

# Briefing: delivering an Income Supplement in Scotland

This briefing marks the first report from a joint JRF and IPPR Scotland programme. It aims to outline the key questions for the new Income Supplement at this stage, ahead of the emerging Scottish Government plans for design and delivery of the Income Supplement. Answers to these key questions will be set out in a follow-up briefing later in 2019.

**Jim McCormick and Emma Congreve (JRF), Russell Gunson and Rachel Statham (IPPR Scotland)**

---

### Recommendations – key principles for Income Supplement:

- **Urgency:** start early, in this Parliament. Start small if necessary and build up. The Programme for Government and the next Scottish Budget are crucial to enable this.
- **Predictability:** high levels of predictability are highly valued by those with experience of the Social Security system. This should mean that reassessments are not over-frequent so that the payment can be a reliable source of income.
- **High take-up:** Income Supplement must reach those in need. The application process should be accessible, straight-forward and automated if possible.
- **Poverty depth:** to change children's lives we need to ensure we tackle depth of poverty. Income Supplement should include a focus on those in deepest poverty, and families we know have the highest poverty risk, to have impact.
- **Ambition:** significant investment is needed to reduce child poverty. Whilst this cannot all be done by social security, it must play its full part.
- **Impact:** we have assessed a number of options for impact on child poverty and cost. We believe cost effectiveness is an important principle to ensure the maximum number of children are taken out of poverty.

---

## Introduction

JRF and IPPR Scotland have come together to consider how we can maximise the impact of the Scottish Government's proposed Income Supplement. We have joined forces so that we can work to offer advice, support and constructive challenge to the Scottish Government, MSPs and other organisations that will be important in shaping the new Income Supplement.

We have begun a programme to understand the potential opportunities and challenges facing the delivery of an income supplement. The work will see desk-based research, interviews and focus groups with experts who have experienced living in poverty, policy and practice experts in local government, and modelling of the potential costs and benefits of different options for an Income Supplement. We have created a new [online platform](#) so that we can share our progress and enable people to interact with the work as we go.

Most crucially of all, we have started the programme by engaging with people with experience of poverty to hear their priorities for the new Income Supplement. This will be the foundation of the work and will be where we start and where we finish, ensuring that experts by experience are at the heart of what we do, informing what will help to reduce poverty for the long-term.

## Background

In 2017, the Scottish Parliament unanimously passed the Child Poverty (Scotland) Act 2017. The Act marked a watershed moment for Scotland. Not only did it see the reinstatement of child poverty targets, similar but more demanding than those abolished by the UK Government in 2016. It also marked a statement of intent by parties across the political spectrum. Following the new powers devolved to the Scottish Parliament after the Smith Commission process in 2014, including new tax and social security powers, MSPs came together to make reducing child poverty among the highest priorities for parliament as a whole.

Alongside setting new legally binding targets, to reduce relative child poverty<sup>i</sup> to no more than 18% by 2023/24 and to no more than 10% by 2030/31 (alongside three other targets<sup>ii</sup>), the Act also established a new statutory Poverty and Inequality Commission, and placed a duty on the Scottish Government to produce a new child poverty delivery plan spanning 2018-22 (with further plans required for 2022-26 and 2026-2031).

The first of these plans, [Every Child, Every Chance](#), was published in March 2018. It outlined a series of measures designed to reduce child poverty in Scotland, including actions in relation to Work and Earnings, Cost of Living and Social Security. The plan also identified key 'priority families' who are at higher risk of poverty: lone parents, larger families, minority ethnic families, families with a disabled adult or child, young mothers, and families with a child under one.

In outlining its Social Security commitments, the delivery plan pledged to introduce a new Income Supplement to provide 'vital financial support for parents on low

---

incomes'. This reflected the Poverty and Inequality Commission's initial advice (itself supported by IPPR Scotland research). The delivery plan states that the Scottish Government will 'work towards the introduction of the Income Supplement within the lifetime of this Delivery Plan (by 2022)'.

The plan stipulates that:

- The Income Supplement should be targeted to lift the maximum number of children out of poverty.
- There must be a robust and viable delivery route to get additional income to eligible families.

The Scottish Government Delivery Plan accepts that social security interventions cannot be the only policy lever engaged in efforts to reduce child poverty in Scotland. But it rightly focuses on what the Scottish Parliament's new social security powers can do to help Scotland to meet its new legally binding promises to reduce child poverty.

### Child poverty over time

The [latest figures](#) show that there were around 240,000 children living in relative poverty in Scotland on average between 2014/15 and 2017/18 – accounting for 24% of all children. This is lower than equivalent rates in England, Northern Ireland and Wales. Child poverty rates in Scotland, as across the UK, fell from a peak in the early 1990s through to the mid-2000s, plateauing until the increases seen in the [last few years](#).

Recent projections have estimated that child poverty is due to increase dramatically in Scotland and across the UK. The Scottish Government's [own projections](#) point to child poverty increases by 2030 that would see levels of poverty that are unprecedented in modern times. Without action, these projections suggest that relative child poverty will increase steadily over the next few years, with the pace of increase growing until 2030/31, at which point almost 38% of all children in Scotland could be living in poverty. More recent analysis by the [Resolution Foundation](#) shows a similar trend in the shorter term, with relative child poverty projected to increase to 29% in 2023/24 without further policy action. We consider both projections in more detail later in the report.

### **Social security is a vitally important means to reduce poverty and improve outcomes.**

Social security can act as an invaluable buffer for families who are fighting against powerful currents like low wages, insecure and insufficient hours, and rising costs. Since 2010, we have seen social security reforms that have made people's daily struggle to make ends meet unnecessarily harder. The harm this will cause to our society is significant - and entirely avoidable.

Two out of every three children in poverty are living in working families. A significant proportion of those now working are contending with disability or a long-term limiting health condition. Parents are struggling against the tide of poverty, day in day out, doing all they can to improve their children's lives and we have heard first-hand the difference that even a small Income Supplement could bring to ease the pressure.

---

We know that ending child poverty is possible. We have seen significant reductions before, and we can do so again. For those who cannot work due to disability and ill-health, social security is their key safeguard from a life of destitution. However, to work for all and to sustainably reduce child poverty we must look beyond only social security. High housing costs need to be addressed, and poor pay, hours and conditions need to be improved.

While social security can't drive down child poverty entirely on its own, we do not think we can hope to meet ambitious targets without social security playing a stronger role for low-income families in and out of work. We know that income poverty has a [causal effect on children's development](#). Reducing child poverty therefore is key to improving outcomes, including educational attainment, and preventing costs falling on other public services later in life.

