Institute for Public Policy Research

SECURING A LIVING INCOME IN SCOTLAND

TOWARDS A MINIMUM INCOME GUARANTEE

Rachel Statham, **Henry Parkes** and **Russell Gunson**

March 2021

ABOUT IPPR SCOTLAND

IPPR Scotland is IPPR's dedicated think tank for Scotland. We are cross-party, progressive, and neutral on the question of Scotland's independence. IPPR Scotland is dedicated to supporting and improving public policy in Scotland, working tirelessly to achieve a progressive Scotland.

IPPR, the Institute for Public Policy Research, is the UK's leading progressive think tank. We are an independent charitable organisation with our main office in London.

Our primary purpose is to conduct and promote research into, and the education of the public in, the economic, social and political sciences, science and technology, the voluntary sector and social enterprise, public services, and industry and commerce. Other purposes include to advance physical and mental health, the efficiency of public services and environmental protection or improvement; and to relieve poverty, unemployment, or those in need by reason of youth, age, ill-health, disability, financial hardship, or other disadvantage.

IPPR Scotland
Hayweight House
23 Lauriston St
Edinburgh, EH3 9DQ
T: +44 (0)131 281 0886
E: info@ippr.org
www.ippr.org/scotland
Registered charity no: 800065 (England and Wales),
SC046557 (Scotland)

The progressive policy think tank

CONTENTS

ABOUT THE AUTHORS

Rachel Statham is a senior research fellow at IPPR Scotland.

Henry Parkes is a senior economist at IPPR.

Russell Gunson is the director of IPPR Scotland.

ACKNOWLEDGEMENTS

We would like to thank the Standard Life Foundation for their generous support for this research, and our wider programme of work on rethinking social security in Scotland, and Mubin Haq in particular for his input and challenge.

We would like to thank the project Advisory Group for their guidance and feedback over the course of this year. This includes Ali Jarvis, Vonnie Sandlan, Richard Meade, Deborah Hay, Satwat Rehman, Alan Thornburrow, and Mubin Haq.

Thanks too to the project's wider reference group for their engagement and input, and particularly Neil Cowan and Peter Kelly at The Poverty Alliance, and Sarah Arnold and Alfie Stirling at NEF.

We would also like to thank colleagues at IPPR for their comments and excellent wider work on this report, including Carys Roberts, Clare McNeil, Rosie Lockwood and Abi Hynes.

Standard Life FOUNDATION

Download

This document is available to download as a free PDF and in other formats at:

http://www.ippr.org/research/publications/securing-a-living-income-in-scotland

Citation

If you are using this document in your own writing, our preferred citation is: Statham R, Parkes H and Gunson R (2020) *Securing a living income in Scotland: Towards a minimum income guarantee*, IPPR Scotland. http://www.ippr.org/research/publications/securing-a-living-income-in-scotland

SUMMARY

The Covid-19 crisis has exposed the inadequacies of the social protections we all rely on. As the Covid-19 pandemic has shaken the lives and livelihoods of millions of people across the UK, many have fallen back on a threadbare social safety net that has proven to be ill-equipped in the crisis. Where social security should provide stability, it has left people exposed to spiralling insecurity. Government has been forced to step in but has only provided temporary sticking plasters, leaving many gaps unfilled.

The lack of an adequate safety net can be seen in the uneven toll Covid-19 has taken on household finances across the UK. Those who were struggling to make ends meet before the crisis began have fallen into greater debt, and one in 10 people in Scotland anticipated running into trouble making their financial commitments in the next few months at the end of 2020. Meanwhile, higher income households have on average strengthened their financial security by accumulating greater savings.

The Scottish government's priorities of wellbeing, fair work, and tackling poverty and inequality will become more, not less, important as we leave the health crisis behind us and begin the long road to economic and social recovery. However, each of these priorities – and indeed the recovery itself – must be built on the bedrock of shared financial security in order to heal the wounds of the Covid-19 crisis without widening inequalities further.

It is time for a radical rethink of the welfare state and the roles that social security, work, and collective services play in delivering greater levels of financial security and wellbeing. Across the UK there are calls gaining momentum for a post-Covid-19 Beveridge report – a fundamental rethink of the welfare state akin to the post-second world war settlement – and here in Scotland, work has also begun to think through what a radical rethink might look like in Scotland, including through the recent report of the Social Renewal Advisory Board which made calls for a minimum income guarantee in Scotland its first recommendation.

This report marks the first of three, as part of our Rethinking Social Security programme. In this report we set a new direction for social security provision in Scotland, that sets our sights on securing a 'living income' for all, delivered through a minimum income guarantee, alongside action to deliver good work for more people and to reduce costs through stronger collective services. Future reports will focus on work and on collective services with this same approach.

A minimum income guarantee is a simple idea can offer a long-term aim and an organising principle for the here and now, enabling Scotland to pave the way to a future in which social security provides a springboard to fall back on, not a tightrope over poverty. We explore what a minimum income guarantee could look like in practice, and argue it is fundamentally an income floor beneath which no one should fall, ensuring that everyone can feed themselves and their family, heat their home, and live with dignity.

We set out a proposal for realising a minimum income guarantee (MIG) for Scotland in 2030, and – just as crucially – some of the first steps that can be taken towards it in the next parliament. We outline three key features of a minimum income guarantee:

1. an MIG is a **universal guarantee, delivered through a targeted payment**
2. an MIG should aim to realise a **minimum acceptable standard of living** for everyone, recognising different needs
3. an MIG should be designed to **reduce poverty, inequality, and insecurity**, as a payment people can rely on.

To meet the long-term aspirations of delivering a minimum income guarantee would need further powers over both social security and tax. The report outlines first steps that could be taken within Scotland's existing powers, and options for raising tax revenue to help deliver them.

RECOMMENDATIONS FOR SCOTLAND'S NEXT PARLIAMENT

Medium term: Towards 2030

1. The Scottish government should commit to developing a **minimum income guarantee** in Scotland over the long term. In order to do this, the Scottish government should do the following.
    - Fund a feasibility study into the new powers that would be required by the Scottish parliament to deliver a minimum income guarantee in Scotland
    - Establish an independent body to develop and implement a new national income floor, renewed on an annual basis, below which no one in Scotland would fall. This should be adopted by 2022/23 and increased over time.
    - Adopt minimum income standards as an organising principle across social security and local payments in Scotland – building on current practice in terms of fuel poverty and the real living wage.
    - Deliver increases in social security and local payments in Scotland to move low-income families closer to the minimum income standards throughout this parliament.

FIRST STEPS: 2021–26

2. The Scottish government should commit to a **faster rollout of the Scottish child payment** for over-sixes or put in place transitional support until rollout.
3. The Scottish government should introduce a **new social renewal supplement paid by higher rate taxpayers in Scotland to raise the Scottish child payment to £40 by the end of the parliament**.
4. The Scottish government should consult on introducing **a disability premium and a lone parent premium to the Scottish child payment** in order to better protect against poverty and help those families further below an income floor.
5. The Scottish government should undertake **reform of council tax** in Scotland to raise additional revenue, and in particular additional revenue from higher value properties, with revenue used to improve the council tax reduction scheme for lower-income families. This should included higher caps on increases for council tax bills in bands F–H and potentially the introduction of a property value tax alongside the council tax system.
6. The Scottish government should formally seek the power to **remove the two-child limit and benefit cap** in Scotland, either through devolution or through the Department for Work and Pensions (DWP) offering further flexibilities for people in Scotland in receipt of UK-wide benefits.
7. As part of its consultation on the new Scottish carer's assistance payment, **the Scottish government should consult on how the new payment can bring carers up to the new national income floor** outlined above.

8. In line with ambitions to deliver a minimum income guarantee, new **devolved child, adult and pension-age disability payments** should be set to meet the new national income floor outlined above, and on a trajectory towards the minimum income standard. Consultation on how this should be assessed and delivered should be led by disabled people's organisations.
9. Scottish government should explore how to lift, mitigate or circumvent **'no recourse to public** funds' restrictions where they limit access to social security or core public services.
10. Delivering a minimum income guarantee will rely on delivering **a new social contract for work**. As a first step, the Scottish government should consult on how to most integrate a commitment to providing '**living hours'** – that is, a minimum reliable work pattern that support a living income – into its 'Fair Work First' approach.

The Covid-19 crisis has exposed the fundamental shortcomings of UK social security provision. A recovery that delivers economic and social justice must rest on a new social settlement, shaped by a fundamental reassessment of the role of our social safety net, and the principles that underpin it. Without delivering financial security, many of the ambitions around delivering a fairer and stronger Scotland following Covid-19 will not be possible. The scale of the Covid-crisis remains huge. Our response must be just as big. Only through big ambition and bold action will we see the progress we must see to ensure the Scotland that leaves Covid-19 behind is fairer and stronger than the Scotland that went into the crisis.

1. FINANCIAL SECURITY BEFORE, THROUGH AND FOLLOWING COVID-19

INTRODUCTION

Coming into the Covid-19 pandemic, levels of poverty and insecurity across Scotland were unacceptably high. In Scotland, around a million people are living in poverty in period 2016–19 – including one in four children (McCormick and Hay 2020). Despite gradual improvements to levels of financial security in Scotland over the last decade, hundreds of thousands of families are facing hardship and insecurity that could limit their futures. Before the pandemic struck, 220,000 households across Scotland were struggling to get by (Statham et al 2020). In November 2020, one in 10 people in Scotland anticipated running into trouble making their financial commitments in the next few months (ISER, 2020).[1] This precarity acts as a constraint on the everyday lives of millions of people, who have to worry about how to make ends meet now and lack the security they need to plan for the future.

The experience of the economy for many people is one of being trapped in a cycle of insecurity, driven by precarious work and inadequate social protection. This cycle not only harms those people experiencing insecurity now, but it stands to weaken our society and our economy by holding back growth and fuelling inequality. Chronic financial insecurity weakens Scotland's labour market by reducing wellbeing and productivity at work, limiting opportunities for training and progression, and over time reduces wages and tax revenues, not to mention the damaging effect on peoples' health and future wellbeing (Statham et al 2020). As the Covid-19 crisis enters its second year, with continued pressure on incomes and substantial rises in unemployment anticipated, it is critical that this year's Holyrood elections put financial security at the heart of ambitions for a recovery that delivers social, economic and climate justice for Scotland.

This report puts forward a new vision for social security provision in Scotland, built on the ambition of realising a living income for all. It makes the case for a minimum income guarantee, provided through the social security system, as a key principle of a wellbeing economy and the core of a future-proofed social safety net, ready to respond to the numerous transitions and disruptions Scotland's economy faces over the coming years and decades. Alongside outlining what a minimum income guarantee could look like in theory and in practice, we identify the action that can be taken over the next parliament to begin to deliver it. It is the first in a series of three reports, which will also look at the critical roles of securing good work and of reducing costs in realising a living income and financial security for more people in Scotland.

1 IPPR analysis of Understanding Society 2020.

This report is part of IPPR Scotland's Rethinking Social Security programme which is focussed on building financial security for low- and middle-income households across Scotland. In our first report we defined financial security through the principles outlined below.

