

Exploring options for the Income Supplement in Scotland

This briefing looks in detail at some options for the Income Supplement in Scotland. Sources:

- Family Resources Survey (FRS) and Households Below Average Income (HBAI) 2014/15 to 2016/17. Unresolved issues with the data available through the End User License have meant we have not used the 2015/16 to 2017/18 dataset for this analysis.
- IPPR Tax Benefit Model run for the policy year 2017/18, incorporating tax-benefit policies known at April 2017, using FRS data from 2014/15 to 2016/17.

As we have run this analysis for the policy year 2017/18, analysis should be interpreted as showing what would have happened had the income supplement been implemented in April 2017.

In the absence of clear direction on the point at which an income supplement might be feasibly introduced, we have not projected our modelling into the future. Our key goal in this analysis was to show comparisons between options rather than absolute reductions in poverty as a result of the income supplement. Projections also add another level of uncertainty and can be misconstrued as predictions rather than a scenario based on a series of assumptions.

We have used a measure of cost effectiveness to compare the impact of options. This is the impact on poverty reduction divided by the expected cost. For this analysis, it is a useful calculation as the costs of different options vary significantly based on whether they are universal or means-tested. For all analysis, we have kept the poverty line fixed, based on the assumption that a modest change in incomes in Scotland would not be significant enough to move the UK median (and therefore 60% of the UK median which is the definition of poverty used in legislation for the Child Poverty (Scotland) Act 2017).

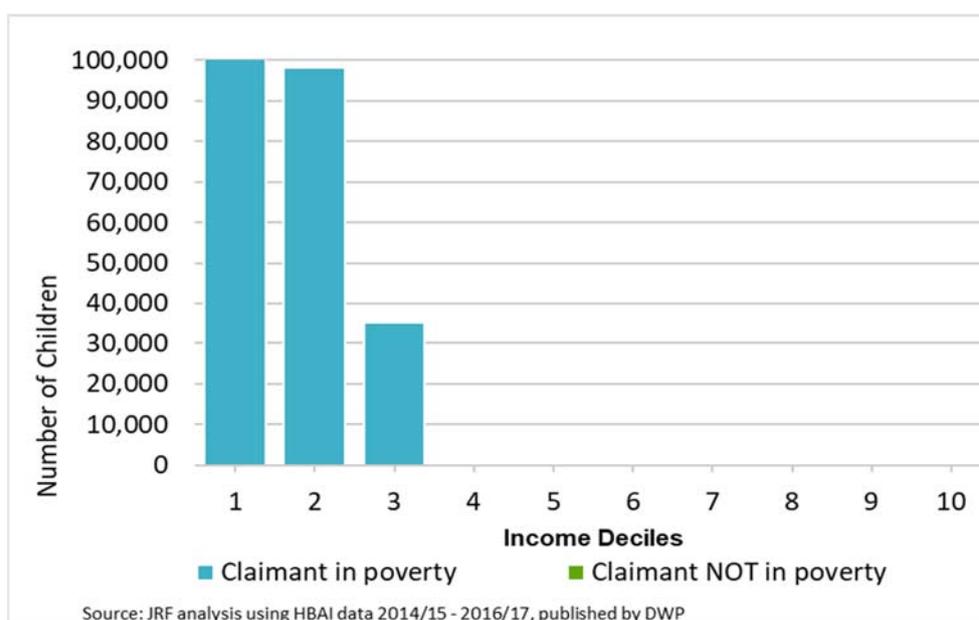
The estimate of impacts and costs in this report take into account benefit take-up rates, based on the most recent published DWP estimates for the UK and setting take-up of Universal Credit at the highest of the six legacy benefits it replaces.

Illustration of a benefit targeted only at children in poverty

This option shows the impact of only targeting children in poverty. In reality, the poverty line cannot be predicted, and families' incomes change from year to year hence we do not anticipate that this is replicable in the real world. However, it provides a benchmark for the effectiveness of other options.

Coverage

Only children in poverty receive this payment.