### **Why now?**

Scotland is at a precipice. Either it allows child poverty to rise as it is expected to do across the UK, or it uses the powers the Scottish Parliament now has to take a different path. Social security is one of the most powerful and direct tools that the Scottish Parliament has. It is vital that the Scottish Government use it to its best effect.

This report lays out what we believe the options are, and what could be achieved using social security powers. These powers have only recently been devolved, and this poses its own challenges in terms of capacity and expertise, and we are concerned that this may delay the introduction of the Income Supplement. We can't put children's lives on hold, and we must act quickly to stem the tide. This briefing raises the possible options, but we acknowledge that there are many unknowns and we will need to wait until the Government has delivered its update on plans for the Income Supplement at the end of this parliamentary session in June to understand the answer to some key questions on budget, scope and delivery. Stage Two of this work will build on what is published by the Scottish Government at the end of June to seek to build a broad understanding on the best way forward.

---

## Key principles, informed by those with experience of the Social Security system

The voice of those with experience of poverty in Scotland need to run throughout our work and these voices are key to helping shape the options that will actually make a difference to children who are experiencing poverty. By the time of writing this report we had undertaken three events across Scotland, speaking with people who have experience of living in poverty. We aim to do further events throughout the project.

At each of the events we asked for input and ideas around four key themes:

- How much would make a difference?
- How often should it be paid?
- How can take-up be maximised?
- Who should deliver it and when?

### How much would make a difference?

We talked through an Income Supplement payment of £5 and £10 a week per child as a starting point. There was a feeling that even at £5 per week, payments would offer some breathing space for constrained family budgets. There were also voices that felt this amount was too low to make an impact. Whilst £5 a week could make it somewhat easier to afford to buy enough food for the family, the greater the payment the greater the impact, and £10 a week felt more significant to the people we spoke to, offering opportunities for being able to buy better quality food, basic children's clothes when required, and being able to say yes to occasional school trips, going swimming or to a play centre as a family, and being included in birthday activities.

We heard that amounts must be updated in line with prices each year, and the money ought to be protected – both from being deducted from other financial support (disregarded) and from being taken away in response to small or short-term variations in incomes.

Crucially, certainty and security of payment was a high priority for the people who spoke to us, regardless of the level of payment (as important as that is). Knowing that there was a payment that families could count on, regardless of any short-term change in their circumstances, would offer a degree of certainty and the opportunity to plan ahead.

### How often should it be paid?

The people we engaged with thought that frequency of payment should be a choice. Some would find it preferable to have payments 'rolled up' into larger amounts paid less frequently, while others are in the situation of living week to week. Whilst it was understood that this could increase administration costs, it was felt that providing some choice should be feasible with current digital systems.

---

## How to maximise take-up?

We heard how application forms serve as a barrier to claiming payments, and more should be done to use existing 'touch-points' when people are in contact with public services – for example, when registering the birth of a child - to register there and then, rather than through a separate process.

Using existing benefits as a passport to automatic payment was seen as a positive thing – but this would only form part of the solution since it may miss out people who should be eligible for social security support but for various reasons are not claiming qualifying benefits. We must make sure that those in the most vulnerable situations and deepest poverty are claiming the Income Supplement, and this may require different routes in, for example, via face-to-face support meetings for example rather than expecting people to claim online independently. Participants talked about humanising so that the applicant 'feels like a person not just a number'.

The Income Supplement could also be a 'gateway' into other services of support. One participant stressed that this system should be joined up to other public services to ensure continued support for those who need it: "You need a system that builds people up and offers not just money, but the right support".

## How should we start?

It was generally felt that if we can start sooner (even on a smaller scale) then this would be far better than nothing. Starting with youngest children (for example at birth registration) was an option that was seen to have some merit, but whilst childcare costs are significantly lower for older children, other costs such as food increase as children grow.

Targeting to ensure more money goes into the pockets of low-income families was felt to be important to some extent. There was some feeling that targeting should not be so narrow as to only reach families living under the poverty line in a given week or month. This would help to reflect the reality of many families' incomes, which might fluctuate meaning they fall in and just out of poverty over the course of a year. We also heard that the long-term goal of an Income Supplement should be to provide income adequacy for families, not just to raise incomes to a point just above the poverty line. The minimum income standard was proposed at one event as a possible sensible threshold to consider.

We hope to return to continue the conversation in our next stage of work, and we hope that the Scottish Government will find ways to engage with similar experts as they develop their solution.

---

**From speaking to those with experience of the Social Security system, these key principles came up time and time again:**

**Urgency:** start early, even with only a partial version of the Income Supplement, but as long as that doesn't lead to long delays to implementing the full scheme.

**Predictability:** high levels of predictability and dependability are highly valued. This will likely mean relatively infrequent reassessments.

**High take-up:** in order for the Income Supplement to make a difference, we must ensure that application is easy, if not automated.

**Poverty depth and rate:** an Income Supplement should focus on addressing the depth of poverty as well as the rate of poverty in Scotland.

Are these right? Do you agree or disagree? Get in touch at:

<https://www.jrf.org.uk/our-work/income-supplement-scotland>

## Scotland's new Income Supplement – what do we need to know?

In the rest of this briefing we outline the key questions that we have identified so far facing the Scottish Government in designing an Income Supplement. As far as possible, we have sought to understand the policy implications and possible routes forward, concentrating on five key questions.

1. How can an Income Supplement best help children beneath the poverty line?
2. When could Scotland's Income Supplement be introduced?
3. How much should be invested in a new Income Supplement?
4. How could an Income Supplement be delivered to people who need it?
5. What could an Income Supplement look like in Scotland?

We hope that the Scottish Government will put forward their emerging views on these issues at the end of June in their statement to parliament. A process of more informed discussion can then begin, to foster the shared understanding and agreement we need to make the Income Supplement a success. We hope the points we raise in this briefing, and our follow-up briefing later this year, will help with this process.