PRINCIPLES OF FINANCIAL SECURITY

1. Income is adequate to meet material needs and participate in society – adequate levels of income are necessary to achieve financial security, but are not sufficient in and of themselves.
2. Income is reliable over the medium term – income needs to be secure and reliable, as income volatility undermines financial security.
3. Costs are manageable and plannable – costs for basic essentials need to be manageable and predictable. Volatility in costs or significant cost rises or shocks can undermine financial security.
4. An expectation of making ends meet now and in the future – feeling in control of finances now and expecting to make ends meet in the months and years ahead.
5. Financial resilience – access to 'shock absorbers' and 'safety nets' that help us cope with bad luck and unforeseen circumstances, in a way that prevents financial shocks from becoming life changing events.
6. Financial skills and access to financial tools – access to appropriate financial advice and products, and the skills and capability to manage finances as well as is possible.
7. Power and control – autonomy over personal finances and the opportunity to make own financial decisions.

Source: Statham et al 2020

FINANCIAL INSECURITY IN SCOTLAND BEFORE AND THROUGH THE COVID-19 CRISIS

Over the past year, the public health crisis unleashed by Covid-19 has transformed Scotland and the rest of the UK beyond recognition. What started as a public health crisis has seen thousands of people lose their lives and more still lose their health, in a pattern that has deepened existing inequalities. Its ripple effects have sparked social and economic disruption on a scale unknown in peacetime. While the economic fallout from the Covid-19 pandemic has affected the way we all live, work and participate in the economy, the financial impact of the pandemic has not been evenly spread. Instead, the fallout out has pushed greater risk onto those who were already struggling to get by. People across the country have experienced new or intensified financial insecurity as lives and livelihoods have been profoundly disrupted. This problem reaches beyond households living below the poverty line: some 29 per cent of working-age people in Scotland felt ill prepared to cope with a loss of income before the pandemic struck (Statham et al 2020). The disruption of the last year has seen those on lower incomes fall into greater debt while higher-income households accumulate greater savings (Brewer and Patrick 2021).

The crisis has shone a light on just how unevenly risk is spread across our society. The refrain, 'while we may be weathering the same storm, we're not all in the same boat', has been used widely to characterise a crisis that has often deepened existing inequalities. In Scotland, among the industries hardest hit by the crisis are those characterised by a high prevalence of low pay and insecure work, such as retail and hospitality. These impacts have been reflected in the disproportionate exposure of young people – who are overrepresented in the workforce of these sectors – to furlough and job loss so far.

Alongside young people, earlier research through our Rethinking Social Security programme identified parents and carers, disabled people, renters and the self-employed as disproportionately exposed to the economic fall-out of the crisis so far (Statham et al 2020). Other IPPR research has highlighted the urgent need for action to support migrants with limited access to a social safety net, who have been at once disproportionately exposed and excluded from various forms of government services and support throughout the crisis (Morris et al 2020).

Extensive evidence has demonstrated the gendered economic impact of the crisis so far, with women across the UK facing additional economic disadvantage as a result of the intensification of childcare and other unpaid care work as services have been withdrawn. What's more, there are significant concerns about the UK government's gendered priorities for recovery, with investment plans focussing on male-dominated sectors (House of Commons Women and Equalities Committee 2021). Women and black and minority ethnic workers in Scotland are disproportionately employed in some of the most heavily affected sectors, such as a retail and hospitality – presenting a significant risk that labour market impacts exacerbated existing structural inequalities in Scotland's labour market (Close the Gap 2020).

DRIVERS OF FINANCIAL INSECURITY

Prior to the pandemic there were clear drivers of financial insecurity that have also been exposed and exacerbated by the Covid-19 crisis. In this section, we focus on two: low-paid and insecure work, and an inadequate social safety net. Delivering a living income for all will require action to tackle each of these, alongside action to reduce costs, spanning social security, work and the economy, and collective services.

Insecure and insufficient work

Scotland, along with the rest of the UK, came into the Covid-19crisis with structural economic weaknesses, exacerbated by a decade of weak and uneven recovery following the financial crash of 2007/08. Wages have taken over a decade to recover from the last major recession, with the average earner in Scotland only slightly better off in 2019 than they were in 2008 (Statham et al 2020). Over this period, the UK economy stopped delivering rising living standards, as a highly flexible labour market has driven a 'low pay, low productivity' equilibrium, in which firms have little incentive to invest in training or equipment to raise productivity. This sees people locked into low-paid, insecure, low-skilled work, with many going without the basics needed for a good life. Realising a future in which no one falls below a minimum acceptable standard of living will rely on transforming Scotland's labour market, so that work provides a reliable route to financial security.

Before the pandemic struck, high employment rates across the UK labour market masked structural weakness stemming from poor quality work and job insecurity. Too many people in work do not have sufficient hours or income they can rely on, as we see in the rise of underemployment and short-hours or zero-hours contracts. Meanwhile, the rise of low-paid self-employment and agency or 'gig' work has fuelled increasing precarity across the labour market (ibid). A strong and fair recovery from the Covid-19 crisis must have an ambitious strategy to create good jobs that pay a living wage and provide living hours, and routes into good work for all at its heart, alongside investment in social infrastructure such as childcare that can lower barriers to paid work.

An inadequate social safety net

Since 2010, we have seen a decade of UK government welfare reform characterised by cuts and freezes to core benefits, leaving a social safety net that is unfit for purpose. Despite wide support for its original ambitions to simplify and unify social security provision, universal credit has been widely criticised as providing inadequate support and often pushing people into spiralling insecurity. Features such as the five-week wait for new claimants,[2] the assessment period, and the stringent conditionality and sanctions regime associated with work-search requirements for claimants have fed income volatility and insecurity rather than counter it (McNeil et al 2019). While the benefit freeze had ended before the Covid-19 crisis arrived, the social safety net had been significantly weakened by it, with levels of provision for core social security payments significantly below pre-financial crisis levels in real-terms (Corlett 2019). These cuts have had a disproportionate effect on women – and particularly black and minority ethnic women, and lone parents – and on larger families affected by the introduction of a two-child limit on social security eligibility and the benefit cap (De Henau and Reed 2016; Women's Budget Group 2019).

Figures produced by the House of Commons Library in 2018 estimated that pre-pandemic plans for total working-age welfare spending across the UK would have seen falls by £37 billion per year between 2010 and 2021 (Butler 2018). Spending on working-age disability benefits was due to fall by £5 billion per year by 2021 – a move disabled people's organisations argue has seen disabled people hardest hit by austerity measures (ibid; Disability Rights UK 2018). An explicit central aim of the coalition government was to reduce disability benefit caseload and spending by 20 per cent (Hobson 2020). One reform that has come under sustained criticism is the decision not to introduce an element in universal credit equivalent to the severe disability premium that provided income support for severely disabled people under the legacy benefits system – a choice which has been challenged by numerous charities and the House of Lords Economic Affairs Committee (House of Lords 2020).

After a decade of welfare reform that has eroded social security provision, the Covid-19 crisis has given reason for pause (Hobson 2021). In April 2020, the UK government introduced a temporary £20 uplift to the standard allowance element of universal credit along with the basic element of working tax credit, the core working age social security payments. However, while the UK Budget on the 3rd March 2021 announced a six-month extension of the uplift through to September 2021, even this modest boost will then be withdrawn. Furthermore, even this increase is insufficient to reverse what has been cut over the past decade. Recent analysis from the New Economics Foundation (NEF) found that even with the £20 uplift maintained, the poorest 20 per cent of households, whether in or out of work, would be £260 worse off per year than they would have been under the 2010 regime. In a scenario where the £20 uplift comes to an end, the poorest 20 per cent of households, in or out of work, would be £750 a year (6 per cent) worse off than they would have been in 2010, before the last decade of welfare reform (Arnold et al 2021).

Previous IPPR Scotland research with JRF has shown that alongside adequacy of income, reliability of income is a key priority for low-income families in Scotland – and that current social security provision does not always provide income families can rely on (McCormick et al 2019). Universal credit has been characterised by claimants' experience of insecurity, driven by design features including the income assessment mechanism, delays such as the five-week wait,

2 Though universal credit advances are available, deductions on future payments can intensify hardship and fuel further financial insecurity

enhanced conditionality and sanctions (CPAG 2019; Cheetham et al 2019). This insecurity has been linked to worsening health for claimants and additional pressure on local health, government and voluntary and community services (Ibid). Boosting current payment levels could go some way to improving income adequacy but leaving the current universal credit system otherwise untouched would do little to address concerns around income security – both from social security and work.

FINANCIAL SECURITY THROUGH THE RECOVERY FROM COVID-19

The Covid-19 pandemic and ongoing measures to combat it have resulted in deep economic disruption that is likely to extend long after the immediate public health crisis has abated. At the end of January 2021, 362,300 jobs across Scotland were fully or partially furloughed (ONS 2021).

At the time of writing, the Scottish government's roadmap out of lockdown suggests that restrictions will continue until mid-2021 at the earliest. The UK government are planning around an optimistic recovery trajectory based on forecasts from the Office for Budget Responsibility (OBR) and have delivered just half of the £190 billion stimulus IPPR estimate is needed to kick start a fair and sustainable recovery (Jung et al 2021). In any recovery scenario, there will be disruption and hits to income security for months to come.

The Office for Budget Responsibility central forecasts see economic output not recover to pre-pandemic until the end of 2022, with a permanent 'scarring effect' bringing output down 3 per cent compared to the pre-pandemic trajectory. Unemployment is projected to rise to a lower and later peak than projections made in November – thanks in part to extension to UK government support – but nonetheless reaching an estimated 6.5 per cent (2.2 million people) at the end of 2021, before slowly falling over subsequent years. Forecasts have a significant level of uncertainty attached and rely on the trajectory of the virus. It is, however, clear that recovery will take many years (OBR 2021).

A decade of disruption?

Even prior to Covid-19, Scotland, the UK and the world faced a number of transitions over the course of the 2020s that may have significant implications for delivering financial security. IPPR has undertaken significant work looking at the potential effects of automation and technological change, Brexit, the climate crisis and transition, demographic change and ageing, and pre-existing economic inequalities (IPPR Commission on Economic Justice 2018). Combined with Covid-19 recovery, these changes will pose significant disruption to the world of work and, with it, require significant reform to our social security system and wider welfare state over the next decade and beyond. It is clear that Covid-19 has exposed critical weaknesses in the state, and within the social security system, that need to be urgently addressed as enter the next decade.

2.
THE CASE FOR A MINIMUM INCOME GUARANTEE

Given the experience of Covid-19 and the decade of disruption that Scotland faces there is a clear need to radically rethink how we deliver a living income for all. We have learned through the pandemic that none of us are safe until all of us are. However, this is a lesson not just for crisis, this must be a lesson learned through the recovery. What is true of Covid-19 is also true of the economy. We must deliver financial security for all if we are to deliver a fairer and stronger Scotland.

Realising a living income for everyone in Scotland will require a three-pillar approach that includes:

- social security reform, that provides a secure and adequate safety net to provide income adequacy and income security
- action to reduce costs for those on low and insecure incomes, including through expanded collective services
- action to provide routes into good work for more people.

This report focusses on the first of these three.

This chapter outlines in brief terms our proposal for a minimum income guarantee as a key social security reform to deliver a living income for all and the case in favour of delivering reform of this type. The next chapter outlines in greater detail what a minimum income guarantee could look like in a Scotland context.