Priority groups

Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	100%	100%	100%	100%	100%	100%

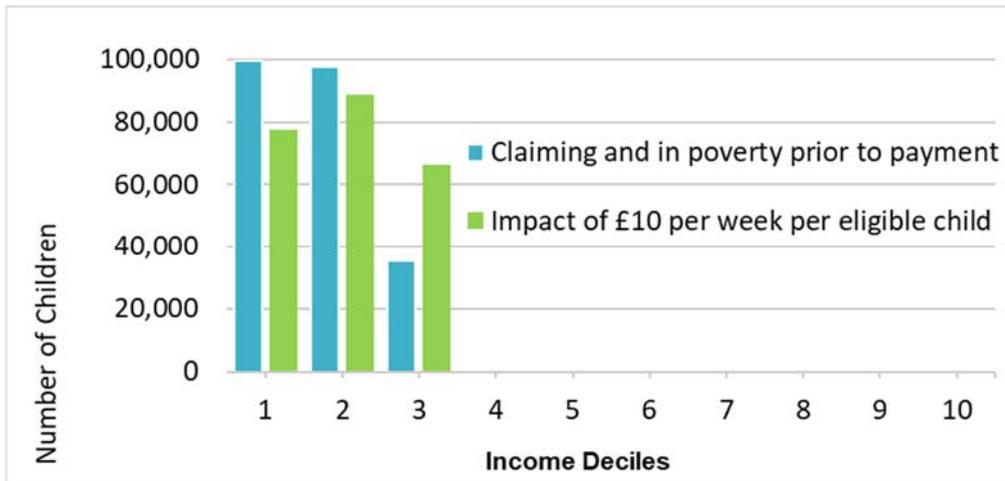
Number of beneficiaries	230,000
Reduction in relative poverty per £100 million spent	15,000 – 25,000
Reduction in deep relative poverty per £100 million spent	15,000 – 25,000
Coverage of children in poverty	100%

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by 20,000 at a cost of £120 million.**

Coverage

Eligibility for this payment extends beyond only those in poverty, but there is a clear tapering off as incomes increase.

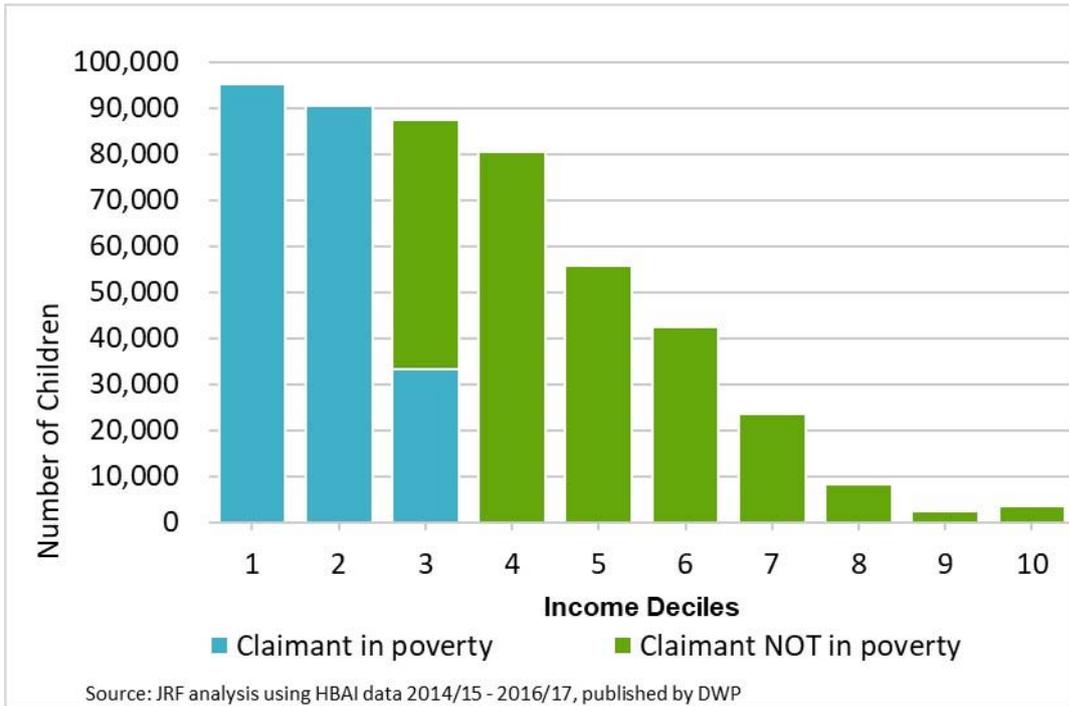


If we compare prior income with the impact, assuming no change in the decile thresholds, **20,000 children in the bottom income decile would move out of the deepest poverty.**