### 1. How can the Income Supplement best help children beneath the poverty line?

While reducing the rate of child poverty in Scotland should be a primary aim, it is important to understand the potential an Income Supplement could have on the depth of child poverty too. Although depth of poverty isn't one of the targets set by the Scottish Parliament, an Income Supplement that moved children from just beneath the poverty line to just above the poverty line may help Scotland to meet our poverty

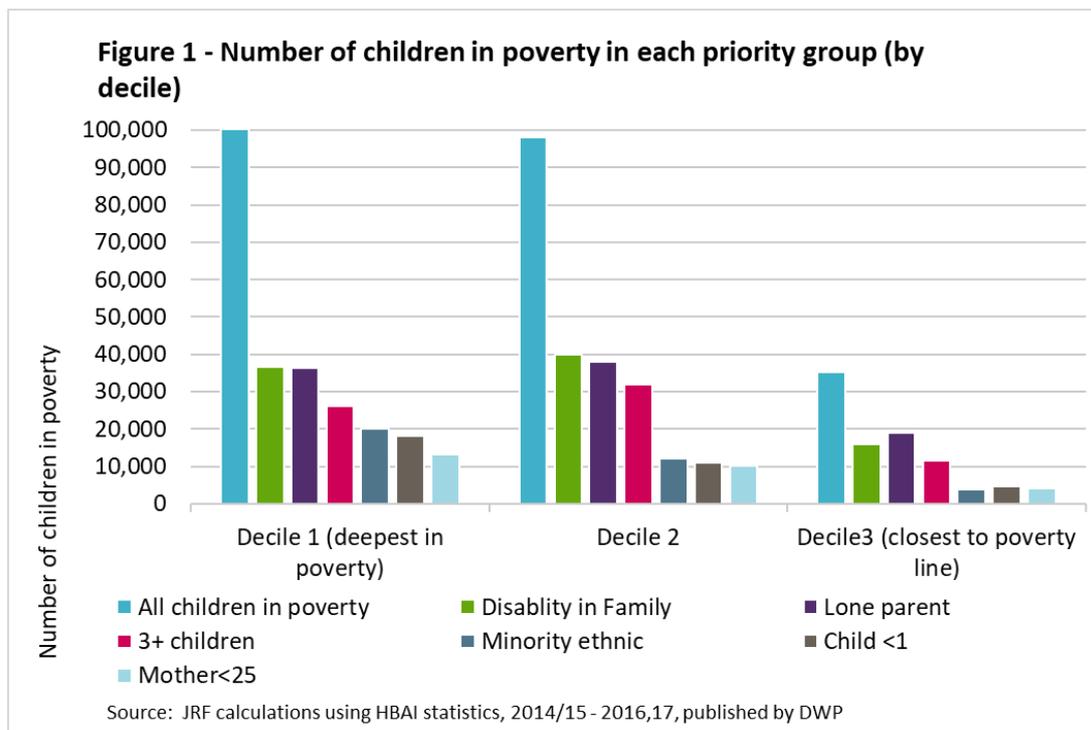
reduction targets, but it may not have the effect we hope for on peoples' lives. We therefore wanted to consider current trends for those beneath the poverty line for children in Scotland, including by looking at the six priority groups highlighted by the Scottish Government in 'Every Child Every Chance'.

## Depth of child poverty in Scotland

In the three-year period 2014/15 to 2016/17<sup>iii</sup>, there were one million children in Scotland, with 240,000 children in relative poverty. Children's incomes are calculated by looking at the income of the households, adjusting this for the size of the household<sup>iv</sup>, and then dividing it by each household member. Children in poverty are within the bottom 30% (or bottom three deciles)<sup>v</sup> of child incomes. As well as considering children living just above and just below the poverty line, we wanted to consider the depth of child poverty in Scotland – those families whose incomes are furthest below the poverty line. As a measure for deep poverty, we looked at children with the lowest 10% of incomes, the bottom income decile.

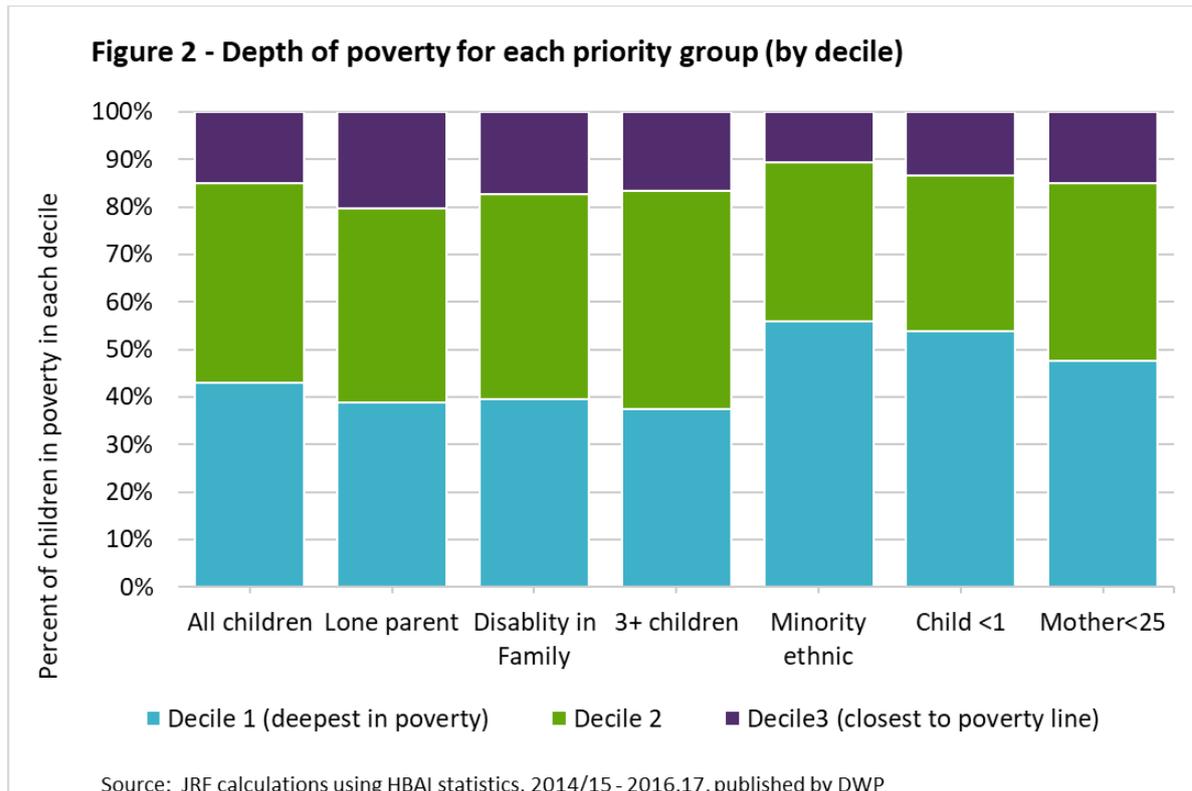
Figure 1 shows the 240,000 children in poverty on average between 2014/15 – 2016/17. Around 100,000 children (or 45% of all children in relative poverty) are in the bottom 10% by income, and therefore in the deepest poverty. It also shows that in terms of absolute numbers, children in families where someone is disabled and children in lone-parent families (accounting for over 30,000 children in each group) and children in larger families (accounting for over 20,000 children) make up the largest proportions of children that experience the deepest poverty.