THE CASE FOR A MINIMUM INCOME GUARANTEE FOR SCOTLAND

A minimum income guarantee (MIG) would provide a floor for living standards to support people through transitions, and to protect living standards and minimise long-term damage to financial security through economic downturns. It would provide a social security payment to those who are unable to work or to those who do not meet the minimum standard living through work alone, introducing a minimum income floor beneath which no one would fall, tailored for differing household needs, set far above current social security entitlement. The MIG payment would be a 'no strings' entitlement, without conditions, sanctions, limits or caps. Crucially, unlike universal credit, or many other previous forms of social security, it would be aimed squarely at tackling poverty and reducing inequality rather than, for example, delivering increased levels of employment or other labour market outcomes.

In this a way a minimum income guarantee, as part of a three-pillar approach to delivering a living income for all, could deliver a radical improvement in levels of income security and income adequacy for people in Scotland, helping to deliver financial security and improved wellbeing. Adopting a minimum income guarantee as a unifying principle for social security provision in Scotland, would ensure that everyone in Scotland had enough to live and participate, ensuring that everyone can feed themselves and their family, heat their home, and live with dignity. In this chapter, we explore key arguments for a minimum income guarantee.

To bolster income adequacy and reduce hardship

Current social security provision, in many cases, does not provide adequate income for those who rely on it – even when combined with significant levels of paid work where this is low paid. Households that fall below a minimum income standard (MIS) (see box below) are constrained by incomes that are too low to enable them to participate fully in life in Scotland. We can expect that as the universal credit caseload continues to grow, the number of families falling short of these standards will grow too. Income adequacy (or lack thereof) is an essential aspect of a social security system that protects against poverty and supports a minimum acceptable standard of living. It would also support people on low incomes to build financial resilience through savings to deal with unexpected financial shocks, such as a broken boiler or a car breakdown.

A minimum income guarantee would also play a vital role in securing the incomes of unpaid carers who are not in paid work, alongside people who are sick or disabled and unable to work. By improving living standards for these groups, it would provide dignity and security to groups who are too often undervalued or overlooked by current provision. Oxfam estimate the total value of unpaid care work in Scotland to be £36 billion, and polling shows 72 per cent of people in Scotland back spending more on social security benefits for carers of people who are sick or disabled (Oxfam Scotland 2020).

CALCULATING MINIMUM INCOME STANDARDS

Calculating an appropriate income floor is a key challenge for delivering a minimum income guarantee. Throughout this report we take as a starting point a set of minimum income standards calculated by a research team at the Centre for Research in Social Policy at the University of Loughborough for a number of different household types.

These standards are based on what the public say is needed 'to achieve an acceptable standard of living in Britain today'. The standard is calculated by speaking with members of the public to identify what different households need to participate in society in contemporary Britain. Researchers then cost a basket of goods that supports this ambition. A minimum "is about more than survival alone. However, it covers needs, not wants; and necessities, not luxuries: items that the public think people need to be part of society" (Hirsch et al 2020).

The MIS identifies things that everyone needs as a minimum to participate fully in life in Britain. It does not attempt to incorporate extra requirements for particular people of groups with additional needs – such as those living somewhere remote, or additional costs that may be incurred by disabled people (Ibid). It is important to note that these standards are set for Britain (outside of London). While we use these standards as the basis of illustrative calculations throughout this report, delivering a minimum income guarantee in Scotland may rely on a careful assessment of an appropriate income floor.

Critically, a minimum income standard varies across differently composed households. This means a minimum income standard for a single person without children is different to that of a couple without children, and likewise the minimum income standard for a single person with dependent children is distinct from a couple with dependent children. Similarly, a minimum income standard varies on the basis of the number of dependent children in a household, and by the age of those dependent children. This recognises that single adults face higher costs in some areas than couples, and the additional costs associated with dependent children of different ages.

TABLE 2.1: MONTHLY MINIMUM INCOME STANDARD LEVELS FOR VARIOUS HOUSEHOLD TYPES IN 2020, EXCLUDING RENT, CHILDCARE AND COUNCIL TAX

Number of children	0	1	2	3
Single	£905	£1,377	£1,689	£2,012
Couple	£1,513	£1,780	£2,088	£2,425

Source: Calculated using University of Loughborough 2020 MIS Calculator. These figures relate to households with children of primary school age.

As the table shows, the cost associated with being single are considerably higher than being part of a couple that shares costs. Likewise, a living income for a household with dependent children is considerably higher than for a household without. A minimum income guarantee must be responsive to these varying needs. Note these figures exclude housing and childcare costs and so should be thought of as required levels of "disposable" income rather than overall income.

To reduce inequality and in doing so strengthen economic performance

Raising the living standards of low- and middle-income households has potential to not just improve the lives and prospects of those affected, but to strengthen our society and economy as a whole. There is now clear evidence that narrowing economic inequality is not just the right thing to do, but indeed a means through which to strengthen economic performance and generate broadly held prosperity (IPPR Commission on Economic Justice 2018). Equally, more equal societies have stronger and more sustainable growth than societies with higher levels of inequality (Ostry et al 2014). A minimum income guarantee offers not just to reduce poverty significantly, but to narrow income inequality too by bolstering income adequacy for low-and middle- income households and income security for all.

To improve health and educational outcomes

A minimum income guarantee presents an opportunity to build security across people's lives by loosening the grip of poverty and financial insecurity on mental and physical health. The links between financial insecurity and poor mental and physical health are well established, including through research for this research programme which has found higher prevalence of symptoms of anxiety and depression among people experiencing financial insecurity in Scotland (Statham et al 2020; See Sheehy-Skeffington and Rea 2017; Suhrcke 2006; Weida et al 2020). This case is bolstered further by evidence from unconditional cash transfer programmes shows strong mental health benefits among adults (Orhnberger et al 2020). We also know that cash transfers – and particularly unconditional cash transfers – can improve child and adult health, education and labour market outcomes (Aizer et al 2016; Reader 2021). We can expect these benefits would lead to reduced public spending over the longer term by improving health outcomes and feeding future financial security.

To build a wellbeing economy

The Scottish government has made various high-level commitments to building a 'wellbeing economy', defined as: "an economy that is inclusive and that promotes sustainability, prosperity and resilience, where businesses can thrive and innovate, and that supports all of our communities across Scotland to access opportunities that deliver local growth and wellbeing" (Scottish Government 2021b). Financial security for low- and middle-income households is a prerequisite to an inclusive, sustainable and resilient economy that improves wellbeing. As such, a wellbeing economy must have a commitment to strengthening financial security at its heart.

To prepare for future disruption

There is also an economic argument for a minimum income guarantee as a response to the anticipated disruption of the coming decades. As outlined in the previous chapter, accelerating automation and the urgent need to decarbonise economies, among other transitions, are likely to result in considerable labour market disruption. A living income for all, and a minimum income guarantee to underpin it, would go some way to smooth these transitions for those most directly affected by minimising shocks and supporting a decent living standard for those who fall back on a social safety net. This argument has been advanced by economists reviewing the potential impact on employment of significant advances in automation, including by economists at the IMF who have recommended a basic income funded by capital taxes (Berg et al 2016).[3]

To stabilise and stimulate the economy in downturns

Strong social protections act as an 'automatic stabiliser' throughout the economic cycle by protecting against economic downturns and shocks. When the economy is booming and inflationary pressure is building, public spending on welfare tends to decline as unemployment falls. In recessions, spending on welfare tends to rise, helping to boost demand and employment. The capacity of current welfare provision to act as a stabiliser, however, is considerably diminished by the low levels of support and stringent conditionality that characterise much of the current UK social security regime. This has been made clear by the unprecedented state intervention in response to the Covid-19 crisis – with the UK government stepping-in to pay a portion of wages for some 11.2 million jobs in order to protect incomes and limit damage to demand across the economy (ONS 2021). IPPR have made the case for directing a stimulus to low-income families in order to keep families afloat through the crisis and maintain demand, laying the ground for a fair and strong recovery (Parkes et al 2020).

To deliver a new social settlement

We are living through the most significant economic and social crisis in living memory. It is clear that the decisions made now about what sort of a society we want to live in and what purpose our economy serves could set the course for the next decades. As Scotland goes to the polls in May of this year, the stakes are high. The challenges and the choices that lie ahead for Scotland's next government will have consequences that stretch far beyond the next parliament, shaping the lives of people across Scotland and the social contract between citizen and state. By working towards the shared ambition of a living income, a society in which no one falls below a minimum acceptable standard of living, Scotland can pave the way to a future in which social security provides a springboard to fall back on, not a tightrope over poverty. The Covid-19 crisis has exposed the fundamental shortcomings of UK social security provision. A recovery that delivers economic and social justice must rest on a new social settlement, shaped by a fundamental reassessment of the role of our social safety net, and the principles that underpin it.

To meet public opinion

Public opinion is also shifting. Across the UK, more people think current levels of benefit provision are too low (35 per cent) than think levels are too high, or about right (Chorley 2021). In Scotland, more people think social security spending should be increased than reduced – by a margin of two to one (McCormick 2020).

---

3 While this proposal is distinct from a minimum income guarantee, it shares key elements by seeking to ensure no one's income drops beneath a certain level.

Recent analysis from JRF in Scotland, in advance of May's elections, shows that tackling poverty is a key priority for voters. Just under three-quarters (72 per cent) of people want to see a high priority placed on tackling poverty in Scotland by the next Scottish government. When asked how poverty should be tackled, the overwhelming option chosen by respondents was a minimum income guarantee,[4] with 77 per cent of all respondents supporting it (and only 12 per cent opposing it) as a key policy intervention by the Scottish government (Birt et al 2021).

As the inequalities laid bare by the Covid-19 crisis demand action, a minimum income guarantee offers a potential central ambition and an organising principle for social security in Scotland through the next decade and beyond.

4 The poll defined a minimum income guarantee as 'where the state guarantees that your income does not fall below a certain level'.

3.
A MINIMUM INCOME GUARANTEE FOR SCOTLAND

Having outlined the case for a minimum income guarantee in Scotland, to underpin efforts to deliver a living income for all, this chapter outlines in greater detail the key features of a minimum income guarantee together with some of the key debates around design.

WHAT DO WE MEAN BY A MINIMUM INCOME GUARANTEE?

A living income in Scotland would be delivered through improved work, enhanced collective services, and a new approach to social security based on a minimum income guarantee. Our proposed approach to a minimum income guarantee (MIG) is based on three core attributes detailed in this chapter.

1. A **universal guarantee, delivered through a targeted MIG payment** and supported by better routes into good work.
2. An MIG should aim to realise a **minimum acceptable standard of living** for everyone.
3. An MIG should be designed to **reduce poverty, inequality, and insecurity**.

1. A universal guarantee, delivered through a targeted payment and supported by better routes into good work

A minimum income guarantee is a floor everyone can fall back on, offering income security for all, but payments will be targeted at those falling beneath a minimum income standard to offer income adequacy for those who need it.

2. An MIG should aim to realise a minimum acceptable standard of living for everyone

Payment levels should be tied to income floors, that recognise the varying costs faced by different households, that is reassessed on an annual basis by an independent body of experts in consultation with people across Scotland. This could follow the approach of the minimum income standards outlined in the chapter 3.

3. An MIG should be designed to reduce poverty, inequality, and insecurity

A minimum income guarantee would deliver an income floor below which no household falls – regardless of their work status. This would represent a substantial increase in social security provision, and in the level of support offered by the state to both those in and out of work. It would also mean there would be no caps, limits or punitive sanctions associated with eligibility for social security support. Time and time again, evidence from claimants' experiences demonstrates that elements of social security design exacerbate financial insecurity (Covid-19 realities; Wright and Dwyer 2020). This commitment to security extends to eligibility for needs-based support.