There is a net reduction in those in the second bottom decile, and a net increase in the third decile. The poverty line is located within the third decile, and £10 is not sufficient to move any child far away from the poverty line in this, and any other option, that we have shown.

Option 1. Using UC/legacy benefits and Pension Credit as a passport

This option shows the impact of using existing UK means-tested benefit eligibility to passport claimants onto the Income Supplement. This includes both in-work and out-of-work claimants.



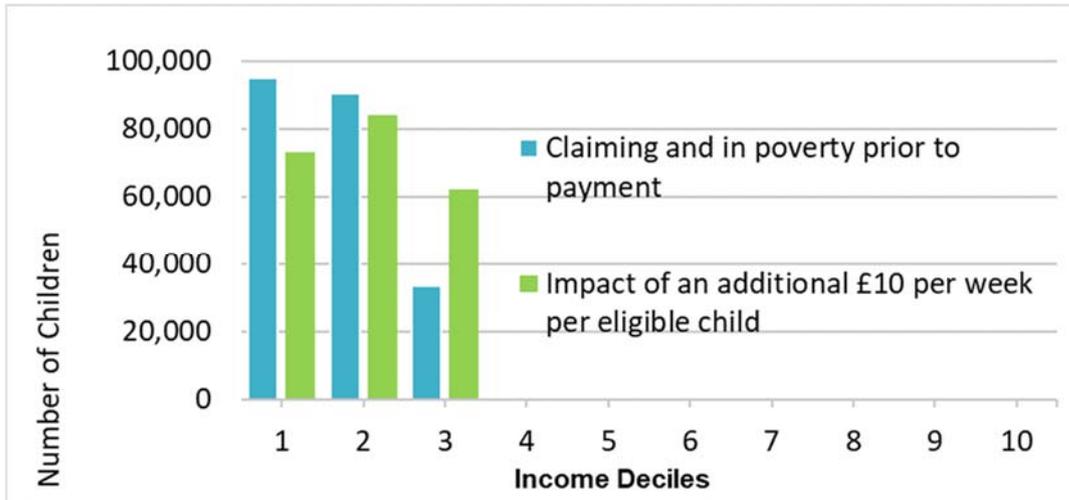
Priority groups

Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	99%	99%	95%	94%	89%	100%

Number of beneficiaries	490,000
Reduction in relative poverty per £100 million spent	5,000 – 15,000
Reduction in deep relative poverty per £100 million spent	5,000 – 15,000
Coverage of children in poverty	94%

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by 20,000 at a cost of £250 million.**



If we compare prior income following receipt of the income supplement, assuming no change in the decile thresholds, over **20,000 children in the bottom income decile would move out of the deepest poverty.**