Figure 1 – Number of children in poverty within bottom three deciles of Scottish families, by income



Looking at the proportion of children in deep poverty within each priority group offers a slightly different picture. Figure 2, below, shows that if we look at people living in poverty in Scotland by group, minority ethnic families, young parents and families with a young child are more likely to be in deep poverty than other family types. Almost half of children living in poverty in minority ethnic families, families with a child under the age of one, and families with a young parent, are living in deep poverty – where their incomes are in the lowest 10% of the distribution.

Figure 2 – Depth of poverty for each priority group (by decile)



## How can the Income Supplement address the depth of child poverty in Scotland?

We believe it is important to understand how an Income Supplement could make the biggest impact for children living in deep poverty in Scotland because we do not believe an Income Supplement that works only to move children from just beneath to just above the poverty line is likely to have the positive or sustained impact we wish to see on peoples’ lives. It will therefore be important to consider the shape of any Income Supplement, and in particular whether payments to families in the deepest poverty will be higher than those in poverty slightly further up the income spectrum.

There are many options that could be considered as means of tackling deep poverty through an Income Supplement. For example, a tapered payment or a higher payment for families with a disabled child or adult, reflecting the higher costs and increased barriers to work these families experience, or to start with payments for families with pre-school age children. We consider some of these later in this report and will look at this issue further in the months ahead and report on findings in our final report.

---

## 2. When could Scotland's new Income Supplement be introduced?

When speaking with and hearing from people with experience of poverty, one of the most consistent messages is that low-income families need help now. The message is clear: things are hard and they're getting harder. People can't wait.

As stated above, the Scottish Government's plans are to 'make progress' on introduction of an Income Supplement by 2022. However, we wanted to consider whether, and how, an Income Supplement could be introduced sooner. Whichever figures are used, relative child poverty is set to increase dramatically over the next few years, through to 2030/31; every week, and every month, is likely to count.

In May 2019 we released new analysis using projections from both the [Scottish Government](#) and [Resolution Foundation](#). Between the baseline year for the new targets (2017/18) and the year of Scotland's interim targets on reducing child poverty (2023/24), relative child poverty is projected to increase dramatically. Far from decreasing in line with Scotland's legally binding targets, without further action, relative child poverty could increase by over 50,000 children over this time. That is a rate of around 25 more children each day, 170 more children each week and over 750 more children each month entering poverty than leaving poverty in Scotland.

We know that much of this increase has stemmed from UK Government decisions to freeze social security payments, whilst living costs rise, and to introduce the Two-Child Limit meaning Universal Credit cannot be a poverty-reducing tool for all families. In addition, the current state of the UK economy means it is not providing the good-quality jobs for all that can have a tangible difference on living standards. Other headwinds, such as poor-quality unaffordable housing, also need to be addressed. Many of these factors take time to adjust and this is why we are focussing so heavily on the Income Supplement as it can make a direct difference in the here and now.

Past experience shows that the legislation required to introduce a full Income Supplement could be considered and passed by MSPs in around 12 months<sup>vi</sup>. Allowing time for public consultation prior to introduction could mean the earliest we could see Income Supplement legislation introduced would be later this calendar year or early next. If so, we could see legislation in place for a low-income supplement by April 2021, before the next Scottish Parliament elections. Clearly, avoiding the uncertainty that a Scottish Election could bring to the delivery of the Income Supplement is advantageous.

We could see payments starting sooner than this through an interim scheme. Once the shape and budget for the full Income Supplement is clear, we could introduce an interim payment designed to dovetail with the full scheme (this would avoid the risk of having to take the payment away from some families in transition from interim to full). In the past the Scottish Government and Scottish Parliament have shown they can act quickly without waiting for primary legislation<sup>vii</sup>. If decisions are made soon about the budget and who we're aiming to support, then an interim payment could even be in place before April 2021.

---

Bringing an Income Supplement in prior to the Scottish Government's planned 2022 start-date would create potential trade-offs in terms of delivery and design. Bringing in an earlier interim or partial Income Supplement, could delay the introduction of a full scheme if it means duplication of activities. Likewise, in the interim, only less sophisticated options may be possible. Furthermore, an earlier interim or full Income Supplement may require the delay of other social security payments being devolved to Scotland. None of these should be looked on lightly and each has serious implications. However, the need to act with urgency means they should not be seen as insurmountable obstacles.

To establish even an interim Income Supplement in this parliament, we would need to see a clear statement of intent from government very soon. There are upcoming opportunities to set out this clear ambition. The Scottish Government's June 2019 update on the Tackling Child Poverty Delivery Plan could be an opportunity to set out plans for introducing the Income Supplement, including a timeline for legislation and setting the budget. Equally, to deliver legislation in this parliamentary term, it will almost certainly need to form part of the Programme for Government in September this year. For an interim payment to be possible, we would need to see a budget commitment made in the draft Scottish budget for 2020/21, likely to be introduced just before Christmas. If we see a multi-year budget or spending review, then we will need to see a budget for the full Income Supplement too.

The next six months could therefore be vitally important to making progress towards reducing child poverty. We believe there are opportunities to move quickly on this, and to do so in a way that does not put the delivery of other devolved benefits at risk. These options are discussed later in this briefing in more detail, and whilst we will need to seriously consider the Government's appraisal of what is viable, options that allow for faster delivery must be looked at seriously.

### **3. How much should be invested in Scotland's new Income Supplement?**

While the Scottish Government has outlined a timescale to 'make progress' on implementation of an Income Supplement by 2022, there has been no decision yet in relation to the level of funding that would be invested.

In many ways this is logical as if we adopt an outcomes-based approach budgets should be set in relation to the desired impact, which in turn will determine its shape, how it is delivered and finally the budget made available. However, in reality the budget is as likely to be determined by considerations of affordability and the priority placed on introducing an Income Supplement, as led by an outcome-based approach.

#### **Balancing priorities and need**

The first way of looking at the question is to ask how much we can afford. [The Scottish Budget is currently around £40 billion a year but is under pressure](#). We have an ageing population with increasing demand on health and social care, and the need to spend more on these services just to keep pace. Indeed, the Scottish Government has increased NHS spending in Scotland by over £750 million per year in real terms in

---

2019/20 compared to the start of the parliament in 2016/17. Likewise, there are many other competing priorities for public spending in Scotland, some of which could also have a positive impact on poverty. For example, £180 million per year spending on narrowing the attainment gap or over £500 million of additional spending by 2021/22 on expanding early learning and childcare to 30 hours a week for all three- and four-year-olds (and for eligible two-year-olds) are welcome investments and key government priorities. However, they also show that government can find funds, even when public finances are incredibly tight, for its top priorities.