KEY CONSIDERATIONS IN DESIGNING A MINIMUM INCOME GUARANTEE

Disability

A minimum income floor, by necessity, must vary to meet the different needs of differently composed households. A minimum income guarantee should recognise firstly any additional costs associated with disability, and secondly where households have reduced capacity for paid work.

Additional costs associated with disability, alongside additional barriers some disabled people face in paid work, mean that realising a minimum income floor for disabled people in Scotland requires recognising and meeting costs on a case-by-case basis. In practice, this means that disabled people's income will in many cases need to surpass a minimum income floor for a non-disabled household.

Work assumptions for a minimum income guarantee should be reflective of individual circumstances – for example, for people who are not able to work, work assumptions should be nil.

Housing and childcare costs

Housing costs and childcare costs are key drivers of poverty and financial insecurity in the UK. Securing incomes across Scotland will require significant policy action to better meet childcare and housing costs both in terms of meeting shortfalls where they exist, and in better policy mechanisms to reduce the financial exposure incurred by households facing high housing and/or childcare costs. Future work in this programme will look at specific action to better meet housing and childcare costs in Scotland.

An MIG would be designed to provide support for housing costs and childcare costs in line with the calculations used to decide a minimum income floor. This is in line with the minimum income standards, published each year by Loughborough University (and outlined in chapter 3).

Unpaid work and care

Ambitions to realise a minimum income guarantee should likewise include unpaid carers in Scotland, recognising the value of the work provided by unpaid carers, and acknowledging that this work necessarily constitutes a barrier to entering paid work for many unpaid carers. This is work on which the rest of our economy and society relies, and yet current rates of social security entitlement for carers mean their incomes fall far below the current minimum income standards. As women are shouldered with the vast majority of unpaid care work, and are the majority of unpaid carers, the undervaluation of this work is deeply gendered – with consequences for women's labour market participation that have intensified through the pandemic (Engender 2020).

In many, but not all, cases assessing the income needs of a household which includes an unpaid carer will also require an assessment of the additional costs associated with disability for another adult or child. While this needs assessment is complex, full time unpaid carers should have access to social security income that supports a decent standard of living as a point of principle.

Household entitlement and intra-household dynamics

An MIG would be household assessed but individually paid. An MIG would be calculated on the basis of a household's needs, reflecting a long-established precedent in analysis of poverty and living standards in the UK that focusses on household income to assess needs and entitlement for targeted welfare provision.

While it is clearly valuable to assess income and need at the household level, it is vital that a minimum income guarantee also responds to intra-household dynamics and is designed to ensure that every person in a household has access to an adequate income. While a minimum income guarantee would measure entitlement at the household level, the payment should be split between adults in a household as a default. This should include paying child elements to the primary carer.

This delivery mechanism would begin to respond to inequality of access to shared resources, by ensuring both partners in a couple household have direct income provided by the social security system (where they fall below the minimum income floor). While this would be distinct from individual entitlement, it could begin to better secure women's incomes, and ensure individual control over income is in-built, rather than opt-in. Couples who prefer a single payment could opt-in to the current default position. This is supported by a majority (57 per cent) of people surveyed by JRF and Bright Blue in 2020, who prefer split payments between adults in the same household rather than a single combined payment (McCormick 2020).

Interactions with paid work

Delivering a minimum income guarantee will require careful consideration of interactions with paid work. While analysis of the potential impacts of a minimum income guarantee on work incentives is beyond the scope of this paper, the case for a minimum income guarantee is grounded in wider evidence of the benefits of more generous social protection. Evidence shows a more generous welfare state can reduce unemployment, critically, where there are good job opportunities for the jobless (Biegert 2017). Similarly, existing research suggests that more generous welfare provision can help unemployed people find better quality work (Gangl 2004).

We challenge an approach to social security that aims to push people out into work at any cost. An extensive 2020 review of insecure work in the UK published by the Nuffield foundation finds “no evidence that jobs with variable hours and pay shorten unemployment spells or facilitate labour market reintegration” (Avram 2020). In other words, insecure work is not a route into good work, and can further cause damaging scarring effects that stretch years into people's working futures, not unlike the effects of periods of unemployment. This is a vital lesson to take forward into what looks to be a period of considerable labour market weakness and disruption, as unemployment is set to rise to a six-year high, and the prospective withdrawal of the UK government's furlough scheme creates significant uncertainty for workers and employers across the country.

We expect that work incentives would be preserved through an MIG for those moving into or getting on in paid work because incomes for this group will be significantly higher than for out-of-work households. Improving labour market outcomes would in turn strengthen work incentives.

Out-of-work households

The income floor used to set the MIG would likely need to be set to include an element of paid work (for households with availability for work), in order to reach a full MIS. This means for out-of-work households, the MIG would leave their income beneath the full MIS. In setting the income floor for out-of-work households, however, it is critical that income is still sufficient to meet basic needs and provide an acceptable standard of living. This relies on income levels set far higher than current provision. In this proposal, the income floor used to set an MIG would have to meet two key tests:

1. That no household lives in relative poverty.[5]
2. That this floor provides a secure income that ensures all households can meet their basic needs.

This would mark a dramatic increase in the level of income protection offered to households who, for whatever reason, fall out of paid work.

For those that would wish to offer higher-still levels of support for those out of work, there are a number of options. An MIG income floor could be set at the same level as an MIS for a time-limited period following falling out of paid work, before a work assumption kicks-in. Equally, an MIG could more broadly remove all assumptions of paid work, but this would have significant implications for affordability and potentially for work incentives too, unless we see significant reform to the labour market and the economy more broadly.

5 Note that if a minimum income guarantee were to be implemented, it would likely have an effect on the poverty line by pushing up median income. This test therefore corresponds to a static poverty line, prior to implementation of an MIG. A test thereafter would need to relate to an appropriate measure for living standards.

4.
HOW FAR AWAY ARE WE?
COMPARING CURRENT SOCIAL SECURITY PROVISION FOR TYPICAL HOUSEHOLDS TO MINIMUM INCOME STANDARDS

Current levels of social protection do not meet the needs of people living on low incomes in Scotland, or across the UK. In this chapter we begin to explore the differences between current levels of social security provision and a minimum income guarantee, by modelling the distance between current levels of provision and current published minimum income standards for a series of typical low-income households. This allows us to understand the gaps in current provision across different households, and how they vary as earnings from work rise or fall.

MEASURING THE GAPS

Our analysis uses IPPR's benefit entitlement model. We start by outlining the gaps in current provision as experienced by out-of-work households (with availability for paid work) and go on to explore the gaps between current provision and current minimum income standards for a series of typical in-work households. To do this, we present various illustrative work assumptions that are adjusted for household composition (for instance, for single adults with or without dependent children). We also look at the impact of securing more hours of regular work.

The analysis in this chapter does not measure gaps between current social security provision and minimum income standards for households that include sick or disabled people with reduced capacity for paid work, or unpaid carers. This is because income requirements may vary significantly across these groups. We go on to discuss ambitions for a living income for each of these groups in proposals set out later in this paper.

As our analysis aims to compare current levels of provision to relevant minimum income standards, it assumes full take-up of benefits where a typical family is eligible. Modelling includes current taper rates and income tax liabilities.

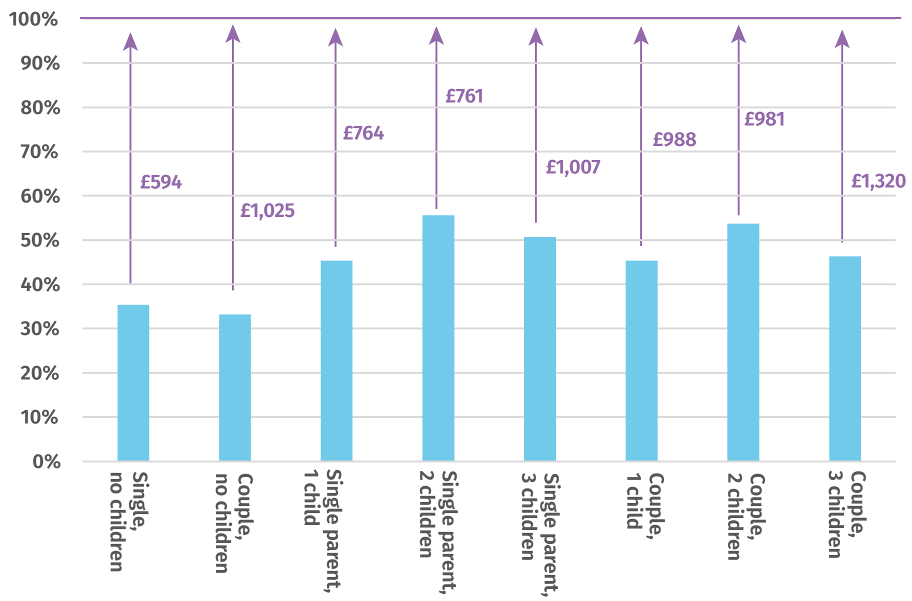
HOW FAR AWAY ARE WE NOW?

In order to compare current levels of social security provision in Scotland to the current minimum income standards, we have modelled a series of income scenarios for 'typical' households under the current social security regime. We also consider the position of unpaid carers.

Figure 4.1 compares current social security provision for working-age households with no income from paid work against the current minimum income standards, illuminating wide gaps that currently exist in social security provision for out-of-work households. Couples with no children, single parents with three or more children, a couple with one or more children experience shortfalls of over £800 per month. The largest proportional gap is experienced by couples with no children, who reach just 33 per cent of an MIS with current social security provision. These illustrative calculations do not consider housing costs, given housing support changes by nation, region and household. Where housing support through the existing social security system does not meet housing costs, as we know is the case for many, these gaps will be larger still.

FIGURE 4.1: HOUSEHOLDS WITH NO WORK ARE FALLING FAR SHORT OF A MINIMUM INCOME STANDARD, WITH SINGLE PEOPLE WITH NO CHILDREN FURTHEST AWAY FROM DECENT LIVING STANDARDS

How far monthly income falls short of current minimum income standards for typical households, in percentage terms and cash terms

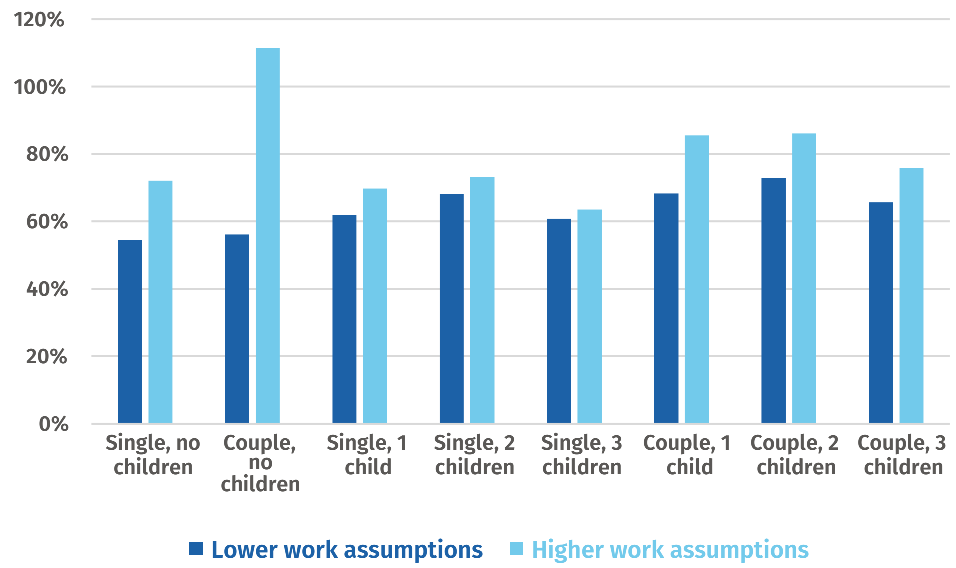


Source: Author's analysis using the IPPR benefit entitlement model
Note: Families with three children are assumed to be impacted by the two-child limit and we assume households do not benefit from the higher first child rate as was available for children born before April 2017. We assume the housing element of universal credit is equal to housing costs. Assumes that households with two children have one child eligible for Scottish child payment and households with three children have two children eligible for Scottish child payment. 2020 MIS is uplifted to 2021/22 by forecasted the Consumer Price Index (CPI). Assumes a late 2021 scenario at which point the £20 uplift to the standard allowance has been withdrawn, and otherwise assumes expected 2021/22 rates.

