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HOW MUCH WOULD IT COST TO REDUCE CHILD POVERTY IN SCOTLAND?

THE FINANCIAL SCALE OF CHILD POVERTY IN SCOTLAND

Russell Gunson, Darren Baxter and **Alfie Stirling**

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SUMMARY

In 2017, the Scottish Parliament unanimously passed legislation to introduce statutory targets in order to reduce child poverty and create a new Poverty and Inequality Commission in Scotland. By 2030, the Scottish government will be under a legal obligation to meet four new targets, including to reduce relative child poverty down to 10 per cent.

Currently, child poverty rates in Scotland are lower than in the UK as a whole, but still stand at an average of 23 per cent (after housing costs, under 60 per cent median income) between 2013/16 (Joseph Rowntree Foundation 2017). They fell from close to one-third in the late 1990s, to around one-quarter throughout the 2000s. However, progress beyond this has been hard to achieve; indeed, with UK-wide benefit reforms and economic performance, child poverty rates are projected to increase in the UK and Scotland over the coming years (IFS 2017).

This report aims to outline a real-world analysis of the financial cost of reducing relative child poverty in Scotland – to meet and then surpass the Scottish government child poverty targets. In doing so, we do not aim to make policy recommendations. Equally, we do not suggest that reducing child poverty rates is solely the responsibility of government through tax and benefit changes.

Instead, the scale of the financial challenge of reducing child poverty will likely need concerted action, for many years, beyond government alone. In our view, this will require a whole-Scotland approach, and likely a combination of increased earnings for the poorest households (through inclusive growth), and increases in social security payments, bringing action from employers, governments and wider civil society in concert to achieve the reduction and eradication of child poverty in Scotland we want to see.

In outlining the financial scale of reducing relative child poverty in Scotland, we find the following.

- Meeting the Scottish government's target of **reducing relative child poverty in Scotland down to 10 per cent would cost £3.8 billion per year**, removing around 190,000 children from poverty.
- Surpassing this target **to reach a relative child poverty rate of 5 per cent would cost £10.2 billion per year**, taking around 240,000 children out of poverty in Scotland.
- Bringing the poverty rate for young children (under five) down to 5 per cent would cost **£4.5 billion per year**, taking **95,000 children under the age of five out of relative poverty** in Scotland.
- **Ending the two-child limit and benefit cap would cost £130 million per year** in 2019/20 in Scotland and bring 10,000 children out of poverty.
- **The most effective means of reducing relative child poverty**, using existing benefits payments, would be increasing the **child element of universal credit**, with more than twice the impact of increasing child benefit for around the same investment.
- **Topping up the child element of universal credit in Scotland by £50**, in combination with ending the two-child limit and benefit cap **would cost around £390 million per year**, and would bring 45,000 children out of relative child poverty.

- **A universal basic income (UBI)**, set at £106.20 per week per adult and £53.10 per week per child in Scotland would cost £20 billion per year, and **would *increase* relative child poverty** bringing an additional 35,000 children into relative poverty.
- A **minimum income guarantee** – a new hybrid concept focused on reducing poverty and designed to combine many of the benefits of a UBI and a means-tested household payment – **could bring poverty rates down in Scotland more effectively than a UBI**, while avoiding many of the perceived weaknesses of the tax credit and universal credit systems. Our minimum income guarantee (MIG) would see a household receive a means-tested, no-strings payment of up to £7,200 per year per adult and £5,400 per year per child, bringing child poverty rates down at a cost of £9.1 billion per year – around half the cost of the UBI we modelled.

This report attempts to set out the scale of financial challenge of significantly reducing child poverty in Scotland. In doing so, we have attempted to use existing, or possible, policy levers in order to get to a real-world costing.

However, we are acutely aware that poverty is not solely a financial experience or status. There are many aspects of poverty that are not caused, and would not be solved, by increasing a household's income to just above the poverty line. We do not suggest that even if the funding could be found to end child poverty today, that that would end, for example, education or health inequalities in Scotland.

Likewise, in placing a figure on the cost of reducing child poverty in Scotland, we do not wish to suggest that this is a figure that could, or should, be found through taxation or delivered through the benefits system. It is likely that, given the scale of the challenge, we will need action beyond increasing taxes or increased social security payments only, and beyond government alone. The scale of the challenge of reducing or ending child poverty is likely to need a cross-party and cross-country approach, with government[s], parliament, business, civil society – indeed the whole of Scotland – coming together to meet the scale of the challenge with a similar scale of ambition. Equally, it is likely we will need to sustain action for a significant period of time; eradicating child poverty in Scotland clearly cannot be done overnight.

In financial terms, reducing relative child poverty will, by definition, require an increase in the incomes of households with children relative to the median household income. However, this increased income could come through work and increased pay rates as much as increased welfare payments. Inclusive economic growth is therefore at least as important as increased tax rates, and earnings growth as important as increased benefit payments. These policy choices, as important as they are, are not for this research paper.

With the devolution of new powers, and the cross-party emphasis on child poverty in Scotland, we are at the start of a newly-invigorated debate on how we can make significant progress on reducing child poverty. The aim of this report is to provide evidence and costings as to the scale of the challenge we have set ourselves in tackling child poverty. In doing so, we hope to support the forthcoming work on developing potential policy solutions that could make the difference we wish to see on reducing, and ultimately eradicating, child poverty in Scotland.

Note: The modelling for the costings outlined in this summary is for 2019/20, assuming full roll-out of universal credit. It uses a child poverty measure under 60 per cent median income after housing costs, recalculating the poverty line. It is a static analysis, taking account of no economic effects or behavioural effects.