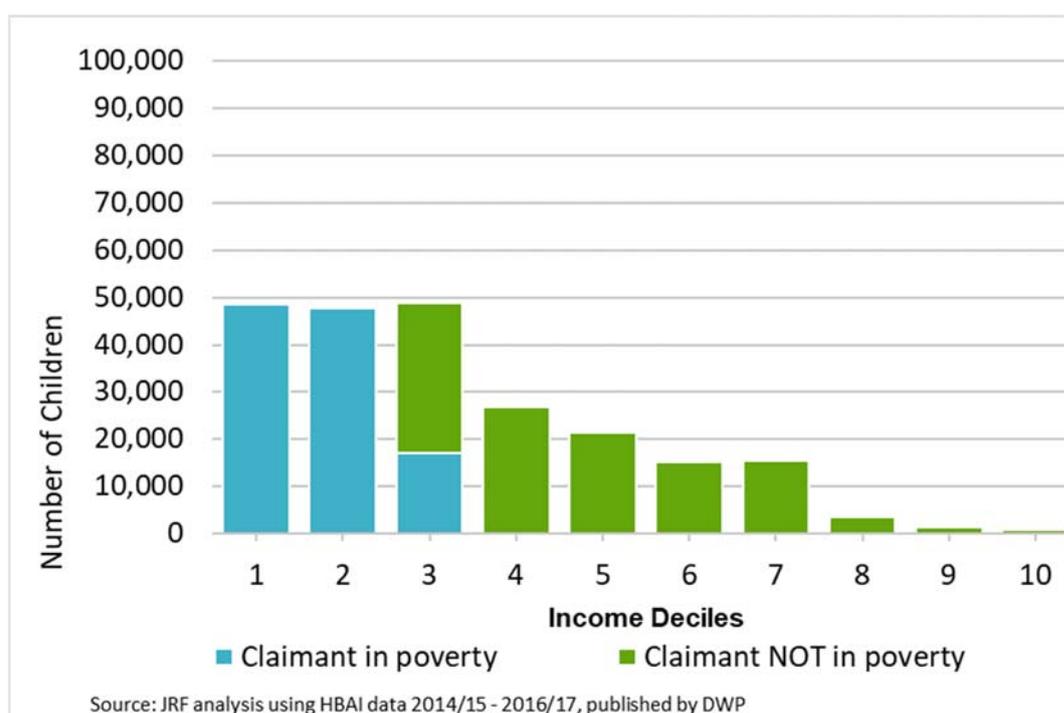
This option has clear strengths of having relatively high coverage of children in poverty and relatively strong cost effectiveness. Other options perform well on one of these categories, but not on the other.

Option 2. Extending Best Start Grant

This option is similar to Option 1, as the same families are eligible, but payment is limited only to children under the age of 5. This, in effect, is an extension of the existing Scottish benefit Best Start Grant which replaced Sure Start Maternity Grant.

Coverage

Far fewer children receive this benefit than option 1 because it is limited to children under five. The tapering-off of eligibility by income is similar to option 1.



Priority groups

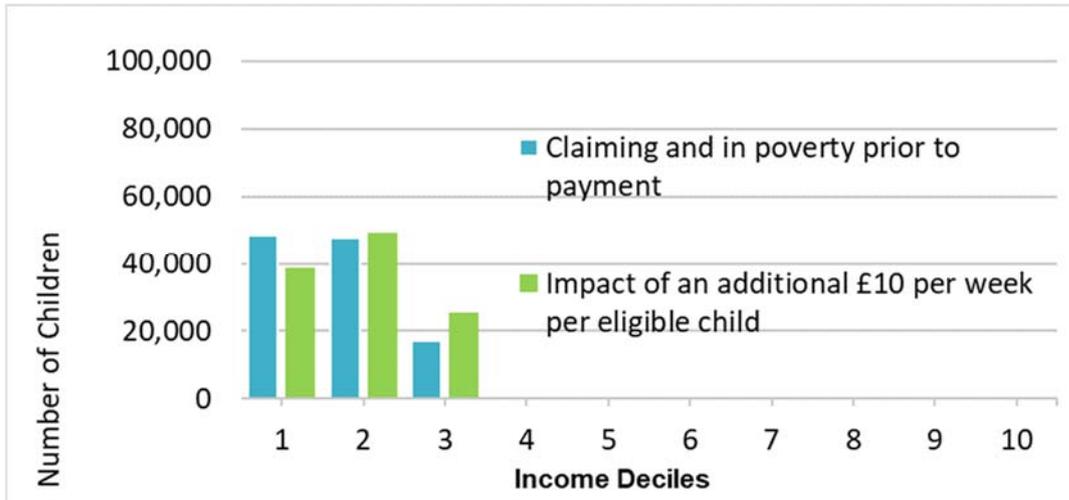
Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	46%	47%	57%	54%	89%	87%

Number of beneficiaries	230,000*
Reduction in relative poverty per £100 million spent	0 – 10,000
Reduction in deep relative poverty per £100 million spent	5,000 – 15,000
Coverage of children in poverty	49%

*includes other children in the same household, for example, siblings.