To consider the role of paid work, we measured the gap between current minimum income standards and current social security provision for people living in Scotland who are in work. In figure 4.2, we look across typical households to assess how far short of a minimum income standard their incomes currently fall. We consider both higher and lower work intensities and assume they earn the 2020/21 minimum wage. However, in reality, in Scotland an estimated 6 per cent of people are paid at or below the minimum wage level (Francis-Devine 2021).

FIGURE 4.2: HOUSEHOLDS WITH A SIGNIFICANT AMOUNT OF PAID WORK ARE STILL FALLING SHORT OF THE MIS, WITH THE EXCEPTION OF WORKING COUPLES WITH NO CHILDREN

How far monthly income falls short of current minimum income standards for typical households, in percentage terms and cash terms



Source: Author's analysis using the IPPR benefit entitlement model
Note: Higher work assumptions are 30 hours each for people without children, 20 hours for lone parents and 30 hours for one parent and 20 hours for the other in couples with children. Lower work assumptions are half the hours of the higher work assumptions. All are assumed to earn the headline rate of minimum wage of £8.91 and pay Scottish Income Tax and NICs as appropriate. In higher work assumptions childcare costs are £400 a month per child and this is halved for lower work assumptions and we assume that the universal credit reimbursement mechanism is used to recover 85 per cent of costs, although families with three children are affected by the reimbursement cap. Families with three children are assumed to be impacted by the two-child limit and we assume households do not benefit from the higher first child rate as was available for children born before April 2017. We assume the housing element of universal credit is equal to housing costs. Assumes that households with two children have one child eligible for Scottish child payment and households with three children have two children eligible for Scottish child payment. 2020 MIS is uplifted to 2021/22 by forecasted CPI. Assumes the return of lower rates of universal credit, and otherwise assumes expected 2021/22 rates.

The cash shortfalls for each typical household are shown in table 4.1.

It is clear that current provision falls short of delivering a decent standard of living, even for households with significant income from paid work paid at the minimum wage – though all households are substantially better off than if they were out of work. It is also clear from table 4.1 that acquiring more hours – even at minimum wage – goes some way to close shortfalls for in-work households, suggesting a commitment to 'living hours' that can, alongside the real living wage, support a living income is likely to be an important tool in better securing incomes in Scotland. The largest shortfalls are experienced by lone parent households and couples with three or more children, who all experience cash shortfalls of £300 or more per month, even with substantial amounts of minimum wage work.

TABLE 4.1: MONTHLY CASH SHORTFALLS PER MONTH ACROSS IN-WORK HOUSEHOLDS IN RECEIPT OF UNIVERSAL CREDIT, RELATIVE TO CURRENT MINIMUM INCOME STANDARDS

	Lower work assumptions	Higher work assumptions
Single, no children	£374	£179
Couple, no children	£585	£0
Single parent, 1 child	£448	£331
Single parent, 2 children	£455	£368
Single parent, 3 children	£710	£654
Couple, 1 child	£452	£140
Couple, 2 children	£455	£173
Couple, 3 children	£724	£472

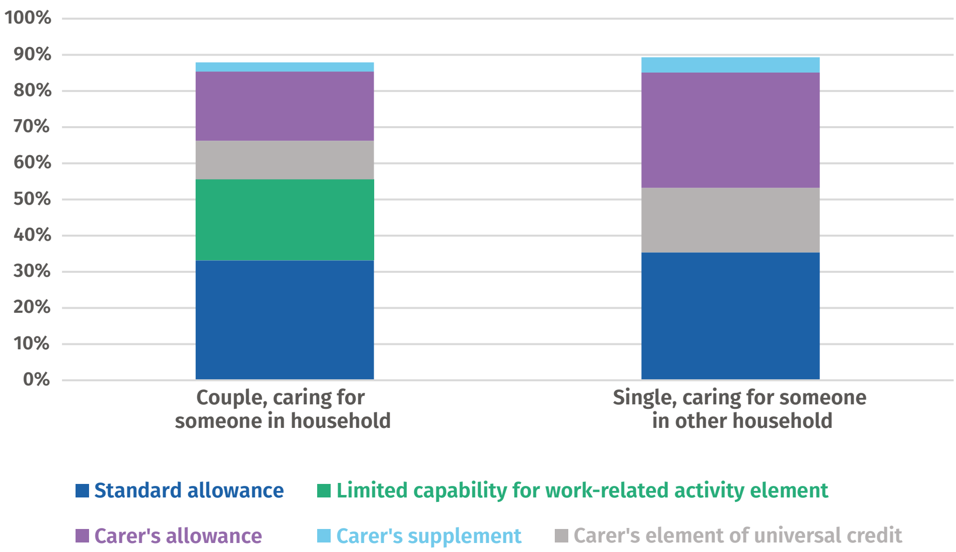
Source: Author's analysis using the IPPR benefit entitlement model
Note: Pay and hours assumptions detailed above apply.

UNPAID CARERS AND THE MINIMUM INCOME STANDARD

We also wanted to understand the situation for carers in Scotland as against current minimum income standards. We consider below two scenarios: a single person who is a full-time unpaid carer for someone in another household, and a couple where one person is a full-time carer for the other.

FIGURE 4.3: HOW FAR AWAY ARE UNPAID CARERS IN SCOTLAND FROM THE MINIMUM INCOME STANDARD?

Estimates of percentage of MIG achieved



Source: Author's analysis using the IPPR benefit entitlement model
Note: the calculations used in this analysis are for carers aged over-18 and do not include temporary additional supported by the Scottish government through the Covid-19 crisis.

As explained elsewhere in this paper, here too we assume for modelling purposes that housing costs are covered by housing elements of universal credit. In the couple household, we assume the disabled person is in the support group and so eligible for disability elements of universal credit. We assume that any entitlement for PIP/DLA is compensation for additional living costs related to disabilities and so do not contribute to the MIS.

We see that even if the assumptions above hold, the gap in both cases is over 10 per cent, meaning shortfalls of £100–£200 per month. We also see that eligibility for the disability elements of universal credit play a large role for the couple households and shortfalls would be considerably larger if the households were determined to be ineligible for the element.

To close the gap for both household types would require Scotland's carer's allowance supplement – a top-up paid to those in receipt of carer's allowance in Scotland – to increase from £38 per month to £241 per month.

5. DELIVERING A MINIMUM INCOME GUARANTEE BY 2030

In this chapter, we consider what the design of a minimum income guarantee could look like in Scotland. By delivering a social security system based on an income floor, that supports a decent standard of living for all, Scotland could lead the world by providing social protection that offers a springboard to fall back on, not a tightrope over poverty. In this chapter, we outline an illustrative design for a minimum income guarantee.

Payment levels and entitlement under a minimum income guarantee are designed in line with the MIG features outlined in chapter three.

1. A universal guarantee, delivered through a targeted payment and supported by better routes into good work

A minimum income guarantee would kick in for any household who falls below an income floor, ensuring no household's income falls below a minimum amount.

2. An MIG should aim to realise a minimum acceptable standard of living for everyone

Income floors would be set to protect against poverty and support a decent standard of living, based on differing household needs (including for example housing, childcare, disability and differing costs for single adults and couples). This would include a work assumption for those able to work but not for those not (such as sick or disabled people or unpaid carers).

3. An MIG should be designed to reduce poverty, inequality, and insecurity

Payments should be reliable in a system designed to offer maximum income security for households as a whole, and for individuals within a household. Social security income should be reliable, and the system should be able to kick in quickly when circumstances change. Payments should be made as soon as possible after claiming, with payments available at a frequency which suit the recipients.

Proposed payment design

We have designed an illustrative MIG to meet these criteria, and to ensure we can have the maximum impact on poverty for those able to work but out of work. The payment amounts and components are set against the minimum income standards. All figures are for the year 2022/23. In our analysis, this means an MIG has the following payments and attributes.

- An MIG would be made up of a core entitlement of £1,244 for a couple household and £792 for a single person per month in 2022/23. This would be the same for working age people of all ages.
- An MIG would include additional payments for households with children worth £267 for the first child and £224 for each additional child per month. There would be no limit on the number of dependent children which could be claimed for.

- The MIG would be assessed at a household level, against the relevant income floor, but payments would be individual by default - with payments related to children allocated to the primary care giver. A greater proportion of payments should be paid to the non-working person in single earner couple households.
- Additional amounts would pe provided for households with disabled children.
- Additional payments to meet childcare and disability costs, alongside some additional existing payments for unpaid carers, should be delivered to meet costs and deliver income security. This means that carer's allowance, child benefit and additional benefits for disabled people would be paid on top of core provision. All childcare costs would be met for working households in receipt of the MIG.
- A separate housing payment should cover rent up to a cap which should vary depending on the circumstances of the household.

WORK ALLOWANCES AND TAPER

We have set the following work allowances and taper rate for households in work in order to maximise the impact of the MIG payment while minimising overshoots above the minimum income standard for household types (to maximise affordability).

- For households without children, the MIG will begin to be tapered away when an adult enters paid work. For couples with children, the MIG will begin to be withdrawn when earnings exceed £297 a month and, for lone parents, when earnings exceed £594 a month.
- For earnings over these thresholds, benefit will be withdrawn at 62 per cent.

A minimum income guarantee for out-of-work households

A minimum income guarantee should lift all households out of poverty, including workless households. Our first test for workless households is that each of the typical households modelled has an income above the poverty line.[6] As a second test, we ensure all out-of-work households have an income that achieves no less than 80 per cent of the current minimum income standards.

The income floor was set at 80 per cent of current minimum income standards to ensure that while those without paid work would see vast increases in their income, we would also ensure overshoots above the current minimum income standard were minimised. This would ensure we maximised the affordability of an MIG. However, other options would be possible. For example, offering a time-limited MIG set at 100 per cent of the minimum income standard for those who fall out of work could be possible.

6 Measured prior to an introduction of an MIG in order to avoid distortion caused by upwards pressure on the median income by this reform.