1. INTRODUCTION AND BACKGROUND

Child poverty has rarely been higher on the political agenda in Scotland. In November 2017, the Child Poverty (Scotland) Act 2017 was passed with unanimous cross-party support across the Scottish parliament. The act introduces a number of changes in Scotland, including the creation of the new Poverty and Inequality Commission and the creation of four new statutory targets, binding the Scottish government to make significant progress on child poverty rates in Scotland by 2030.

The four targets are:

- less than 10 per cent of children live in households that are in relative poverty, as measured after housing costs (AHC), and against 60 per cent of median income
- less than 5 per cent of children live in households that are in absolute poverty, as measured against the 2010/11 poverty line, uprated with inflation
- less than 5 per cent of children live in households that are in combined low income and material deprivation, as measured as children in households with less than 70 per cent of median income and in households who struggle to afford key bills and purchases
- less than 5 per cent of children live in households that are in persistent poverty (a definition of 'persistent poverty' will be outlined in due course).

These targets are to be met in the financial year commencing 1 April 2030.

The Poverty and Inequality Commission's role will initially be to provide advice to Scottish Ministers on the Scottish government's delivery plan stemming from the Child Poverty (Scotland) Act 2017,[1] and, following this, to provide advice and scrutiny on meeting the statutory targets through to 2030. The Scottish government must outline its initial delivery plan in 2018 and then additional plans in 2022 and 2026 to meet its targets by 2030.

At the same time as legislating on child poverty, the Scottish parliament has seen devolution of more substantial income tax powers, and will see the devolution of further powers in relation to welfare payments over the coming time. The Social Security (Scotland) bill, currently being considered by the Scottish parliament (as of February 2018), will begin the process of building a social security system in Scotland, setting out a framework and founding principles for the new system.

These new powers will see the Scottish parliament gain a much greater range of policy levers with a potential direct impact on poverty rates in Scotland, whether through the ability to reform the income tax system or through reform of devolved benefits, top-up of reserved benefits, or indeed the creation of whole new benefits in devolved policy areas.

1 The Child Poverty (Scotland) Act 2017 places the commission on a statutory basis from July 2019. However, ministers have asked the current non-statutory commission to advise on the first delivery plan stemming the act.

There is clearly a moral imperative to reduce poverty levels in Scotland. As a matter of social justice and fairness, there is clear support in Scotland for delivering a more equal society and economy. Considering poverty in financial terms risks losing a focus on these other important aspects. However, while these are important – if not the most important – factors in the poverty debate, this report does not consider them.

Equally, while there are costs in reducing poverty, which this report will outline, there are clearly costs from the current rates of child poverty exhibited in Scotland and across the UK. The Joseph Rowntree Foundation has estimated the cost of poverty rates across the UK – the cost of *not* ending poverty – to be around £78 billion per year, with around one-fifth of public spending in the UK spent on mitigating the effects of poverty, never mind the non-financial costs (Joseph Rowntree Foundation 2016).

This report attempts to set out the scale of financial challenge of significantly reducing child poverty in Scotland. In doing so, we have attempted to use existing, or possible, policy levers in order to get to a real-world costing.

However, in doing so, we are acutely aware that poverty is not solely a financial experience or status. There are many aspects of poverty that are not caused, and would not be solved, by increasing a household's income to just above the poverty line. We do not suggest that even if the funding could be found to end child poverty today, that that would end, for example, education or health inequalities in Scotland.

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With the devolution of new powers, and the cross-party emphasis on child poverty in Scotland, we are at the start of a newly-invigorated debate on how we can make significant progress on reducing child poverty. The aim of this report is to provide evidence and costings as to the scale of the challenge we have set ourselves in tackling child poverty. In doing so, we hope to support the forthcoming work on developing potential policy solutions that could make the difference we wish to see on reducing, and ultimately eradicating, child poverty in Scotland.

1.1 METHODOLOGY

For this research, IPPR Scotland has modelled a number of potential ways to increase income for the poorest households in Scotland in order to compare and assess their impacts on poverty rates in Scotland. We have done so for 2019/20, given the timeline of the Scottish government's first delivery plan from the Child

Poverty (Scotland) Act 2017 to allow us to consider the effects of benefit reform, inflation and pay rates between now and then.

Our modelling assumes the full roll-out of universal credit, including the two-child limit, and factors-in the effect of the benefits freeze over the coming time. The modelling does not include the necessary changes to the tax system to make these proposals fiscally neutral. Our modelling also does not take account of spending outside of the benefits system, including, for example, Scottish government investment to effectively end the 'bedroom tax' or through local authority welfare funds. This means the baseline for the number of children in poverty in Scotland in our model is higher than the current level of child poverty for 2015/16, standing at 290,000 children in households in relative poverty (AHC, under 60 per cent median income).

The analysis was conducted using IPPR Scotland's microsimulation tax-benefit model, based on a sample of around 8,000 Scottish families from the latest three waves of the Family Resources Survey, between 2013/14 and 2015/16 (see DWP 2017). Further information on the model can be found below. The model is capable of costing a number of potential real-world scenarios for increasing income for households in Scotland, including the poorest households. These include altering existing benefits rates and elements of benefits, together with creating hypothetical (but real-world) options for different payments to individuals and households in Scotland – including in this analysis a universal basic income, a new under-5s payment, and what we have termed a minimum income guarantee (a new form of means-tested household payment). The analysis is interactive but static. The interrelations between different welfare policies, means testing, taxation and poverty are taken into account but the model does not consider behavioural or dynamic economic effects.