There are areas of significant spend (or income foregone) which could be scrutinised much more closely. Most obviously, the Small Business Bonus for businesses with small properties (worth a total of £226 million per year) and other Business Rates reliefs worth up to £750 million per year across Scotland should be considered against the Scottish Government's priorities around inclusive growth and reducing poverty.

Given its new powers on taxes, the Scottish Parliament is now responsible for raising close to half of the funds it has available to spend. Income tax changes in Scotland since devolution in 2017/18 will see around £500 million of additional public spending compared to the powers not being used. But we are also seeing the consequences of the fiscal framework which, due to forecasts being lower in Scotland (relative to the UK) than previously predicted, could see a reduction in the budget of over [£1000 million over three years](#).

In the end, how much Scotland can afford comes down to the priority placed by the Scottish Government and MSPs on the new Income Supplement relative to other areas of spend. Difficult decisions will need to be made and there may need to be drastic reappraisal of priorities and some reappraising of the merits of preventative versus reactive spend on issues such as education. Whilst it would not make sense to fund the Income Supplement by taking money away from investments that might address the major drivers of child poverty in Scotland, equally though, as [JRF research has shown in the past](#), the costs of not acting may well far outweigh the costs of acting now.

One way of looking at the potential scale of budget that Scotland may need to consider investing is to look at what is needed to deliver against Scotland's statutory targets.

As we outlined above, child poverty is projected to increase dramatically over the next few years. Based on those projections, just to bring poverty rates in 2023/24 down to beneath the level of poverty in 2016/17, when Scotland's legally binding targets were agreed, would likely need a reduction of around 50,000 to 65,000 in the numbers of children in poverty in Scotland. To reach Scotland's interim target for relative poverty by 2023/24 could need a reduction in child poverty closer to 100,000 children. Recent research shows the potential scale of budget required to reduce child poverty and meet the interim targets.

IPPR Scotland's own research from last year looked at the potential costs of reducing child poverty in Scotland. This looked at how much it would cost to top-up payments for parents in receipt of Universal Credit. In reality this could be paid to families in Scotland through DWP or through a stand-alone 'passport' Scotland-based payment<sup>viii</sup>.

---

We found, for 2019/20:

- To bring 45,000 children out of poverty would have needed a payment of up to £50 per month (just over £11.50 per week) at a cost of around £390 million per year.
- To bring 65,000 children out of poverty would have needed a payment of up to £100 per month (or just over £23 per week) at a cost of £660 million per year.
- To bring 100,000 children out of poverty, when we undertook the analysis last year, and for 2019/20, would have needed a payment of up to £150 per month (or just over £34.50 a week) at a cost of £950 million per [year](#).

So even just to bring relative child poverty rates down to beneath the level they were when legally binding targets were set, never mind reach Scotland's interim poverty target, the cost of an Income Supplement could reach over £600 million per year.

The level of ambition in terms of funding invested into the Income Supplement, once it is up to full speed, will need to be large in order for it to make any significant impact on poverty. In Scotland, we've shown before that we can find the funds to invest in our highest priorities, even in the grip of austerity. If we are to get back on track to reduce child poverty, we will need MSPs in all parties to work together to find the means to invest in the Income Supplement.

#### **4. How could an Income Supplement be delivered to people who need it?**

It is hard to consider timing, budget and impact separately from potential delivery routes. We are therefore including a short section here which aims to outline some of the key questions and trade-offs for the Income Supplement. Our second report later this year will consider potential delivery routes and trade-offs in greater detail.

Here we want to consider the pros and cons of three broad delivery channels relating to each tier of government: the UK-level, the Scotland-level and the local-level. In considering delivery routes, we have been particularly interested in whether any of these would allow earlier payment of the Income Supplement even if this were an interim solution.

##### **UK: DWP and HMRC**

At the UK level, DWP and HMRC make social security payments to hundreds of thousands of people in Scotland. These are a mix of almost-universal (Child Benefit), targeted and income-based (Universal Credit and legacy payments like tax credits and ESA) and needs-based, aiming to compensate for additional costs related to disability (Child DLA, PIP).

The Scottish Government could work with DWP or HMRC to add payment to one of these platforms. This would require legislation in Scotland, using Scotland's new top-up powers, and at least secondary legislation at the UK level. The principle of adding to a benefit that is already in payment – either automated or by new application, but without a further test of income and assets – could have some advantages. It could

---

help to boost take-up, potentially reduce stigma and possibly minimise operating costs.

However, building further reliance on a UK-wide benefit payment with a key dependency on decisions made by the UK Government seems to be at odds with the Scottish Government's stated intentions. In particular, this may not be compatible with its desire to make a new investment in low-income families which it would be fully responsible and accountable for. Furthermore, it is not clear that the UK-level offers a delivery route that would be any quicker than others. Given the requirement for legislation through the Scottish Parliament and at least secondary legislation at the UK-level to support a DWP or HMRC delivery route, this may not see a solution prior to 2022. This timescale could be subject to further delays given the focus, in the case of the DWP at least, on the roll-out of Universal Credit. Lastly, but importantly, using a UK-level delivery route for the Income Supplement may rule out options for the Income Supplement to be a gateway to other financial and non-financial support for those who receive it as the use of data may be more restricted than if a Scotland-based route is used.

DWP (and potentially HMRC) are still likely to be important in delivery of the income supplement even if they are not delivery partners because if we go down the route of a passported (using an existing benefit to inform eligibility) interim or full Income Supplement, they will be crucial sources of data that could be used to help ensure eligible families can claim the Income Supplement, maximising take-up.

### Scotland: Social Security Scotland

Scotland's new agency Social Security Scotland opened in September 2018 and has begun paying two social security payments of relevance to the Income Supplement. Firstly, the Agency has begun paying Carers Allowance Supplements to carers in receipt of UK-wide Carers Allowance in Scotland. All Carers Allowance recipients at a prior qualifying date received the first of two **Carers Allowance Supplement** payments automatically. This was based on DWP data sharing with 'top-up' payments made by the new Scottish agency. A similar automatic top-up, paid by the Agency, could be an interesting route for an interim or full Income Supplement. Secondly, this was followed in December 2018 by the first payments of the Best Start Grant (pregnancy and infancy). This is a lump sum payment triggered by application from parents eligible for low-income qualifying benefits. This is checked in real time with DWP. This will be followed by two fresh application points, firstly for the costs of early years care (between the age of two and three-and-a-half years old) and for starting school around the start of primary 1. This is not a top-up payment, but instead a Scotland-based payment, passported from a qualifying UK-wide benefit. Again, this could be instructive for any interim or full Income Supplement in Scotland.