DESIGN CHALLENGES FOR A MINIMUM INCOME GUARANTEE: TAPERS AND TRANSITIONS

When considering the taper there is a trade-off between work incentives, affordability and reducing the extent to which different households in work will substantively go over the minimum income standard. When considering a taper design these aspects need to be balanced. For example, having a lower taper rate will boost work incentives, but mean supporting levels of income considerably higher than the MIS.

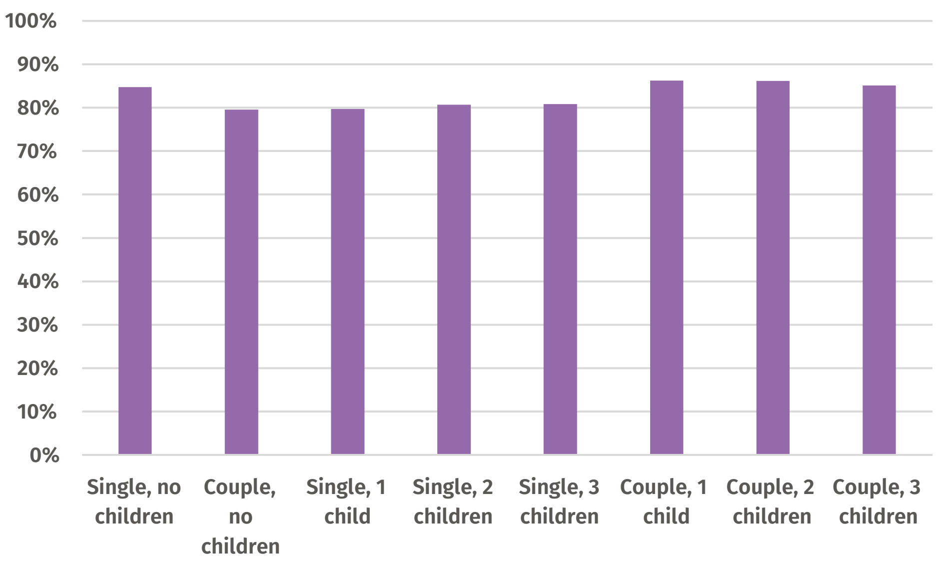
Intra-household dynamics will also need to be closely considered in the design of tapers, and transitions on and off a minimum income guarantee payment, or through changing circumstances. The taper design for a minimum income guarantee should be informed by an assessment of work incentives for second earners (which tend to be women in opposite-sex couples). Additionally, a wholesale review of social security provision that aims to provide greater income security should include a review of transitions in and out of social security eligibility, and of how transitions in and out of relationships or other changes to household composition affect entitlement.

HOUSEHOLD IMPACTS

Figure 5.1 outlines the household impacts of an MIG as outlined above, compared to the minimum income standard, for households with no paid work. It shows that all households receive at least 80 per cent of the minimum income standard.

FIGURE 5.1: DELIVERING AN INCOME FLOOR FOR OUT-OF-WORK HOUSEHOLDS

Percentage of current minimum income standards

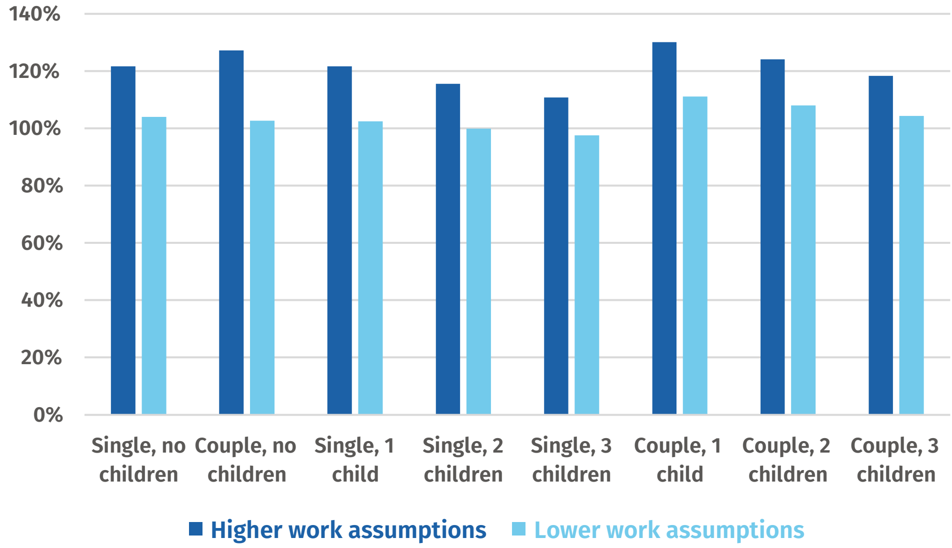


Source: Authors' analysis using the IPPR benefit entitlement model

As in chapter 4, we then consider households with higher and lower work intensities. We see that with low work intensities, households are able to reach their projected MIS.[7]

FIGURE 5.2: DELIVERING AN INCOME FLOOR FOR HOUSEHOLDS IN LOW-PAID WORK

Percentage of the minimum income standard achieved for working households in 2022/23 under a minimum income guarantee



Source: Authors' analysis using the IPPR benefit entitlement model
Note: This assumes a minimum wage of £9.13 in 2021/22, a 2.5 per cent growth on the 2021/22 rate.

SCOTLAND-WIDE IMPACTS

An MIG set at the levels outlined above would have a significant cost, worth around £7 billion per year in current prices by 2022/23. This is additional investment compared to current social security spending in Scotland if universal credit were fully rolled out. This costing assumes full take up among eligible recipients and is modelled for the year 2022/23 when unemployment rates are forecast to be higher than in future years, hence actual costs may be lower. This cost does not include housing costs as outlined above, which we would aim to see reformed to better cover housing costs (up to a cap) to ensure people had sufficient range of choice for good housing. We have modelled take-up of a MIG at 100 per cent, though in reality take-up may be lower. We have not modelled potential behaviour change as part of our analysis of how an MIG could be delivered in Scotland. It is likely that introducing an MIG as part of a new income floor in Scotland, could lead to increased take-up compared to current social security provision, and decrease work incentives for some. However, it is also likely that introducing an MIG, set at far higher levels than existing social security, could put an upward pressure on wages in Scotland, particularly for lower earners. Further work would be required to consider the net effects of these factors in a real-world setting.

7 This assume a minimum wage of £11.12 an hour by 2030/31.This is an annual growth rate of 2.5 per cent per annum from the 2021/22 rate.

The MIG would benefit an estimated 2.5 million people in Scotland. Crucially, the impacts of an MIG would be transformative. We estimate an MIG would effectively eradicate working-age and child poverty in Scotland.[8]

Without question, an MIG on this scale, introduced for all without time limit, would be expensive. However, equally without question, the impacts on offer from an MIG provide a route to reducing poverty to unprecedented levels and delivering far greater levels of equality. We estimate that increasing social security spending in Scotland back to 2010 levels could provide more than half the funding required to deliver the MIG outlined here. Combined with reform of the labour market to provide greater levels of fair work and enhanced collective service provision, the costs of an MIG could come down, meaning a greater cost of delivering a living income could fall on paid work or through reducing costs.

8 We estimate that eradicating poverty in totality down to zero per cent may require specific and tailored action to support students, pensioners, some out-of-work larger households, and some out-of-work households with older children. These groups would potentially require dedicated attention to meet any outstanding shortfalls as part of MIG implementation.

6.
HOW CAN WE GET THERE?
STEPS TOWARDS A MINIMUM INCOME GUARANTEE FOR THE NEXT SCOTTISH PARLIAMENT

An MIG, as part of work to deliver a living income for all through work, services and social security, would be a radical and fundamental reform of the social security system in Scotland. It would place an income floor at the heart of the system with the aim of ensuring everyone had the guarantee of income security, through a targeted payment based on differing needs for those who would otherwise not have enough income to live a decent life. However, fundamental reform of this scale would need to be undertaken over the long-term and would require further powers for the Scottish parliament. In this chapter we explore what steps could be taken in the Scottish parliament's next term to improve living standards for families and set Scotland on a course towards a minimum income guarantee.

SCOTTISH PARLIAMENT POWERS TO DELIVER A MINIMUM INCOME GUARANTEE

Despite devolution of some social security powers following the 2014 Smith Commission, the Scottish government still currently has limited powers over working-age social security. The core functionality of universal credit is reserved to the UK government and administered by the Department for Work and Pensions (DWP). In 2018, Scotland's own social security agency was established and now delivers a number of devolved benefits, including the new Scottish child payment since February 2021.

Further, there is some flexibility within the universal credit system for recipients based in Scotland. For example, 'Scottish choices', introduced in 2017, allows universal credit to be paid more frequently to recipients and allows for housing elements to be paid directly to landlords, to ease budgeting challenges (Scottish Government 2021b).

Delivering the full proposal for a minimum income guarantee outlined in this report would require significant further powers for the Scottish parliament, both in relation to social security and tax raising powers. At the least this would require control over key elements of the UK-wide system, such as the conditions and sanctions regime, the wait period and assessment period, the two-child limit and benefit cap, and work allowances, together with control of standard allowance and element amounts. More likely, it would need full powers over working-age social security payments in general. Equally, the establishment of a living income for all in Scotland, delivered through a mix of work, services and an MIG, may require further devolution in relation to employment rights and the labour market.

Devolution of further social security powers would likely require substantial increases in tax-raising powers to help to manage the increased costs, and increased risks inherent in large-scale devolution of social security. Taxes that raise significant sums, such as VAT and national insurance, may be required to allow the significant sums needed to deliver a full-scale MIG.

Steps towards a minimum income guarantee in the next parliament

However, while the long-term aim of a living income for all, and an MIG within that, may not be within the powers of the Scottish parliament as things stand, there are a number of reforms that may be possible within current powers that would set Scotland on a course towards delivering a living income for all. These could make a significant difference in their own right, helping to deliver the financial security so crucial to a recovery from Covid-19 based on social and economic justice.

Policy costings and poverty impacts are calculated using IPPR's tax benefit microsimulation model.[9] Unless otherwise stated, calculations refer to stand-alone policy interventions. These are designed to present possible options for the next Scottish parliament, with recommendations outlined in the next chapter.

TABLE 6.1: STEPS TOWARDS A MINIMUM INCOME GUARANTEE IN SCOTLAND

	Cost per year (year)	Child poverty impact
Increase Scottish child payment to £40p/w	-£490m (2025/26)	-50,000 (2025/26)
Introduce a Lone parent premium into the Scottish child payment (£10p/w)	-£60m (2022/23)	-10,000 (2022/23)
Disabled child SCP premium (£10p/w)	-£50m (2022/23)	-10,000 (2022/23)
Increase carer's support to MIS (by £60p/w)	-200m (2022/23)	N/A (not estimated)
Maintain the £20p/w standard allowance uplift within universal credit in Scotland	-£590m (2025/26)	-20,000 (2025/26)
Abolish the two-child limit and benefit cap in Scotland	-£140m (2022/23)	-20,000 (2022/23)

Source: IPPR tax/benefit microsimulation model, IPPR calculations
Note: Costings are rounded to nearest £10 million and poverty effects rounded to nearest 10,000.

Increasing the value of the Scottish child payment

A key policy lever available to the Scottish government to secure incomes is increasing the value of the new Scottish child payment, a devolved benefit that is available to families with children who are eligible for universal credit or equivalent legacy benefits.