For this research, we used IPPR Scotland's microsimulation model to iteratively alter existing and hypothetical cash transfers in the welfare system in Scotland in order to consider their effect on child poverty rates. We used this to determine the levers most likely to be effective at reducing child poverty rates in Scotland. We began by undertaking a sensitivity analysis of existing benefits payments received by individuals and households in Scotland, altering elements of benefits individually and in combination to determine the most effective levers for our costing. We did not include tax credits in the analysis, given plans for the full roll-out of universal credit to replace tax credits and other legacy benefits over the course of the commission's first delivery plan. Chapter 2 outlines this sensitivity analysis.

Taking the findings from the sensitivity analysis, we then undertook iterative analysis of the 'best candidate' for being most effective at ending child poverty in Scotland, to model the costs of using this lever to significantly reduce child poverty in Scotland. Chapter 3 outlines this analysis and our costings for reducing relative child poverty in Scotland. This provides an outline of the financial scale of the challenge we have set ourselves in reducing relative child poverty in Scotland.

We then considered potential hypothetical payments that could be delivered in Scotland to understand their effectiveness in reducing and eradicating child poverty. This included a new payment focused on under-5s, a universal basic income, a minimum income guarantee (a hypothetical cash transfer which attempts to capture some of the advantages of a universal basic income as seen by its proponents in combination with some of the advantages of means-tested household payments). Chapter 4 outlines our analysis of these hypothetical payments.

Chapter 5 offers our conclusions and outlines how we believe this analysis can best support the debate we need in Scotland on how we can meet our new statutory targets on reducing child poverty in Scotland by 2030.

IPPR Scotland's tax-benefit model

In order to inform the public debate on Scotland's existing and new powers over tax and benefits, IPPR Scotland has built a micro-simulation model of the tax-benefits system for Scottish households. The model makes use of household-level data from the UK Family Resources Survey for 2013/14 to 2015/16. This provides a sample size of around 8,000 Scottish households with which to assess the fiscal and distributional impact of changes to the tax and benefits system in Scotland.

IPPR Scotland's tax-benefit model is a microsimulation model of key elements of the UK tax and benefits system, based on data contained within the Family Resources Survey (FRS). The model contains information on income, benefit receipt, and the demographic composition of households and families, together with information about the parameters of the UK tax and benefits system.

The model allows us to analyse changes to the structure of the tax and benefits system. This includes changes to all aspects of income tax and changes to the value of benefits and who is eligible to receive them. It calculates the distributional impact of these changes along a variety of dimensions, including household and family type (for example, pensioners vs adults with and without children) and family and household income. In addition, it can assess the overall and disaggregated fiscal impact of policies, as well as their impact on various measures of inequality and poverty.

Since the model covers the whole of the personal tax, benefit and tax credit systems, it enables us to model a combination of changes and understand the overall effects, taking into account interactions between different taxes and benefits. We are also able to model a number of different changes simultaneously, enabling comparisons between different reforms or sets of reforms.

The model can also vary underlying economic factors such as the employment rate, earnings growth and housing costs; and analyse the distributional and fiscal impacts of the change. And it can be used to project into the future based on economic forecasts of these factors, in order to analyse the tax-benefits system at a future date.

The model does not calculate the behavioural impact of changes to tax and benefit rates. This means that all tax-benefit changes analysed in this paper assume that household earnings, hours of work, employment status and other factors are unchanged as a result of a change in tax or benefit rates and rules, even though in practice these may change the incentives for individuals to work more or less. In addition, we assume 100 per cent take-up for all means-tested benefits (such as universal credit), in line with eligibility.

2.
WHICH LEVERS WOULD BE MOST EFFECTIVE IN COSTING A REDUCTION OF RELATIVE CHILD POVERTY IN SCOTLAND?

In attempting to determine the financial cost of reducing child poverty in Scotland, we wanted to begin by understanding which current levers within the benefits system would be likely to be most effective in reducing child poverty. This would allow us to understand the best levers for us to use to provide an accurate, real-world estimate of the cost of reducing and ending child poverty in Scotland, minimising risk of over or underestimating its scale.

2.1 BENEFIT CAP AND TWO-CHILD LIMIT

First, we considered the effects of removing the benefit cap and two-child limit in Scotland. The two-child limit (otherwise known as the 'rape clause') applies to tax credits and universal credit claimants, meaning they can receive financial help for up to only two children (with some exceptions). The limit applies to children born after April 2017. The benefit cap applies to a household's total benefit entitlement across most working-age benefits, capping a household's income from the benefits system at no more than £20,000 per year (outside of London), with a lower cap for single adults with no children.

If we were to undertake the iterative analysis without removing both the benefit cap and two-child limit, it may distort the results given. Without doing so, there would be households in poverty that we would never be able to reach through modelled changes to benefit payments or elements.

Table 2.1 outlines the cost and impact on poverty of ending the benefit cap and two-child limit in Scotland, assuming full roll-out of the Universal Credit for the year 2019/20.

This shows that lifting the two-child limit in Scotland would have a cost of around £20 million per year in 2019/20, and would bring 5,000 children out of relative poverty. The cost of lifting the benefit cap in Scotland would be £90 million a year and would also lift 5,000 children out of poverty, after housing costs with both a static and recalculated poverty line[2]. Ending the benefit cap *and* two-child limit in Scotland would cost £130 million per year, and would bring 10,000 children out of poverty in Scotland, after housing costs. This is higher than the sum cost of both policies in isolation as the effects of ending both policies at the same time would be greater (for example, removing the two-child limit but not the benefit cap would mean some families with three or more children would be unable to benefit from support for third and

2 In recalculating the poverty line we have included the effect on the poverty line of our policy intervention. A static poverty line does not adjust the poverty line following the policy intervention.

subsequent children as they were already receiving benefit payments up to the level of the benefit cap. Only by removing both the two-child limit and the benefit cap can all families with three or more children benefit).

