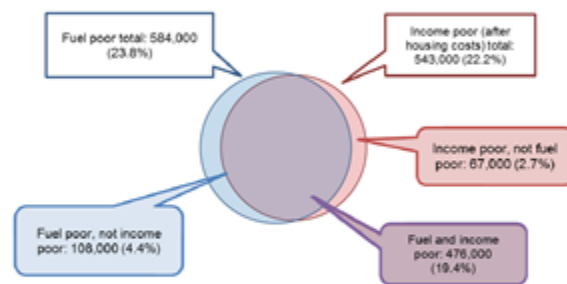
¹ All data presented in this paper relating to the proposed new definition of fuel poverty is our best available estimate based on data from the Scottish House Condition Survey ("SHCS). SHCS findings are published annually in respect of the preceding year. The SHCS report on key findings from 2017 is 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.

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 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.

The MIS threshold for most household types is considerably higher than the threshold for relative income poverty, which is generally considered to be an income below 60% of the UK median. The Bill's definition of fuel poverty aligns more closely with relative income poverty but 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 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 does this change rates of fuel poverty in local authority areas?

We have described above the overall impact of the proposed new definition at a national level and we will see similar changes at a local authority level², including the closer alignment with low income which is demonstrated in the chart below. Across

² Local authority level estimates are based on three years' worth of Scottish House Condition Survey data in order to achieve sufficient sample sizes. Three-year averages relating to Scotland are therefore not equivalent to the latest Scotland-level figures which relate to 2016 only.

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. In particular:

- We have commissioned additional modelling using weather information at a postcode district level which is a much lower geography than the regional information currently applied. We would then have to undertake further analysis to determine whether this could be incorporated into fuel poverty measurement since the SHCS has not been designed to be representative at postcode district level.
- We are also considering how best to reflect variations in heating oil prices, as the current approach uses a single UK average price.

How is the UK Minimum Income Standard calculated?

Full details of the methodology can be found in the annual MIS reports³. A summary, drawn from those reports, is provided below.

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.

The methodology is thorough, with sequences of groups of different types (pensioner groups, working age adult groups, and groups of parents with dependent children) having detailed negotiations about the things a household needs in order to achieve an acceptable standard of living. Discussions cover each item in detail, including the quality expected and where they would be bought. Subsequent groups check and amend the budget lists to reach a consensus on the goods and services required. It is an iterative process and results in household budgets containing hundreds of items.

Expert knowledge on key issues, such as energy use and nutrition, is also applied. For example, checks are made on the nutritional adequacy of the foods identified as necessary. The list of goods and services is then priced at various stores and suppliers by the research team, according to information from the groups about where these might be bought.

MIS applies to households that comprise a single adult or a couple, with or without dependent children. Budgets are available for over 100 different combinations of household. MIS does not currently cover multiple adults living together, mixed working age and pensioner couples, or families living with other adults. However, we are drawing on approaches taken by the researchers (Loughborough University) in other work to address these household types which make up a small proportion of the population.

³ <http://www.lboro.ac.uk/research/crsp/mis/reports/>

MIS operates on a 4-yearly cycle. In year 1, budgets for families with children are fully rebased, identifying the items required from scratch. At the same time, budgets for households without children are reviewed to identify if any changes need to be made. In year 3, budgets for households without children are fully rebased and budgets for households with children are reviewed. In years 2 and 4, the budgets are updated to take account of inflation.

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 aren't you applying an 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 the delivery routes.

Highlands and Islands Enterprise ("HIE") supported research into a MIS for remote rural Scotland in 2013 and a policy update to that in 2016. Why can't this research be used?

As described above, the methodology underpinning MIS is complex, involved, and resource intensive to undertake. There are a number of ways in which the remote rural research could not be used in fuel poverty measurement, including:

- We need an income threshold which is updated on an annual basis to adequately capture and reflect changes in the cost of living.
- The research did not produce one 'remote rural Scotland' MIS. Instead, it produced a range of standards for 13 different geographic areas within the

remote rural context, which is an inconsistent approach to that used to generate the UK MIS.

- The research reviewed existing budgets that had already been created for rural England rather than starting from scratch, so does not provide an independent, complete methodology.
- MIS thresholds are not readily available for the full range of household types required.

These shortfalls in the HIE methodology mean that it cannot be used in the new definition. Notwithstanding this, we do not support the use of an enhancement as it does not align with other policy approaches.

Why can't a remote rural MIS for Scotland 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. Therefore, if we acted on the Panel's recommendation for a remote rural MIS enhancement, 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.

We have undertaken some analysis of fuel poverty rates under the proposed new definition with and without the remote rural enhancement applied by the independent panel which was based on average data from the HIE study. There are many different ways in which a remote rural MIS could be approached, leading to slightly different results. However, the Panel approach provides a way to assess the likely impact. This is summarised in the table below and demonstrates the marginal difference which such an enhancement is likely to make.

Rate of fuel poverty	Current definition	Proposed definition new	Proposed new definition with crude remote rural enhancement
Rural (accessible and remote)	37.3%	24.0%	25.9%
Remote rural	48.2%	28.4%	33.6%

This same pattern is seen at local authority level where the application of the Panel's approach would only result in fuel poverty rates at most 2.5 percentage points higher. It would offset at most just over a tenth of the reduction in the fuel poverty in relevant local authorities between definitions.

It is important also to note that the latest data on fuel poverty, for both the current and proposed new definition, relates to 2016 when oil prices were at their lowest since 2005/06. Between 2013 and 2016, the fuel price index for liquid fuels fell by 44%. However, the most recent data (to May 2018) indicate that the average price of

domestic oil has started to rise again, increasing by approximately 57% on average 2016 levels. All other things being equal, higher oil prices would result in increases in the fuel poverty rates in remote rural areas. We estimate that, if the May 2018 oil price had been applied to 2016 data, the fuel poverty rate in remote rural areas in 2016 would have been 2 percentage points higher.

Differentiation should also be made between the detail of measurement at a national level and the actual delivery of fuel poverty programmes on the ground which take account of the circumstances of individual households and have flexibility according to geography. There is a range of support currently available to households, from area based schemes, to Warmer Homes Scotland and energy advice and these draw on a range of proxies of low income and fuel poverty.

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, including Citizens Advice Scotland, which recently commented that it makes the definition more accurate and that it will better identify who is in need of assistance.

What other actions are 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.
 - For example, 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 of energy efficiency measures to 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 homeowners on low incomes 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.
- 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.
- 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).
- During the period 2018/19, 43% of funding allocated under the HEEPS: ABS programme is going to local authorities where over 20% of their population is classed as living in either or both “accessible rural” or “remote rural” geographical locations. This is based on the Scottish Government’s 6-fold urban-

rural classification. In total, this equates to approximately £20.45 million being directed to those local authorities that express a notable level of rurality in regional characteristics.

- 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 have also committed to conduct an islands communities impact assessment for the Bill, in due course. Such assessments are due to be introduced under the Islands (Scotland) Bill once enacted. While this assessment would not be required (as this Bill pre-dates the relevant requirement coming into force), the intention is to produce such an assessment as a matter of good practice.