We estimate that doubling the Scottish child payment to £20 in 2022-23 would cost £180 million per year and lift 20,000 children out of poverty in Scotland. If we then worked towards doubling the payment again to £40 per child by 2025/26, this would cost approximately £490 million and reduce child poverty by over 50,000.[10]

Recent opinion polling, conducted for JRF in Scotland, showed over 71 per cent of people in Scotland support increasing payments to families with children in poverty at the next Holyrood elections (Birt et al 2021).

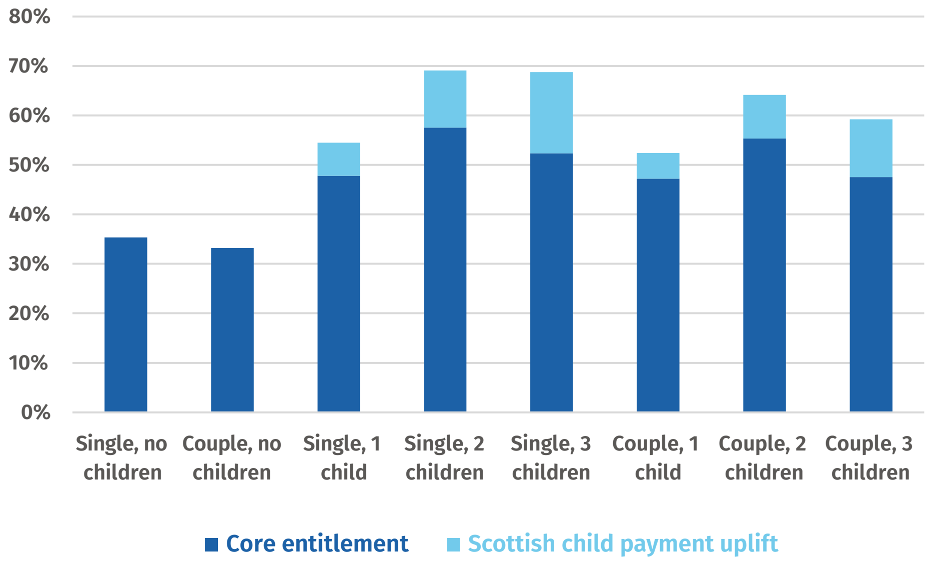
9 The IPPR tax benefit model uses 3-year data from the Family Resources Survey, meaning costings may differ to Scottish government modelling.

10 IPPR analysis using the IPPR tax benefit model.

Implementing this policy could begin to reduce the gaps between incomes and minimum income standards. Figure 6 below shows the impact of this policy for workless households against current minimum income standards, showing that this policy would reduce, but still leave, a significant gap between current minimum income standards and families' income.

FIGURE 6.1: INCREASING THE VALUE OF THE SCOTTISH CHILD PAYMENT (SCP) TO £40 BY THE END OF THE NEXT PARLIAMENT WILL GO SOME WAY TO RAISE THE LIVING STANDARDS OF OUT-OF-WORK HOUSEHOLDS

Progress towards minimum income standards for typical households with a £40 Scottish child payment in 2025/26



Source: IPPR calculations using the IPPR benefit entitlement model
Note: Assumes in the baseline that all benefit entitlement grow with forecasted inflation.

A lone parent premium for Scottish child payment

As our earlier analysis demonstrated, lone parent households fall consistently short of the minimum income standard – even with a significant amount of paid work. We know that 39 per cent of single women with children in Scotland live in poverty and are the household type with the highest exposure to poverty (Scottish Government 2020). We also know that lone parents – the vast majority of whom are women – were disproportionately exposed to financial security going into the Covid-19 pandemic, and have been facing additional pressures throughout it, compounding their precarity (Statham et al 2020).

Given the additional challenges faced by lone parents in Scotland and the focus on lone parents in the Scottish government's *Tackling child poverty delivery plan*, there is a case for a lone parent premium to be paid on top of Scottish child payment (Scottish Government 2018). An extra £10 a week for lone parents would cost approximately £60 million in 2022/23 and reduce child poverty by around 10,000 children.[11]

Again, recent polling shows that 72 per cent of people in Scotland would support increasing payments for those groups at highest risk of poverty in Scotland, such as lone parents and disabled people (Birt et al 2021).

11 IPPR analysis using the IPPR tax benefit model.

Additional payments to disabled people in Scotland

The Scottish government's *Tackling child poverty delivery plan* also includes households with a disabled adult or child in the 'priority families' identified as at higher risk of poverty (Scottish government 2018). We know that disabled adults were disproportionately exposed to financial security coming into the Covid-19 crisis and have been more than twice as likely to be experiencing serious financial difficulties through the last year (Statham et al 2020).

We estimate that a disability premium of £10 per week on the Scottish child payment for eligible families which include a disabled adult or child would cost £50 million in 2022/23 and lift approximately 10,000 children out of poverty.[12]

The Scottish government will shortly introduce new child, adult, and pension-age disability payments following the devolution of powers of some disability payments to the Scottish parliament. This could open other routes to provide additional support to disabled people in Scotland, and to set a course towards a minimum income guarantee that delivers a living income for all disabled people living in Scotland.

By setting an ambition of delivering an income floor for people who are unable to work as a result of sickness or disability, adjusted for additional costs associated with disability, the Scottish government could begin to work towards a minimum income guarantee for disabled people. Consultation on how this should be assessed and delivered should be led by disabled people's organisations.

Increasing the value of payments to carers in Scotland

As highlighted in chapter 4, unpaid carers are unable to meet a minimum income standard with current social security provision, nor can they be expected to enter paid work to boost their income. Scotland's carer's allowance supplement, alongside young carer grants and the temporary support provided through the Covid-19 crisis, have provided a welcome boost to incomes but must still go much further to be sufficient.

From 2022, carer's allowance will be replaced in Scotland by Scottish carer's assistance. The Scottish government has also agreed to introduce additional funding for those in receipt of carers allowance and caring for more than one disabled child together with agreeing to consult on the priorities for the new Scottish carer's assistance payment in due course.

We believe one of the crucial priorities for payments to carers in Scotland should be meeting the minimum income standard. We estimate that for carer's allowance supplement to close the gap to the minimum income standard it would need to increase from £38 per month to £241 per month. We estimate this would cost approximately £200 million in additional social security spending in the next financial year.[13]

Increasing core social security provision through universal credit 'top-up' powers

The Scottish government currently has the power to 'top up' UK-wide social security payments. This could be used to top up universal credit, once the £20 per week uplift is cut by the UK government.

We have modelled the cost of maintaining the uplift in Scotland, which could potentially be achieved through existing powers. We estimate that maintaining the uplift and then allowing it to grow with inflation would cost **£590 million** in 2025/26, and reduce poverty by 20,000 children and 50,000 adults. This intervention could

12 IPPR analysis using the IPPR tax benefit model.

13 These calculations assumescouncil tax reduction covers council tax costs, which will not apply in all circumstances. Where it does not apply, we would expect shortfalls to be larger.

be particularly powerful in closing the substantial gaps between current social security provision and Minimum Income Standards for single people and couples without children.

Abolishing the two-child limit and benefit cap in Scotland

Currently additional elements of universal credit and tax credits paid out for children are limited to two children for those born after April 2017 under a UK government policy known as the two-child limit, substantially disadvantaging larger families on low incomes, one of the family types most likely to be in poverty.

Further, for households earning less than £604 a month, there are caps on total benefits received from most forms of benefit payment[14] which effectively override eligibility across other criteria. The benefit cap is set at £384.62 per week for couples (with or without children) and single parent households and £257.69 per week for single adults in Scotland.

Taken together the benefit cap and two-child limit act to reduce support for some of the very families most likely to be at risk of poverty in Scotland.

We estimate lifting these caps in Scotland would cost £140 million in 2022/23 and work to reduce child poverty by 20,000 children. Given projections for reducing universal credit caseload as the economy recovers from Covid-19 the costs and impacts of this in 2025/26 would be broadly similar.

There are several potential routes to reversing the two-child limit and benefit cap in Scotland. Firstly, the Scottish government could seek flexibility from DWP for universal credit recipients in Scotland, substantially expanding the existing flexibilities for Scotland recipients in the system. This would require agreement with the UK government. Secondly, the Scottish government could formally explore whether existing devolved powers over top-up could be used to remove the two-child limit and benefit cap, or to do so in-effect. Likewise, this could potentially be done by using existing devolved powers to create new benefits in Scotland, such as a third and subsequent child premium as part of the Scottish child payment, or a discretionary payment to families impacted by the benefit cap. Lastly, this could be achieved through further devolution to the Scottish parliament, explicitly bringing the two-child limit and benefit cap under the control of the Scottish parliament.

Childcare

Reforms to childcare that support greater income security could include increasing provision of free, good quality, flexible hours of education and childcare, and closing the gap between costs incurred and costs met through social security (entitlement rising from 85 to 100 per cent, or higher caps in universal credit). Future work in this programme will explore routes to ensuring parents on low incomes do not have to incur upfront costs to access the childcare they need, whilst avoiding the accumulation of debt, alongside options to expand childcare entitlement.

14 Payments subject to the cap include: universal credit, bereavement allowance, universal credit, child tax credit, employment and support allowance, housing benefit, incapacity benefit, income support, jobseeker's allowance, maternity allowance, severe disablement allowance, widowed parent's allowance (or widowed mother's allowance or widow's pension if you started getting it before 9 April 2001).

Housing costs

Housing costs have spiralled in the past 20 years, in particular for people on low incomes, where the private rented sector has grown significantly in size from 5 per cent of households in 1999 to 15 per cent in Scotland in 2017 (Gibb et al 2019).

At the same time, reforms to the welfare system such as the ‘bedroom tax’ (‘removal of the spare room subsidy’) and the decision to reduce housing support, by setting local housing allowances (LHAs) against rents in the 30th percentile rather than the 50th percentile in 2012, coupled with inadequate uprating policies since means that the benefit system provides less adequate support for housing costs that in the past. LHAs were increased back to the 30th percentile in response to Covid-19 but have again been frozen at this level, and as such will not increase with increasing rents over time. In recent data published by DWP, only 46 per cent of private renter households on universal credit said that LHAs covered their housing costs and one in five households were affected by the bedroom tax at UK level, losing on average £65 a week as a result of the policy (DWP 2021).

While there are options to improve financial support for housing through the powers devolved to Scotland, and these should be explored, this should be considered as part of housing policy in the round. Without ensuring greater housing supply of the homes that people need in the locations they need, improved quality and potentially rent controls, greater financial support for housing could simply risk increased rents, leaving tenants only slightly better off than before.

HOW COULD THE SCOTTISH PARLIAMENT PAY FOR THESE STEPS?

Given the Scottish parliament’s powers, additional spending must be balanced either by cuts elsewhere or increases in tax revenue. We wanted to outline some of the options available to increase tax revenue over the next Scottish parliament, within current powers.

TABLE 6.2: REVENUE-RAISING OPTIONS

Policy intervention	Revenue raised per year (year)
1p increase in intermediate, higher, and additional income tax rates	£370m (2025/26)
Reducing the higher rate tax threshold to £40k	£690m (2025/26)
Differential caps for council tax increases (3 per cent bands A–E and 5 per cent, 7.5 per cent, and 10 per cent for bands F, G, and H)	£350m (2025/26)
Introducing a new property value tax alongside existing council tax system	£350m (2025/26)

Source: Authors’ analysis
Note: All revenue raised in static terms without taking account of estimated behaviour change.