TABLE 2.1

The cost and impact on poverty of removing the benefit cap and two-child limit in Scotland, 2019/20*[3]

Policy	Ending two-child limit	Ending the benefit cap	Ending the benefit cap and two-child limit
Cost, per year	£20m	£90m	£130m
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	5,000	5,000	10,000
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line static	5,000	5,000	10,000

*** Rounded to nearest 5000 for poverty numbers and nearest £10 million for costing.**

2.2 WIDER SENSITIVITY ANALYSIS

We then moved on to consider the impacts on child poverty in Scotland of a range of different current policy levers, in a scenario where the benefit cap and two-child limit had been abolished. This was in order to understand which current benefit payments were likely to be most effective against child poverty, providing the most accurate means of understanding a real-world costing for reducing child poverty in Scotland.

As part of this sensitivity analysis, we considered the different payment types under universal credit (including the child element, standard allowance and childcare payment),[4] we considered changes to the universal credit means test (including the taper rate and work allowances), and we considered other, non-universal credit benefits payments (such as child benefit and employment support allowance). We did not consider tax credits or other legacy benefits due to be replaced by universal credit over the whole of the UK over the next few years.

We then undertook combination analysis to understand whether elements of the current benefits system, when used in combination, had a greater impact than seemed clear when modelled in isolation.

From this analysis, we found that, once the benefit cap and two-child limit are removed, there are four elements of the current benefits system that have the greatest modelled impact on child poverty rates in Scotland: child benefit, the

3 The cost of ending the two-child limit and the benefit cap is higher than the sum of the cost of doing each in isolation. This is because removing the two-child limit but not the benefit cap will mean those families with three or more children who are already receiving benefit payments at the level of the benefit cap would be no better off. Likewise ending the benefit cap but not the two-child limit would not help families with three or more children who receive benefit payments at a level at or beneath the benefit cap. This limits the effects and costs of doing each in isolation. Only by removing both the two-child limit and the benefit cap can all families with three or more children benefit.

4 See https://www.gov.uk/universal-credit/what-youll-get for further information on universal credit, and its allowances and elements.

child element of universal credit, the standard allowance element of the universal credit, and the work allowance of universal credit.

TABLE 2.2

The relative impact of removing the benefit cap, the two-child limit and increasing spending on other benefit elements in Scotland, 2019/2020

Cost, per year	£350m	£340m	£360m	£370m
Policy option	**Increasing UC standard allowance by £30**	**Topping up child benefit by £5**	**Increasing the UC child element by £45**	**Increasing the UC work allowances by £350**
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	20,000	20,000	45,000	15,000
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line static	20,000	30,000	45,000	20,000

*** These figures include the £130 million cost of removing the benefit cap and two-child limit and the 10,000 children this would remove from poverty (see table 1.1).**

Table 2.2 shows that the greatest impact on child poverty rates in Scotland can be achieved through the child element of universal credit. Increasing the child element of universal credit in Scotland would reduce the numbers of children in relative poverty by around 45,000 children, at a cost of around £360 million per year. This includes the costs and impacts of ending the benefit cap and two-child limit.

2.3 CHILD BENEFIT

The policy of topping up child benefit in Scotland has gained greater profile over the last year or two since the decision to devolve powers to the Scottish Parliament to top up UK-wide benefits. Our analysis shows that increasing child benefit by £5 would have a significant impact on poverty in Scotland, bringing 20,000 children out of relative poverty, after housing costs, at a cost of £340 million per year. This is a higher cost, and lower impact on child poverty, than some other costings have found. This is due to a number of factors, but most notably due to our analysis taking into account the introduction of universal credit, price inflation and moving poverty thresholds up to 2019/20, and our analysis taking account of the introduction of the benefit cap and two-child limit.

The table below shows the cost and effect of topping up child benefit in Scotland by £5 per week, with and without the removal of the benefit cap and two-child limit.

TABLE 2.3

The cost and impact on poverty of increasing child benefit by £5 per week, Scotland, 2019/20

	Benefit cap and two-child limit kept	Benefit cap and two-child limit repealed
Cost, per year	£200m	£340m
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	10,000	20,000
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line static	15,000	30,000

Table 2.3 shows that the effects of topping-up child benefit by £5 per week are lessened without also removing the benefit cap and two-child limit. Doing so increases the cost of the policy from £200 million to £340 million and also increases the impact from the policy on child poverty rates.

2.4 SUMMARY

We wanted to undertake sensitivity analysis of the full range of potential levers for modelling the cost of reducing child poverty, in order to understand which levers had the greatest impact on reducing child poverty. This would allow us to ensure that, in understanding a real-world costing for reducing child poverty in Scotland, we were neither over nor underestimating the scale of the financial challenge involved. We undertook analysis of the full range of current benefit payments, and undertook combination analysis. In doing so, our sensitivity analysis showed that the most effective policy lever in reducing child poverty in Scotland, of the current policy levers, is the child element of universal credit.

3. HOW MUCH WOULD IT COST TO REDUCE RELATIVE CHILD POVERTY IN SCOTLAND?

In this chapter, we want to understand the scale of Scotland's poverty gap – the financial cost of reducing relative child poverty rates in Scotland.

In the previous section, we outlined that varying the child element of the Universal Credit would be the most effective and accurate way to develop a real-world costing of the child poverty gap in Scotland.

The next step we undertook was to iteratively increase the child element of Universal Credit to model the effects on relative child poverty and ultimately to cost reducing and eradicating child poverty in Scotland.