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by less than 10,000 at a cost of £120 million.**



If we compare prior income following receipt of the income supplement, assuming no change in the decile thresholds, around 10,000 **children in the bottom income decile would move out of the deepest poverty.**

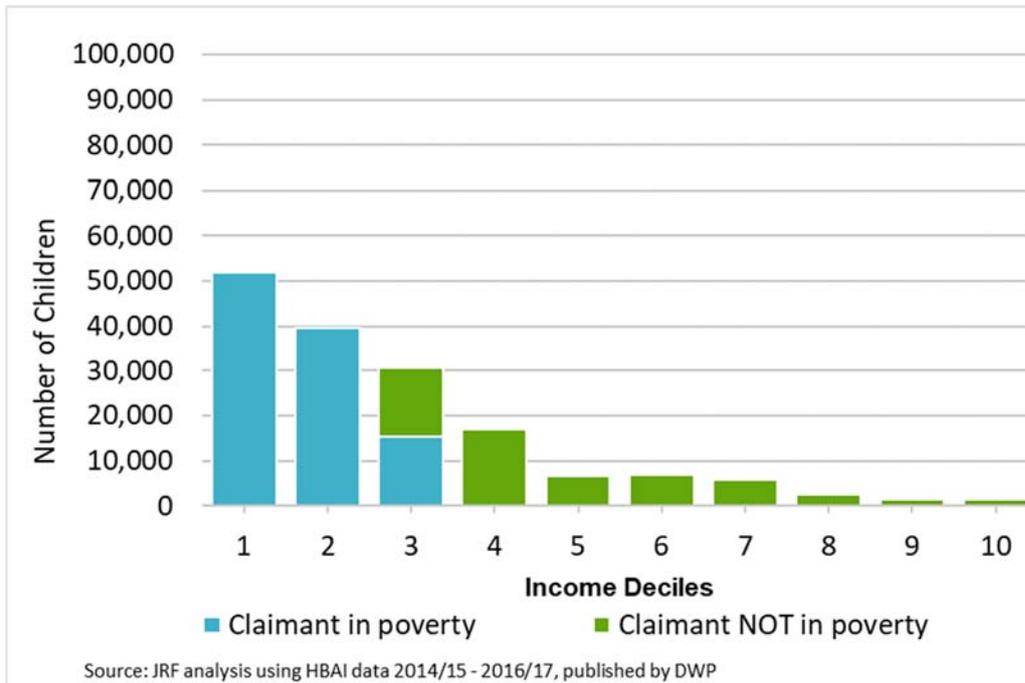
Proportionately given the limited eligibility for this option, this is a relative high impact on those in the deepest poverty, linked to the fact under 5s have relatively high poverty rates.

Option 3: Council Tax Reduction as a passport

This option uses the system set up to calculate Council Tax Reduction (CTR) in Scotland to determine eligibility for an additional payment through the Income Supplement. We understand that eligibility may change over the next couple of years to accommodate changes in income due to Universal Credit, but despite any changes we believe those currently in receipt will continue to be eligible.

Coverage

This option currently only reaches 49% of children in poverty. However, relatively few higher income households are eligible for a payment.