The new Agency has many advantages as a potential payment channel for the Income Supplement. It has already demonstrated the capacity to process a significantly larger number of claims for Best Start Grant more quickly than was anticipated. This bodes well for take-up rates within Scottish social security. Depending on how the Income Supplement was designed, the Agency already has some experience of a form of passporting of payments for potential beneficiaries, albeit less experience of accepting

---

applications for a means-tested payment. It would also allow the potential creation of a Scotland-owned data set to develop the Income Supplement into a gateway to other financial and non-financial help for recipients.

The main disadvantage we envisage in using the Agency as a delivery route in the short-term is programme and operating capacity up until 2022. Delivery plans for devolving the 10 benefits to Scotland, including PIP/DLA, run well into the next term of the Scottish Parliament. There are therefore clear operating constraints to introducing a brand-new payment that is not already planned for and does not largely replicate a legacy benefit. We take seriously the Scottish Government's commitment to safe and secure delivery of these payments. The stakes are high: a much bigger number of recipients are affected by this next wave of benefit devolution.

If the Scottish Government concludes that the Agency is the preferred payment channel for the Income Supplement, depending on its design, there is a risk that payments could not begin until 2022 and possibly even later. This means that this delivery route would fail to meet the key principle of urgency we have heard in our conversations with people who have experience of life on low incomes. That has sparked our search for alternative delivery channels, including the option of an interim approach to payment even if this is partial to begin with.

### **Scotland: local government**

We are mindful that Scottish local authorities have well-established data-sharing protocols with DWP for legacy benefits and that secure payment platforms are in use for housing costs (including Housing Benefit, Discretionary Housing Payments), council tax relief (CTR), targeted lump sum and regular payments (School Clothing Allowance, Education Maintenance Allowance) and crisis relief (Scottish Welfare Fund) and other means-tested support (such as free school meals). Some of these have stand-alone means tested application routes while others are passported payments.

This could mean local authorities could offer a potential delivery route until capacity is found within the Agency. We have been exploring how far local government could play a role in earlier payment of the Income Supplement. The four councils we have met with to date have each expressed confidence in their capacity to do this, either as an interim or longer-term solution.

### Potential interim options

There could potentially be ways to bring in some form of Income Supplement earlier through Social Security Scotland. For example, one possibility could be to build the Income Supplement on to the new **Best Start Grant platform and payment** now established. This would see regular payments (for example fortnightly or monthly) paid to recipients of the existing lump sum Best Start Grant payments for parents with young children. This possibility is described further in the next section. This could provide a route to an interim payment at least for families with children up to school age, in a way that we hope would minimise additional administration for the Agency. However, there is no guarantee that the Agency would have the capacity to do even this, smaller, intervention.

Another example could see an interim Income Supplement paid using **Council Tax Reduction** eligibility as a passport. This could be paid by the Agency or probably more logically by Local Authorities who already administer CTR. This would see all households in receipt of CTR with children receive the Income Supplement. However, it is unclear whether new data-sharing protocols with DWP and HMRC would be required for this route, but even so, there is a process that the Scottish Government could initiate to enable this. A final option could see an additional regular payment paid alongside the current School Clothing Grant, administered by local authorities in Scotland. However, this would see only school-age children covered.

Are these right? Would there be other potential interim payments we haven't considered? Are there problems or benefits with these options we have not considered? Get in contact at <https://www.jrf.org.uk/our-work/income-supplement-scotland>

## 5. What could an Income Supplement look like in Scotland?

This section considers a number of options for how an Income Supplement in Scotland could be targeted, whether as an interim or full scheme. We have focused on an Income Supplement passported from other existing Scotland or UK social security payments. This has allowed us to consider a range of options and their potential impacts on child poverty in Scotland.

This is not an exhaustive list of options. There are potentially other options, via a range of delivery routes, that could be considered. Options could also be combined – for example, by eligibility being passported through receipt of either a Best Start Grant or Council Tax Reduction - to try and ensure as many children in poverty as possible are covered. An additional means test could be added to bring more people in who are excluded from existing passported benefit. The options have been chosen to show the range of issues that we believe should be considered in deciding on the best design and how different options relate to these issues to help inform discussion.

There are many additional features of an income supplement that we do not consider here. These include the possibilities of premiums, how the income supplement will be withdrawn and any possible impacts this may have on work incentives. We will consider these aspects of design over the next few months ahead of our next report.

---

## Criteria for analysis

- Coverage: how many children in poverty would be eligible for a payment.
- Targeting: how many children well above poverty line (in families with above median income) are eligible. The higher the percentage, the more money will be spent on those who are less likely to be at risk of poverty.
- Cost effectiveness – relative poverty: how many children are taken out of relative poverty per £100 million spent (not including administrative costs). This most closely relates to the Government’s stated ‘key test’ of the maximum number of children being taken out of poverty.
- Cost effectiveness – deep poverty: how many children are taken out of the deepest poverty per £100 million spent (not including administrative costs).
- Coverage of priority groups – how well are priority families covered.

## Comparison of options

Table 1 contains a comparison of some potential options. We have focused on options that can be passported from other Scotland or UK-wide benefits at this stage of our analysis. Our options include:

1. A payment passported from UC/legacy and Pension Credit.
2. Best Start Grant extension.
3. Council Tax reduction passport.
4. Child Benefit top-up.
5. Child Benefit top-up for under-fives.

We have also included an option that is targeted only at children in poverty that is meant purely for illustration. This option is included to show what would happen if the Scottish Government was able to construct a payment that only those in poverty were eligible for. In reality, this is not possible to do as the poverty line changes each year and families move in and out of poverty. Equally, if it were possible it would need a taper to avoid a significant cliff-edge at the point of the poverty line. However, by showing this, we see an illustration of maximum possible cost-effectiveness as a benchmark to compare to other options.

### 1. Universal credit/legacy benefits and Pension Credit as a passport

We modelled the effects of an additional payment to families with children in receipt of Universal Credit, legacy benefits or Pension Credit. We can see from Table 1 that by passporting all those eligible for means-tested income support at the UK level, this option would have comprehensive coverage of children in poverty. This option presents administrative challenges prior to the full roll-out of Universal Credit as it would require data sharing with both DWP and HMRC for families in receipt of legacy benefits. This therefore may not easily lend itself to an interim payment prior to 2021. While there is an option to deliver a Scotland-based payment passported from a UK

---

qualifying benefit (as is already the case with Carers Allowance Supplement, Best Start Grant and Council Tax Reduction) this would still mean the Income Supplement criteria were tied-in to UK government, and UK-wide, means tests and criteria (though not UK-wide sanctions regimes). Across all criteria, this option performs steadily, therefore the main setback is the issues with administration and the knock-on effects that may have with regards to timing.