Throughout this chapter we have used a poverty line of 60 per cent of median income, after housing costs. We have also recalculated the poverty line with each intervention, rather than using a static poverty line, to ensure we could provide an accurate real-world costing. After all, increasing the level of some benefit payments is likely to increase the median income and, in turn, increase the poverty line used to determine relative poverty rates.

3.1 CURRENT RATES OF CHILD POVERTY IN SCOTLAND

The current rate of relative child poverty in Scotland stands at 26 per cent for 2015/16, after housing costs and under 60 per cent median income. This is an increase from 22 per cent in 2014/15. It remains to be seen as to whether this is a sustained increase or a temporary fluctuation (Scottish Government 2017).

The average rate of relative child poverty in Scotland between 2013/16 was 23 per cent (AHC, under 60 per cent). This is a lower rate than the UK as a whole which stands at an average of 29 per cent over the same period. Relative child poverty rates in Scotland and across the UK (AHC, under 60 per cent) have fallen from around one-third in the late 1990s, to around one-quarter in the mid-2000s (Joseph Rowntree Foundation 2017). With the UK-wide benefits freeze and resultant real-terms cuts to many working-age benefit rates, with high levels of inflation outstripping earnings increases, with the full roll-out of universal credit, and the introduction of the benefit cap and the two-child limit, there are risks that relative child poverty rates could increase in Scotland, and across the UK, over the coming years. The Institute for Fiscal Studies (IFS) has modelled the potential impact on poverty rates in the UK of the forthcoming benefit changes between now and 2021/22. They found that relative child poverty rates are projected to increase across the UK by around 7 percentage points over and above 2015/16 rates. In Scotland, increases in relative child poverty will be less than average but would still increase by close to 3 percentage points, above 2015/16 rates, leaving a projected relative child poverty rate of just under 30 per cent, after housing costs and under 60 per cent median income (IFS 2017).

Throughout this chapter, we have also included analysis of the effects of relative poverty on young children (aged under five). This is to consider the effects on different child age groups.

As outlined above, the Scottish government has four statutory targets to reduce child poverty by 2030. These were passed with unanimous cross-party support in November 2017. These targets include reducing relative child poverty (under 60 per cent median, AHC) to under 10 per cent by 2030, which is the target we will focus on in this analysis.

3.2 REACHING THE SCOTTISH GOVERNMENT'S POVERTY TARGET

The table below shows the effects of ending the benefit cap and two-child limit, and increasing the child element of universal credit incrementally.

TABLE 3.1

The cost and impact on child poverty of ending the benefit cap and two-child limit, and increasing the child element of universal credit in Scotland, 2019/20 (poverty line recalculated)

Increase in child element of (per month):	£50	£100	£150	£200
Cost, per year	£390m	£660m	£950m	£1.2bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	45,000	65,000	100,000	110,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	25%	23%	19%	18%
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	15,000	25,000	35,000	40,000
Rate of young children (0–4) below 60% median, after housing costs: Poverty line recalculated	33%	30%	26%	24%

Table 3.1 shows a fairly linear effect in topping up the child element of universal credit, with increases in the child element steadily increasing in cost and steadily reducing relative child poverty.

We continued the iterative analysis until we were able to reduce relative child poverty to below the Scottish government's target. Table 3.2 shows the costs of reaching the Scottish government's 10 per cent target.

Through our iterative analysis, we found that it would take a top-up of £550 per month above current rates of the child element to bring relative child poverty rates in Scotland down to 10 per cent.[5] Table 3.2 shows that the cost of reaching the Scottish government's target for relative child poverty would be £3.8 billion per year.

5 A top-up of £550 to current child element rates would bring the 'first child payment' to £827.08, and £781.67 for subsequent children.

TABLE 3.2

The cost and impact on child poverty of ending the benefit cap and two-child limit, and increasing the child element of universal credit by £550 per month in Scotland, 2019/20 (poverty line recalculated)

	Increasing the child element of UC by £550
Cost, per year	£3.8bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	185,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	10%
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	65,000
Rate of young children (0–4) below 60% median, after housing costs: Poverty line recalculated	14%

As we have stated, this is not a policy recommendation, but simply the modelled costing for increasing income sufficiently among the poorest households to reduce relative child poverty to 10 per cent. In reality, this increased income for the poorest households could come through increased earnings, increased benefit spend or through other increases in household income.

3.3 ENDING CHILD POVERTY IN SCOTLAND

The cost of reducing poverty beneath 10 per cent

While the Scottish government and Scottish parliament's target is to reduce relative child poverty to less than 10 per cent by 2030, we wanted to understand the financial cost of reducing relative child poverty beneath 10 per cent in Scotland.

Table 3.3 shows the modelled impact on child poverty of iteratively increasing the child element of universal credit to bring modelled levels of child poverty down beneath 10 per cent.

Table 3.3 shows that the impact of increasing the child element of universal credit becomes less linear – with investment delivering decreasing returns in terms of reducing relative child poverty – than the same increase in investment at a lower level of relative child poverty. In this sense, making further progress in reducing relative child poverty rates is more expensive.

TABLE 3.3

The cost and impact on child poverty of ending the benefit cap and two-child limit and increasing the child element of universal credit in Scotland, 2019/20 (poverty line recalculated)

Increase in child element of (per month):	£650	£750	£850
Cost, per year	£4.6bn	£5.5bn	£6.4bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	200,000	210,000	215,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	9%	8%	7%
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	70,000	75,000	80,000
Rate of young children (0–4) below 60% median, after housing costs: Poverty line recalculated	13%	11%	10%

This lack of a linear pattern to child poverty is likely due to two factors. First, it could be due to a long tail of deep deprivation in the *current* income distribution within Scotland. Changing this income distribution is likely to be necessary to make progress towards ending relative child poverty in Scotland, and may be more effective than universal credit in making progress beyond 5 per cent. Secondly, the levels of top-up we have modelled could be having a positive effect on median income, and therefore increasing the poverty line, close to the increases in income for the poorest households that remain in poverty. This would make the child element of universal credit not cost effective beyond a certain point. In order to understand which factor is most important, a more detailed study of the shape of Scotland's income distribution would be required.