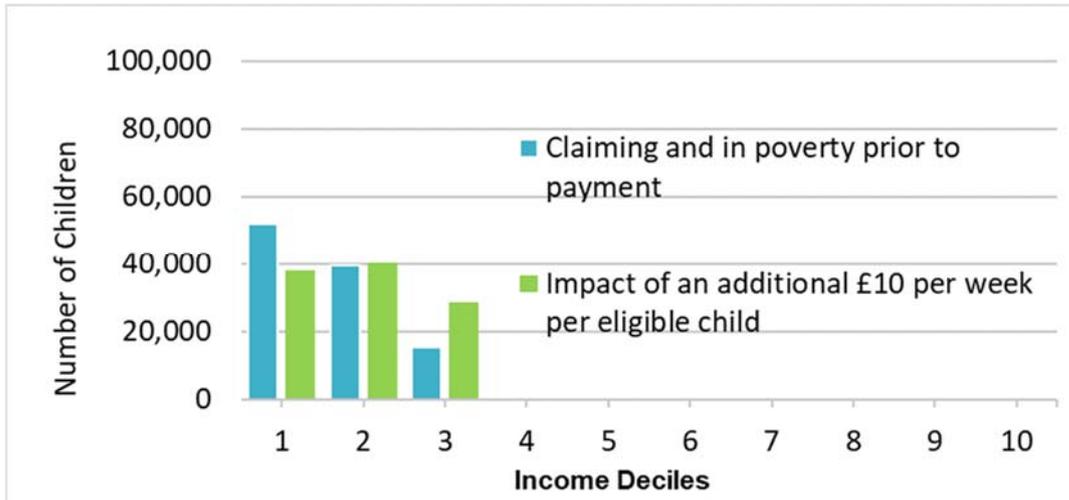
Priority groups

Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	60%	58%	50%	36%	36%	60%

Number of beneficiaries	160,000
Reduction in relative poverty per £100 million spent	10,000 – 20,000
Reduction in deep relative poverty per £100 million spent	10,000 – 20,000
Coverage of children in poverty	46%

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by 10,000 at a cost of £90 million.**



If we compare prior income following receipt of the income supplement, assuming no change in the decile thresholds, just over **10,000 children in the bottom income decile would move out of the deepest poverty.**

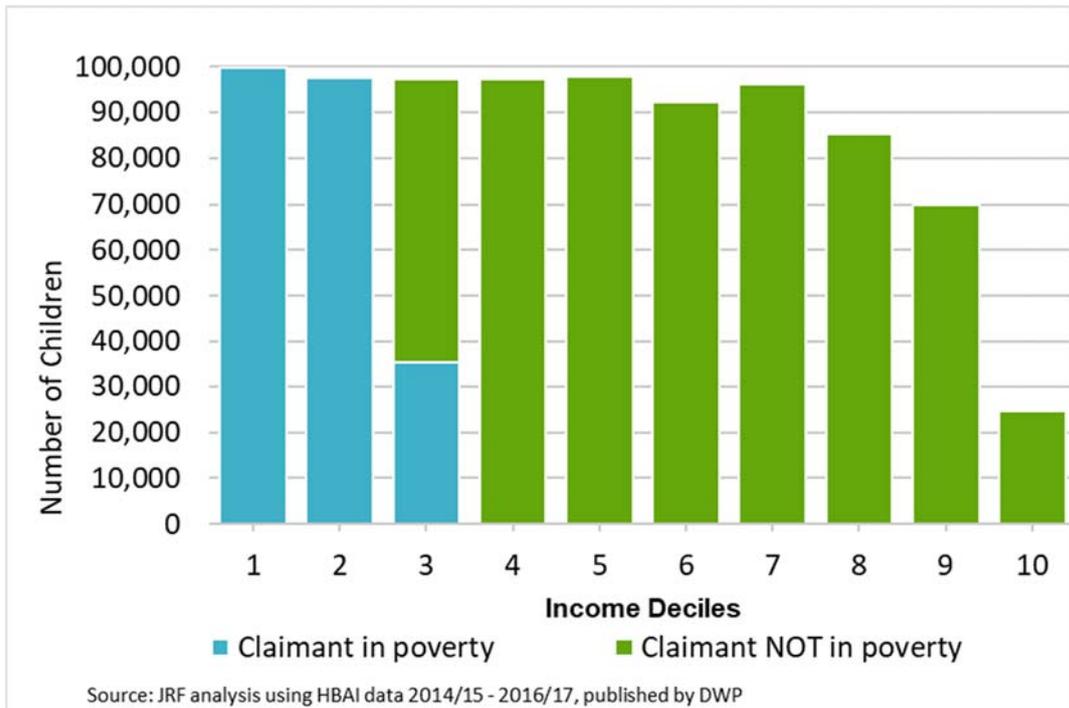
Although the coverage of children in poverty for CTR is low relative to other payment options we have looked at, the fact that most of those who do receive the payment are in poverty means that this option scores well on cost effectiveness.

Option 4: Child Benefit top-up

This option assumes that the child benefit system is used to identify children eligible for the new payment. Child Benefit is no longer a universal benefit, and families where there is one adult who earns more than £50,000 do not receive the full payment, and no payment is due if there is one adult earning over £60,000.