## 2. Best Start Grant extension

We modelled the effects of a payment to families who meet the current criteria for Best Start Grant in Scotland. The Best Start Grant will see parents with children under school age receive lump sum payments if they are in receipt of UC, legacy benefits or Pension Credit at three points (around the birth of their child, aged between two and three-and-a-half, and at the point of starting Primary 1). This option would therefore offer new regular (fortnightly or monthly) payments, alongside the existing lump sums, to boost incomes for eligible families from as early as 24 weeks of pregnancy through to starting school.

The people we discussed a potential Income Supplement with valued predictability very highly. To deliver against this criteria, regular Income Supplement payments could run from application until the existing subsequent application points for the second and third BSG payments. This could work to provide an Income Supplement, for under-fives, that provides predictability and security for families while also minimising the administrative burden for the Agency.

However, there are some disadvantages to this approach. One is coverage, since the Income Supplement would be restricted to families with pre-school children in the first instance. Equally, given the assessment of Best Start Grant takes place at three points prior to starting school, there may need to be ways for families to apply for the regular payments in between these points. It might provide the foundation for building coverage outwards/upwards for children of all ages.

As stated in the previous section, this option could be a good potential interim option prior to 2021. We believe this option could be delivered earlier than others due to the fact that it would be built on top of an existing system held by the Agency. It might provide the foundation for building coverage outwards/upwards for children of all ages, starting early for children under-five.

## 3. Council Tax Reduction as a passport

We modelled the effects of an additional amount to families who meet the current criteria for Council Tax Reduction in Scotland. Council Tax Reduction is paid to households in receipt of a qualifying UK benefit (UC and legacy) or to those who apply through a means tested route (with variable means tests depending on family circumstances).

Using Council Tax Reduction (CTR) has a key strength in terms of cost effectiveness due to the fact that relatively few children on higher incomes are eligible. However, there

---

are drawbacks. Coverage of children in poverty is low because CTR tapers away once recipients reach a relatively low-income threshold (in most cases much lower than the poverty threshold). Equally, it is unclear as to the level of take-up of CTR across Scotland and in some local authorities, caseload appears to be falling. As coverage of CTR across the poverty population is only partial, a review of CTR eligibility would be advisory regardless, and we believe that a process is already underway to decide how best to operate as UC is being rolled-out.

As stated in the previous section, one important potential advantage is that it could be brought in relatively quickly compared to other models, including as an interim payment prior to 2021. Whilst it could be delivered by the Social Security Agency, the more obvious route would be to deliver via local authorities who already administer CTR. However, it is unclear whether data-sharing protocols would need to be extended to determine passported eligibility for a new Income Supplement formed by using CTR eligibility. Even if this is the case, then there is still potential for the required process to be carried out to allow delivery prior to the next Scottish election.

#### 4. Child Benefit Top-Up

We modelled the effects of paying an additional amount to all families with children in receipt of child benefit. It would see a payment to all families with children provided any earners are paid beneath the 50,000 threshold. A variant of this option has been the core of the 'Give me 5' campaign in Scotland. Its key benefit, using our criteria, is that it covers all children in poverty, but due to the fact that it also covers almost every other child in Scotland, cost effectiveness for reducing poverty is low.

However, there are other advantages to this option. Child benefit has high take-up and by adding a top up onto this existing system, there would unlikely be any stigma associated with receiving this benefit. It also has certainty of payment, as the absence of a means test (unless one adult is earning over £50,000) means that in the absence of a significant change in circumstances, there is high certainty and predictability in payment.

One key drawback is that the timescale associated with using this route to deliver an Income Supplement is uncertain. If payments are made through HMRC it is uncertain whether it would be possible within this Parliament as it would need to fit with HMRC's administrative priorities. It may be quicker to provide a Scotland-based payment passported using HMRC data. However, this would require use of one of the existing Scotland-based routes (BSG or local authorities), and crucially new data agreements with HMRC.

#### 5. Child Benefit Top-Up for under-five's

We modelled the effects of paying an additional amount to all families in receipt of Child Benefit with a child/children under five. As with the previous option, it would see a payment to all families with children provided any earners are paid beneath the £50,000 threshold. This option is slightly cheaper to adopt than the full child benefit option above, but its lower coverage of those in poverty means that its cost-

effectiveness for taking children out of poverty is lower than the non-age restricted Child Benefit Top-Up. However, it performs slightly better for cost effectiveness at taking children out of deep poverty, probably due to the fact that families with children under 1 are more likely to be in deep poverty.

Table 1 – Comparison of selected options

	Poverty only payment (illustration only)	1. Passport from Universal Credit or Pension Credit	2. Best Start Grant extension for all under 5	3. Passport from Council Tax Reduction	4. Child Benefit top-up	5. Child Benefit top up < 5 only
Coverage of children in poverty	100%	94%	49%	46%	99%**	52%
How many beneficiaries are above median income?	0%	16%	14%	11%	43%	38%
Cost effectiveness* – reduction in relative poverty per £100m spent	15,000 - 25,000	5,000 - 15,000	0 - 10,000	10,000 - 20,000	0 - 10,000	0 - 10,000
Cost effectiveness* – reduction in deepest relative poverty per £100m spent	15,000 - 25,000	5,000 - 15,000	5,000 - 15,000	10,000 - 20,000	0 - 10,000	0 - 10,000
Coverage of priority groups	100% coverage across all	Close to 100% coverage across most priority groups.	Very good coverage for youngest child <1 and young mothers. Around 50% for others.	Circa 60% for lone parents & disabled families and young mothers. 30% - 50% for others.	100% coverage across all	100% for youngest child <1 and very good coverage for young mothers. Between 40% and 60% for others

\*Cost effectiveness calculations were based on the impact of paying an additional £10 per week per child claiming.

\*\* There is one household in our data where it appears the child benefit is being claimed by one parent whilst the children are living with the other parent.

---

## Emerging answers and conclusions

This report marks only the first report from this joint programme between JRF in Scotland and IPPR Scotland. Given the early stages of our work we want this report to be as much about raising questions and ideas for consideration as attempting to provide definitive answers. We hope this report will act as a way to share our initial thinking, but most of all as a way to enable people and organisations to engage with our work and shape our thinking as we progress through the rest of the programme.

- How can an Income Supplement best help children beneath the poverty line?