We wanted to determine the financial cost of reducing rates of relative child poverty down closer to zero. The table below outlines a range of options we modelled to bring the child poverty rate down to under 5 per cent in Scotland.

Table 3.4 shows that to bring the modelled relative child poverty rate in Scotland down to beneath 5 per cent would cost £10.2 billion per year. We found that boosting household income further, through an increased child element, had diminishing returns beyond this point.

TABLE 3.4

Cost and impact of increasing the child element of universal credit and removing the benefit cap and two-child limit in Scotland, 2019/20

Increase in child element of (per month):	£1,250	£1,500
Cost, per year	£10.2bn	£12.7bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	240,000	245,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	5%	4%
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	90,000	90,000
Rate of young children (0–4) below 60% median, after housing costs: Poverty line recalculated	7%	7%

3.4 SUMMARY

To reiterate, this research does not aim to outline the best policy to reduce or eradicate child poverty in Scotland. Instead, it aims to outline the most accurate costing for significantly reducing or eradicating relative child poverty in a real-world scenario. Our analysis is a static analysis and does not take account of behavioural change, but it does outline an estimate of the relative child poverty gap in Scotland. We have found that the modelled cost of bringing the child poverty rate down to 10 per cent would be £3.8 billion per year in Scotland. To bring the child poverty rate down further, and beneath 5 per cent, would cost of around £10.2 billion per year. We therefore find that making progress on child poverty becomes less linear in cost in making progress beneath a relative child poverty rate of 10 per cent.

4. HYPOTHETICAL PAYMENTS

In the previous chapter, we calculated the modelled cost of bringing child poverty rates in Scotland down to meet the Scottish government's target of 10 per cent relative child poverty, and to bring child poverty rates down to beneath 5 per cent. We calculated this in a real-world scenario, through modelling the change in child poverty delivered through increases in the child element of universal credit, having conducted a sensitivity analysis on a range of benefit elements.

We found that the cost of bringing relative child poverty rates down to 10 per cent after housing costs would be around £3.8 billion per year. To bring child poverty rates down beneath 5 per cent would cost around £10.2 billion per year.

In this chapter, we wanted to consider a small number of hypothetical payments that could be implemented in Scotland, and their modelled impacts on child poverty. We wanted to undertake this analysis to check our estimates of the cost of reducing relative child poverty outlined in the previous chapter, in order to ensure that a range of hypothetical payments would not be more effective at reducing relative child poverty. We also wanted to consider some potential reforms to the benefits system in Scotland that could be implemented to provide analysis of a small range of policy options from the perspective of reducing child poverty.

In doing so, we considered the impacts of a new under-5s focused payment, a universal basic income (UBI), and what we have termed a 'minimum income guarantee'.

4.1 AN UNDER-5S PAYMENT: A PAYMENT FOCUSED ON TACKLING YOUNG CHILD POVERTY

We wanted to consider the possibilities and costs around tackling child poverty among young children in Scotland. While the Scottish government's target focuses on child poverty as a whole, it would be an option to make progress for young children, aged under five years old, first. We modelled the option of introducing a new under-5s payment at various amounts within the current universal credit structure in Scotland. Table 4.1 shows the cost of reaching 10 per cent and less than 5 per cent relative young child poverty in Scotland, using an under-5 payment within the universal credit system.

Table 4.1 shows that the cost of reducing poverty rates among under-5s to under 10 per cent in Scotland would be £3.5 billion per year, using an under-5 payment of £1,000 per month. Bringing poverty among under-5s down to beneath 5 per cent would cost around £4.5 billion per year through an under-5 payment of £1,250. The under-5s payment would also help to bring relative child poverty rates down more generally, benefiting households with older children too.

This would be potentially possible through either the Scottish parliament's top-up powers or through powers to create new benefits in devolved areas.

TABLE 4.1

The cost and impact of introducing an under-5s payment within universal credit and removing the benefit cap and two child limit in Scotland, 2019/20

Level of under-5s payment (per month)	£1,000	£1,250
Cost, per year	£3.5bn	£4.5bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	115,000	125,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	18%	16%
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	80,000	95,000
Rate of young children (0–4) below 60% median, after housing costs: Poverty line recalculated	10%	4%

4.2 UNIVERSAL BASIC INCOME (UBI)

We also wanted to consider the impacts of a potential UBI on child poverty rates in Scotland.

There are a number of models, but a UBI would usually guarantee every citizen or resident a flat-rate, unconditional payment regardless of their employment status or income level. It is also sometimes called a 'citizens' income' or a 'basic income'.

Often a UBI is combined with the abolition of the personal allowance and a flatter income tax system, ensuring that rather than means-testing the UBI payment, the tax system represents all of the effective marginal tax rate a recipient faces. So a UBI does not abolish a withdrawal rate, it is just that it is done entirely through the tax system, rather than a combination of means testing and income tax. Depending on where income tax rates were set, this would likely bring the effective marginal tax rate down as compared to, for example, universal credit recipients, who currently can face an effective marginal tax rate of up to 75 per cent once you combine income tax, national insurance and the universal credit taper. This should therefore reduce risks of benefit traps and increase work incentives compared to now.