Coverage

Most of the children receiving this benefit are not in poverty.



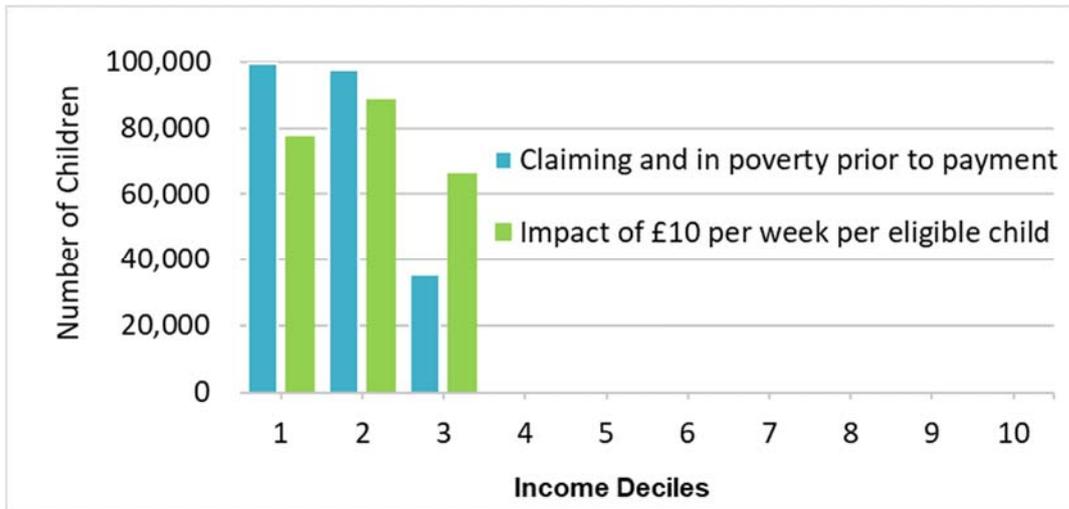
Priority groups

Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	99%	100%	98%	100%	100%	100%

Number of beneficiaries	860,000
Reduction in relative poverty per £100 million spent	0 – 10,000
Reduction in deep relative poverty per £100 million spent	0 – 10,000
Coverage of children in poverty	99%

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by 20,000 at a cost of £450 million.**



If we compare prior income following receipt of the income supplement, assuming no change in the decile thresholds, just over **20,000 children in the bottom income decile would move out of the deepest poverty.**

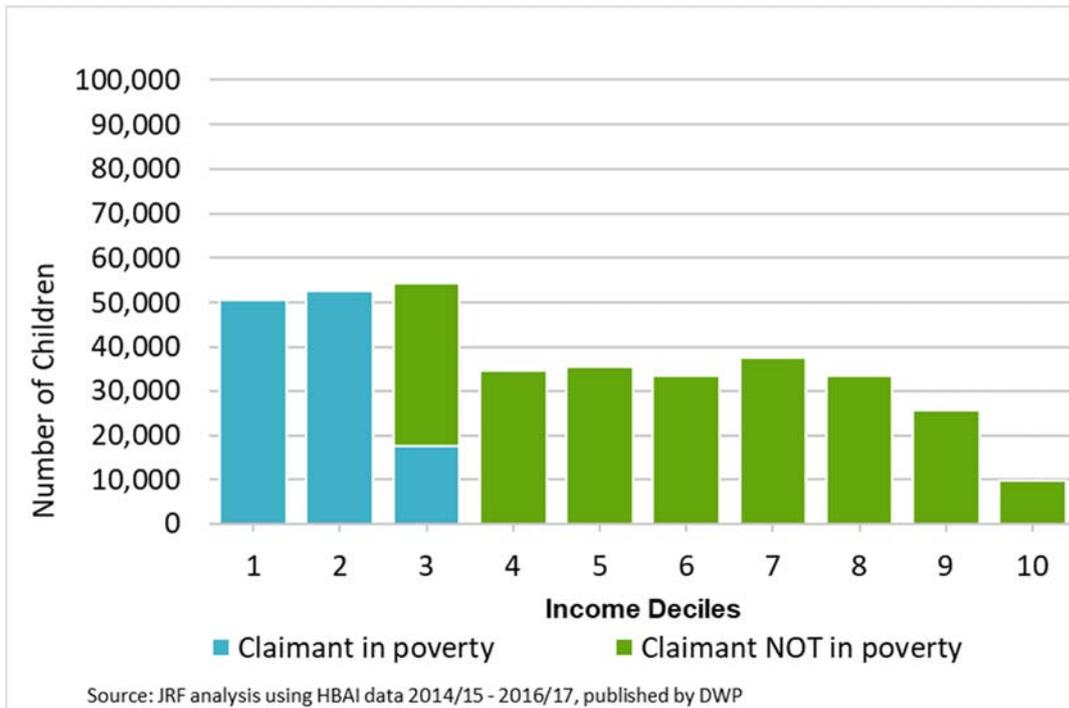
Using Child Benefit has a clear strength in terms of coverage, but this leads to high cost and hence poor cost effectiveness compared to other options we have considered.