From our initial analysis, we need to consider the design of the Income Supplement against how well it reduces the rate of poverty but also how well it addresses the depth of poverty too. An Income Supplement that moves children from just beneath the poverty line to just above, may look like it is having a significant impact on paper, but in reality may not make the difference to peoples' lives that we wish to see.

- When could Scotland's new Income Supplement be introduced?

We have found precedent that supports our view that legislation could and should be passed by the end of this parliamentary term. There may also be potential delivery routes to introduce an interim payment prior to the passing of primary legislation. The consideration that will be key in terms of timing will therefore likely be budget and delivery. Budget decisions in many ways come down to priorities, and spending on child poverty should reflect the ambition of the Scottish Government to eradicate child poverty. The issue of delivery is much harder, at this stage, to resolve categorically. If the new Agency is determined to be the best delivery route for the full Income Supplement, then there may be ways to introduce an interim payment through an existing Social Security Agency benefit (such as Best Start Grant) or passported through a local authority payment (such as Council Tax Reduction or School Clothing Grant).

- How much should be invested in Scotland's new Income Supplement?

The ultimate budget for the Income Supplement should be determined by the outcomes we wish to achieve through it. Once the Scottish Government has set out some of its stated intentions, it will be easier to understand what the likely cost will be and we will return to this issue in our next report. However, it is clear that the budget for the full Income Supplement, once up to full speed, will need to be substantial if it is to have any impact on poverty.

Our analysis has shown that child poverty is on course to rise by 50,000 between now and 2023/24. Reducing child poverty beneath the level it was when child poverty targets were set in 2017/18 will require significant investment which could be over £600 million per year by 2023/24. Even this would not get us close to meeting the interim child poverty reduction targets. The government would need to take difficult decisions to make this money available, but there are choices available.

- 
- How could an Income Supplement be delivered to people who need it?

We have outlined the potential routes available to deliver an Income Supplement in Scotland, whether on an interim or full basis, through the UK-level (DWP or HMRC) or through the Scotland-level (through Social Security Scotland or local authorities). We are unclear that UK-routes offer many advantages, and in particular may be no quicker than Scotland-based routes.

There appear to be opportunities for an interim solution, through either the Agency or through local authorities in Scotland. Equally, a passported payment may reduce administration costs for whatever delivery route we take, and potentially offer routes to automation, minimising hurdles for potential beneficiaries in Scotland. This could offer a potential route to a targeted but high take-up payment in Scotland. However, passporting may bring some of the difficulties of linking receipt of an Income Supplement to potentially ever-changing UK benefits system.

- What could an Income Supplement look like in Scotland?

There is no perfect option that works best on paper at the same time as being operationally viable and quick to implement. However, we've set out some initial illustrative options that show the trade-offs between coverage of children in poverty and cost-effectiveness in removing children from poverty and deep poverty. Further analysis is needed on the precise nature of a new benefit, including tapers, premiums and exact levels of payment. We also would like to do more exploration into how different options could be integrated with other services, either as a route into the Income Supplement or as an avenue for further support to sustain children out of poverty.

There are clearly trade-offs that need to be considered in full before a decision may be taken, and we hope that this will be done by the Government in a transparent and open way. From the process thus far, we have drawn up a few key principles that we would like to see incorporated into the Income Supplement:

- **Urgency:** start early, in this Parliament. Start small if necessary and build up. The Programme for Government and the next Scottish Budget are crucial to enable this.
- **Predictability:** high levels of predictability are highly valued by those with experience of the Social Security system. This should mean that reassessments are not over-frequent so that the payment can be a reliable source of income.
- **High take-up:** the Income Supplement must reach those in need. The application process should be accessible, straight-forward and automated if possible.
- **Poverty depth:** to change all children's lives we need to ensure we tackle depth of poverty. The Income Supplement should include a focus on those in the deepest poverty, and the families we know have the highest poverty risk, to have impact.
- **Ambition:** significant investment is needed to reduce child poverty. Whilst this cannot all be done by social security, it must play its full part.

- 
- **Impact:** we have assessed a number of options for impact on child poverty and cost. We believe cost effectiveness is an important principle to ensure the maximum number of children are taken out of poverty.

We believe if these principles are realised, with an appropriate budget allocation, the Income Supplement will be the bedrock of Scotland's fight against child poverty and will make a vast difference to the lives of Scotland's children.

---

## Notes

<sup>i</sup> Relative child poverty is measured as households with income below 60% of the UK median income, after housing costs.

<sup>ii</sup> The other three targets relate to Absolute Poverty, Low Income and Material Deprivation and Persistent Poverty, all of which must fall to below 5% by 2030. See Scottish Government website for latest update on progress towards all four targets.

<sup>iii</sup> For the analysis in this paper, we are using data for 2014/15 – 2016/17 rather than the most recent data (2015/16 – 2016/17). This is partly due to issues with the latest data FRS and HBAI data available via the End-User Agreement which does not include the same number of households as the data used by DWP and Scottish Government. We are looking for ways to resolve this issue.

<sup>iv</sup> A process known as equivalisation that ensures that incomes are reflective of living standards across the population.

<sup>v</sup> Deciles are constructed by dividing a population into ten equally sized groups, in this case according to the distribution of household income across families in Scotland.

<sup>vi</sup> The Social Security (Scotland) Act 2018 was introduced into the Scottish Parliament on 20 June 2017, was passed by parliament 10 months later, and received royal assent on 1 June 2018, just under 12 months following introduction. The Child Poverty (Scotland) Act 2017 was introduced on the 9 February 2017, was passed by parliament in November 2017, and received royal assent on the 18 December 2017, just over 10 months after introduction.

<sup>vii</sup> The Interim Welfare Fund, for example, was in place in Scotland a full two years before the legislation was passed to establish the permanent Scottish Welfare Fund. This used existing local authority powers combined with guidance from the Scottish Government to create an interim scheme.

<sup>viii</sup> Passporting refers here to using receipt of an existing benefit, for example Universal Credit, as a means of determining eligibility for a different benefit – in this case the proposed Income Supplement.

---

## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

We are working with private, public and voluntary sectors, and people with lived experience of poverty, to build on the recommendations in our comprehensive strategy - [We can solve poverty in the UK](#) - and loosen poverty's grip on people who are struggling to get by. It contains analysis and recommendations aimed at the four UK governments.

All research published by JRF, including publications in the references, is available to download from [www.jrf.org.uk](http://www.jrf.org.uk)

This work is the outcome of a JRF / IPPR partnership, comprising Emma Congreve and Jim McCormick for JRF, Russell Gunson and Rachel Statham for IPPR Scotland.

To meet one of our experts to discuss the points raised please contact:

Emma Congreve: Senior Economist

Emma.Congreve@jrf.org.uk

07970 340348