In addition to changes to the tax system, a UBI is usually proposed as a replacement for much of the existing welfare system.

The idea of a UBI has gained profile in Scotland in recent years, and, in 2017, the Scottish government announced funding for local authorities in Scotland to undertake research into the concept and its feasibility until 2019/20.

One of the few models of a UBI in Scotland has been outlined by Reform Scotland in their proposed Basic Income Guarantee (BIG) (Reform Scotland 2016). This would see a £100 payment per week per adult and a £50 payment per week per child in Scotland (or £5,200 per year for adults and £2,600 per year for children). As we have outlined, this would be a flat payment, paid by right to every citizen (adult and child) in Scotland, and would not vary with income levels. The BIG would replace income-assessed benefits such as universal credit and child benefit, but other benefit payments – for example, for disability, caring, or housing costs – would be paid in addition to the BIG.

Reform Scotland outline the benefits of BIG as (among others):

- simplification
- individualisation
- promotes work incentives
- all work pays
- no work requirements.

There are a number of reasons that proponents support the introduction of a universal basic income, with many of these not related to the distributional effects of doing so. However, we wanted to consider a UBI concept solely in relation to its potential effect on child poverty.

We modelled the costs and effects on child poverty of a UBI set at £53.10 per week for children and £106.20 per week for adults, or £5,522.40 per year per adult and £2,761.20 per child.[6] Table 4.2 outlines the effects of a UBI payment, in isolation from any tax measures that would be implemented alongside it (Reform Scotland proposed a number of tax changes to help to pay for the BIG). In this model, in keeping with Reform Scotland's proposal, Child Benefit, Jobs Seekers Allowance, Universal Credit and Pension Credit are replaced.

TABLE 4.2

The cost and impact of introducing a UBI at £5,522.40 per year per adult and £2,761.20 per year per child in Scotland, 2019/20

	Basic Income Guarantee (BIG)
Cost, per year	£20bn
Change in the number children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	**Increase** of 35,000
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line static	70,000
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	5000
Number of young children (0–4) lifted from poverty, below 60% median, after housing costs: Poverty line static	25,000

Table 4.2 shows that the introduction of a UBI set at these levels would increase relative child poverty in Scotland by 35,000 children. We included its effects against a static poverty line, given the UBI's likely strong effect on the median income, and therefore the poverty line. However, while the UBI would have a positive effect against a static poverty line at the rates modelled, the impact is weak compared to the investment required to implement a UBI. As shown in table 3.2, investing £3.8 billion per year – or around one-fifth of the cost of the BIG – could bring child poverty in Scotland down to 10 per cent, rather than the increases in relative child poverty brought by the BIG.

6 The figures of £100 and £50 per adult and child respectively uprated by inflation from 2015/16 to 2019/20.

The most likely legislative route to introducing a UBI in Scotland would be through the Scottish parliament's ability to create new benefits in devolved areas, meaning a UBI could likely be introduced if it were connected to a devolved policy area (such as health or education).

It should be restated that this analysis takes no account of potential tax changes required to pay for the proposal. These could have some effects on child poverty, in either direction, depending on their design. Equally, it should also be restated that there may well be a number of other reasons to consider the introduction of a UBI in Scotland. Proponents have argued that it may improve negotiating power for workers, its universal nature may increase buy-in to the wider social security system (as far is it continues to exist beyond a UBI), and that it may be the best way to respond to the potential effects of automation. However, in our narrow aim of reducing child poverty, our analysis shows that a UBI in isolation, far from being an anti-poverty measure, would increase relative child poverty in Scotland.

From a poverty perspective, the payment side of a UBI is not well-designed to tackle poverty. It is universal, and therefore not targeted on the poorest households, and also will boost median incomes, increasing the poverty line. Furthermore, the payment is given on an individualised basis, whereas poverty is by definition experienced by a family or household. Moreover, the costs of a UBI in Scotland would be extremely significant. With the Scottish government's statutory targets to reduce child poverty by 2030, investment in a UBI could reduce the Scottish government's ability to invest to end child poverty.

4.3 A HYBRID APPROACH: A MINIMUM INCOME GUARANTEE

We wanted to consider a new concept of payment that could take some of the proposed benefits of a UBI, together with some of the advantages of a means-tested household payment, designed specifically to focus on poverty, investing funds in a more targeted way to reduce poverty. We have called this the 'minimum income guarantee' (MIG).

An MIG would be a means-tested household payment. Other than an income test, the MIG would be a no-strings payment, with no conditions (such as work requirements and related sanctions). If you do not earn enough (and do not have savings) you would receive it, and in this sense it would guarantee everyone a minimum income. The minimum income would be set to reduce poverty, and in particular to focus on child and young child poverty. The withdrawal of MIG would be guaranteed to be no higher than the highest effective marginal tax rate for higher earners (currently 62 per cent for those earning between £100,000 and around £125,000 per year who see the personal allowance withdrawn), ensuring strong work incentives and no benefit trap for claimants. It would also be simple, with no age restrictions or single/joint household distinctions.

As with a UBI, housing and disability payments would continue to the side of the MIG.

An MIG would have:

- a payment of £600 per month per adult in family
- a payment of £450 per month per child in family
- no strings and no conditionality (beyond an income test)
- a maximum 60 per cent effective marginal tax rate (including income tax and national insurance) and less for those not earning enough to pay income tax or national insurance – the poorest households should not face a higher effective marginal tax rate than higher earners

- no work allowances, meaning that, like a UBI, recipients face an effective marginal tax rate from £0 earnings
- housing, childcare, carer and disability-related payments would continue to the side of the MIG as now.