Option 5: Child Benefit top-up for under-fives

This option is similar to option 4 with the same eligibility except this option only provides an income supplement for children under five years of age. We know that poverty is higher for families with an under-five, so we tested this option to see if it performed better on cost effectiveness compared to option 4 (full child benefit).

Coverage

Far fewer children are in eligible families in this option, but as with Option 4, the majority of those eligible are not in poverty.



Priority groups

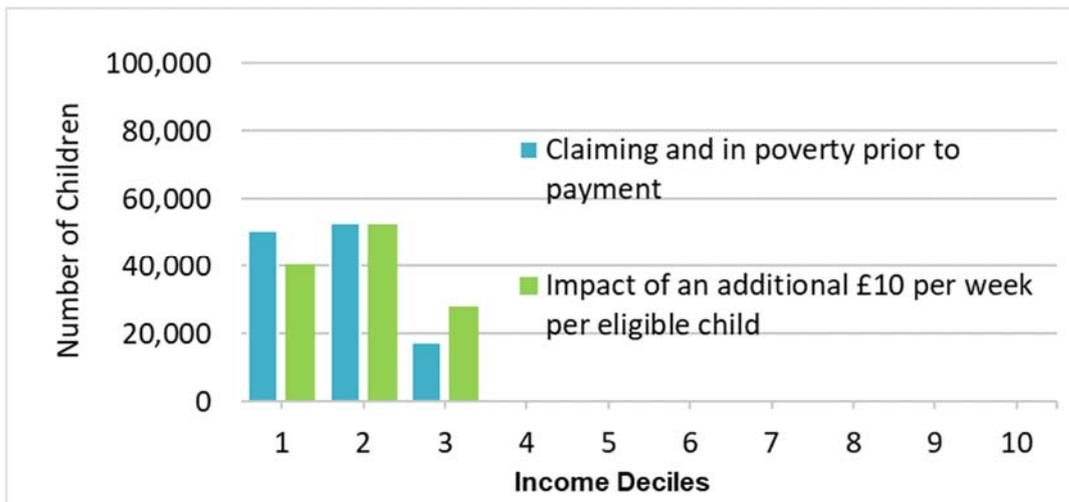
Priority group	Lone parents	Disability in family	3+ children	Minority ethnic	Youngest child < 1	Young mother
Coverage	46%	46%	60%	58%	100%	87%

Number of beneficiaries	120,000*
Reduction in relative poverty per £100 million spent	0 – 10,000
Reduction in deep relative poverty per £100 million spent	0 – 10,000
Coverage of children in poverty	52%

*includes other children in the same household, for example siblings.

Impact of £10 per week per claimant

We modelled the impact of £10 a week paid per child. **This reduces relative poverty by less than 10,000 at a cost of £190 million.**



If we compare prior income following receipt of the income supplement, assuming no change in the decile thresholds, just over **10,000 children in the bottom income decile would move out of the deepest poverty.**

Restricting child benefit to under-fives leads to some, but not significant, improvements in cost effectiveness compared to full Child Benefit.

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

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.

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