This would provide a household payment of up to £7,200 per year per adult, and £5,400 per year per child. This is higher than the UBI model outlined above. The table below outlines the costs and effects on adult poverty, child poverty and young child poverty of an MIG.

TABLE 4.3

The cost and impact of introducing a minimum income guarantee (MIG) at £7,200 per year per adult and £5,400 per year per child in Scotland, 2019/20

	Minimum income guarantee (MIG)
Cost, per year	£9.1bn
Number of children lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	180,000
Rate of children below 60% median, after housing costs: Poverty line recalculated	11%
Number of young children (0-4) lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	70,000
Rate of young children (0-4) below 60% median, after housing costs: Poverty line recalculated	14%
Number of working age adults lifted from poverty, below 60% median, after housing costs: Poverty line recalculated	95,000
Rate of working-age adults below 60% median, after housing costs: Poverty line recalculated	17%

Table 4.3 shows that for less than half the cost of the UBI we modelled, Scotland could introduce an MIG set at £600 per adult per month and £450 per month per child. Rather than increase relative child poverty, as the UBI we modelled would, the MIG would reduce the relative child poverty rate down to 11 per cent, young relative child poverty to 14 per cent, and reduce working-age adult poverty too. An MIG would be simple (as far as the recipient is concerned); it would flatten the effective marginal tax rate experienced by recipients (like the BIG would), ensuring that work incentives are improved and that all work would pay (avoiding benefit traps); and, crucially, it would be a no-strings payment just like a BIG, with no conditionality beyond an income test.

An MIG may be possible through the Scottish parliament's top-up powers, or through powers to introduce new benefits in devolved areas. If through top-up powers, the top-up would be very complicated, working around existing UK-wide benefits. Agreements would therefore need to be made with the UK government to allow the top-up payment to take place in a way that was seamless and simple for recipients in Scotland, and strictly at the back-end of the system rather than the front-end.

4.4 SUMMARY

In this chapter, we have considered a number of hypothetical payments that could be introduced in Scotland. We have found that the Scottish government could make progress towards its child poverty targets by focusing initially on young child poverty. It would cost £3.5 billion to bring relative poverty rates for under-5s down to 10 per cent, and £4.5 billion to bring relative poverty down below 5 per cent for young children in Scotland aged under five (compared to £3.8 billion and £10.2 billion per year for all children respectively). This could be done through a new under-5s payment as part of universal credit.

We also considered a UBI from the perspective of child poverty. There are a number of reasons that supporters propose a UBI that are unrelated to reducing child poverty. However, given the aims of this research, we wanted to consider its potential effects on child poverty in Scotland. We modelled a UBI in Scotland set at £5,522.40 per year per adult, and £2,761.20 per year per child, replacing many income-assessed benefits, while retaining benefits including for disability, caring and housing. We found that, far from being an anti-poverty measure, a UBI set at these levels in Scotland would increase relative child poverty and would have a weak effect on child poverty even with a static poverty line.

Finally, we attempted to develop a hybrid payment, taking some of the ascribed benefits of a UBI and combining it with some of the advantages of a means-tested household payment, from the perspective of child poverty. This would see a simple, no-strings, means-tested household payment of up to £7,200 per year per adult and £5,400 per year per child, designed to ensure an effective marginal tax rate no higher than experienced by higher earners. For half the cost of a UBI in Scotland, this would bring child poverty rates down to just above the Scottish government's 10 per cent target for relative poverty.

5.
CONCLUSION

The aim of this analysis has been to provide costings, not policy recommendations. We have worked to provide a real-world costing of the relative child poverty gap in Scotland; the financial cost of bringing relative child poverty down to the Scottish government's targets of 2030, and beneath this level. In doing so, we used modelling of changes to existing benefits payments, and the potential for hypothetical payments to have a positive effect on poverty, and to be cost-effective in doing so.

However, this is not to say we believe the child poverty gap could be met through increased benefit payments, increased taxes, or indeed government action alone. It is likely that to meet the cost of the child poverty gap we will need to see action from across Scotland, across governments, employers and public, private and civil society sectors. Reducing child poverty is likely to need a whole-Scotland approach. Equally, this is not likely to be possible overnight, with concerted action necessary for many years to come.

We also recognise that the causes and effects of child poverty are not solely financial. We have considered the financial scale of reducing child poverty in Scotland in this analysis, but even if this were to be achieved, other non-financial aspects of child poverty may continue.

The aim of this research is to outline the scale of the financial challenge of reducing, and ultimately eradicating, relative child poverty in Scotland. In doing so, we hope that this research begins to support a debate based on evidence and supports the development of policies that have the scale of ambition to match the scale of this challenge.

Our analysis finds that meeting the Scottish government's statutory target of reducing relative child poverty to 10 per cent – passed with unanimous support across the Scottish parliament in 2017 – would cost £3.8 billion per year. Reducing relative child poverty to 5 per cent in Scotland would cost £10.2 billion per year.

This represents the size and scale of the child poverty gap in Scotland; the amount of increases in household income that the poorest families in Scotland would need to bring child poverty rates down in Scotland. This increased household income could come from any source: increased earnings, increased social security payments, or other household income. It could be paid for by increased tax rates, increased tax revenue through economic growth, or reductions in low pay through inclusive growth (or a combination of these).

However, given the scale of the financial challenge, it is unlikely that it could be achieved by, for example, taxing the richest alone, through increasing income tax alone, through increased taxes alone or through government action alone.

We hope this research has met its aim. It is now down to the Poverty and Inequality Commission, governments, parliament, civil society, business and others, to come forward with policy options that can meet the scale of the challenge, to make progress over the coming years to reducing and eradicating child poverty in Scotland.

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