Income tax

In the March UK Budget, the UK chancellor announced changes to income tax thresholds in the rest of the UK that will see increased income tax revenue between 2022 and 2026. Given the mechanics of the fiscal framework, this will mean the Scottish government will likely need to increase tax revenue by hundreds of millions of pounds a year in Scotland by the end of the parliament, simply to keep up with UK spending plans. If it wishes to go further, and, for example, to invest funds to deliver against the options in this chapter it will need to go further (Gunson et al 2021).

With this context in mind, we outline a number of options for raising additional tax revenue in Scotland over the coming years.

Increasing the intermediate, higher, and top rates of income tax by one percentage point

The Scottish parliament has used devolution to create additional tax bands in Scotland, compared to the rest of the UK, with a more progressive system seeing lower earners pay less and higher earners pay more than counterparts in the rest of the UK.

Increasing tax rates by 1p on the intermediate, higher, and additional rate of income tax[15] in Scotland would see rates increase to 22 per cent, 42 per cent and 47 per cent respectively, increasing taxes on those earning just above £25,000. This option would raise approximately £300 million of additional tax revenue in static terms in the year 2022/23, rising to £370 million by the final year of the next parliament in 2025/26.[16]

Lowering the threshold for the higher rate of income tax to £40,000 gradually over time

We also wanted to consider the effects of reducing the higher rate tax threshold in Scotland to bring greater numbers of taxpayers into the 41p band in Scotland. If in 2022/23 the higher rate threshold was reduced by £1300 (from a projected £43,662 in 2021/22) to £42,362 – this would raise around £160 million in additional tax revenue in static terms, compared to the default of increasing tax thresholds in line with inflation. This would see those earning over £43,662 pay up to an additional £5 per week in tax. If this threshold was progressively lowered such that by 2025/26 the threshold was £40,000, we anticipate that this would raise £690 million of additional tax revenue in static terms in that year.

Council tax reform

Alongside powers over income tax, the Scottish parliament has full control of local tax powers. At the moment, the two main local taxes are business rates and council tax, property taxes levied on business and households respectively.

Council tax has seen little reform since its introduction in Scotland in 1993. Having risen significantly through the early 2000s, the SNP delivered on their manifesto pledge to freeze rates between 2007/8 and 2016/17. Since then, council tax in Scotland has seen some small-scale changes: boosting rates for higher valued homes relative to others, and putting caps on how much councils could increase them by including a total freeze in response to the pandemic.

In 2019/20, council tax raised just under £2.5 billion net of allowances and the council tax reduction (CTR) scheme. However, council tax bills have not kept pace with inflation, house prices, or with revenue raised in other parts of the UK. Between 2008/09 and 2019/20, the average band D council tax bill reduced

---

15 For 2021/22 the intermediate rate, higher rate and additional rate tax thresholds are set at £25,297, £43,662, and £150,001 respectively.

16 For this option we assume income tax thresholds in Scotland increase with inflation as a baseline.

by 14 per cent in real terms in Scotland, with the average band D council tax bill in 2019/20 around 21 per cent lower in Scotland than in Wales, and around 28 per cent lower than in England. Recent research has found that matching council tax bills in Wales and England could raise around £600 million per year and £900 million per year respectively in Scotland, net of increased costs in the CTR scheme (Fraser of Allander Institute 2019)

There have been a number of reviews in Scotland, considering how to reform or replace council tax. In 2015, the Commission on Local Tax Reform, a cross-party commission, considered reform of council tax and concluded that the tax should be replaced (Commission on Tax Reform, 2015). The final report outlined a number of weaknesses with the current regime, including its regressive nature both in terms of lower income families paying the most as a proportion of their income, and residents in lower valued properties paying the highest council tax bills as a proportion of their value. It considered a number of options for reform, including a new property value tax, local income tax and land value taxes and concluded that a basket of local taxes were likely needed, with some form of property tax likely retained.

Through the Covid-19 crisis the wealthiest have been some of the most protected from its financial consequences, with some evidence that higher income households have been able to save and increase wealth, alongside significant increases in house prices benefiting homeowners. Between December 2019 and December 2020, average house prices increased by 8.4 per cent in Scotland (Registers of Scotland 2020).

We focus here on two options for reforming existing local property taxation, to understand the potential to raise revenue to improve financial security in Scotland. These would go some way to recognising that those who have seen property wealth increase prior to and through the crisis should help to support those who have struggled most.

Firstly, the Scottish government could consider increasing the cap on council tax increases for properties in higher bands. Applying a flat 3 per cent cap (plus inflation) to council tax bills could raise over £70 million additional revenue each year (in real terms) from 2022/23 reaching an estimated £300 million of additional revenue by 2025/26 above inflation, if councils choose to increase tax bills by the maximum amount. As outlined in the next chapter increased revenue could be used to improve the council tax reduction scheme to reduce council tax bills for lower income families. However, by applying a higher cap to properties in Bands F–H, we could raise further additional revenue and make some small-scale improvements to the progressivity of council tax by house value. Applying a 5 per cent, 7.5 per cent, and 10 per cent cap (above inflation) for bands F, G, and H respectively could raise up to a further £20 million per year above inflation from 2022/23, reaching over £70 million per year by 2025/26.[17] However, this would still leave a regressive and out of date council tax in place in Scotland, still based on valuations more than 30 years old.

A second more fundamental reform would see the introduction of a new property value tax alongside the existing council tax system. This would see residents[18] pay the higher of the ongoing council tax system or a set percentage

17 IPPR calculations using Scottish Government 2020a 2020b. This is likely to be an underestimate as we do not take account of new homes built over this period.

18 A property value tax could be applied to owners instead of residents. However, if applied to owners, this increased tax could risk being passed on through increased rent in the case of landlords, leaving lower income renters without the equivalent of a council tax reduction scheme to help with their increased costs. With housing support reserved to Westminster and frozen we therefore propose a property tax is levied on residents as with council tax. However, further devolution in this area could open other possibilities.

of their home value. A number of commissions and reports have looked at the potential of a property value tax of this kind and find it would improve the progressivity of the system by value, with higher value properties paying more than under the current council tax system (see Commission on Local Tax Reform 2015 and Bangham and Judge 2019). If combined with the existing council tax reduction scheme (or ideally an enhanced one), which is designed to protect low-income households from paying council tax they cannot afford, it could also improve the progressivity of the system by household income.

A system that saw householders pay the higher of the existing council tax system or 0.75 per cent of their home value per year could raise significant additional revenue and deliver a far fairer system. Once fully rolled out it we estimate it would see properties in Bands F, G, and H on average pay more than the current council tax system, raising more than an additional £350 million per year in gross terms (before increases in the cost of council tax reduction are factored-in).

7.
RECOMMENDATIONS

As Scotland goes to the polls in May to elect the next Scottish parliament, the stakes are incredibly high. The next parliament will be tasked with continuing to steer the country out of lockdown and shaping Scotland's recovery from Covid-19. Over the last two decades the Scottish government has come to play an increasingly important role in the day to day lives of people in Scotland – perhaps never more visibly than over the last year through the public health response to the Covid-19 pandemic.

In 2020, the Scottish government convened the Social Renewal Advisory Board to consider ideas and approaches that could deliver social renewal in Scotland on the other side of the Covid-19 crisis. As their final report acknowledges, the pandemic 'has brutally exposed the inequalities that still blight the lives of too many, limiting our ability to flourish, control our own lives and contribute our talents to create an inclusive, fairer Scotland' (Scottish Government 2021a). IPPR Scotland, alongside a wide range of partners from across Scottish public life fed into this process through the latter part of 2020 through nine thematically organised 'policy circles', through which we led a policy circle of financial security. The first recommendation of the report was that the Scottish government should commit to a minimum income guarantee for all as a long-term aim (Scottish Government 2021a).

There are clearly significant possibilities for radically rethinking the aim of the state in Scotland, and within that the social security system. This chapter outlines a set of key recommendations that could refocus the social security system, and more broadly the state, to deliver greater levels of financial security in Scotland.

NEXT STEPS FOR SCOTLAND'S NEXT PARLIAMENT

Delivering a living income for all will require action on social security to realise a minimum income guarantee, on economy and work to create routes into good jobs for more people, and action to reduce costs through stronger collective services. Here, we outline recommendations for the Scotland's next parliament, and for the next medium term.

Medium term: 2030

1. The Scottish government should commit to developing a **minimum income guarantee**, as part of delivering a **living income** for everyone in Scotland over the long-term. A minimum income guarantee would underpin **a universal guarantee** that everyone in Scotland would have access to a minimum standard of living through fair work, strong public services and social security, providing a **targeted payment** for those who fall short of this standard. As part of this, the Scottish government should do the following.
    - Fund a feasibility study into the new powers that would be required by the Scottish parliament to deliver a minimum income guarantee in Scotland.
    - Establish an independent body to develop and implement a new national income floor, renewed on an annual basis, below which no one in Scotland would fall. This should be adopted by 2022/23 and increased over time.

- Adopt minimum income standards as an organising principle across social security and local payments in Scotland – building on current practice in terms of fuel poverty and the real living wage.
- Deliver increases in social security and local payments in Scotland to move low-income families closer to the minimum income standards throughout this parliament.

First-steps: 2021–26

2. The Scottish government should commit to a **faster rollout of the Scottish child payment** for over-6s or put in place transitional support until rollout. Transitional support could include quarterly payments through the school clothing grant system or the free school meals payments system (if they continue into 2021/22).
3. The Scottish government should introduce a **new social renewal supplement paid by higher rate taxpayers in Scotland to raise the Scottish child payment to £40 by the end of the parliament**. Higher rate taxpayers would be asked to contribute an additional £5 per week in tax each year of the next parliament (until the higher rate tax threshold reached £40,000). This would see the higher rate tax threshold reduced in Scotland to £40,000, raising £690 million per year in static terms by 2025/26. This would provide the funds needed to increase the Scottish child payment to £20 in 2022/23 and at least £40 per week by 2025/26.[19] This would lift 50,000 children out of poverty by 2025/26.
4. The Scottish government should consult on introducing **a disability premium and a lone parent premium to the Scottish child payment** in order to better protect against poverty and realise a decent standard of living for families whose living standards are falling far short of a minimum income standard. We estimate this would cost a combined £130 million per year, with each premium lifting 10,000 children out of poverty if introduced in 2022/23.
5. The Scottish government should undertake **reform of council tax** in Scotland to raise additional revenue, and in particular additional revenue from higher value properties. Introducing a 3 per cent cap (plus inflation) for bands A–E and a 5 per cent, 7.5 per cent, and 10 per cent cap (plus inflation) for bands F, G, and H respectively could raise around £90 million per year in 2022/23 and over £350 million per year in 2025/26 if councils chose to increase council tax by the full amount. We have outlined how a more fundamental reform, introducing a property value tax set at 0.75 per cent alongside council tax, could raise up to £300 million once fully rolled out. This additional revenue should be used to increase funding for council tax reduction to move closer to the new national income floor, and to deliver increases in local payments to low-income families (such as school clothing grant and enhanced free school meals payments/provision).
6. The Scottish government should formally seek the power to **remove the two-child limit and benefit cap** in Scotland, either through devolution or through DWP offering further flexibilities for people in Scotland in receipt of UK-wide benefits. This would cost £140 million per year in 2022/23 lifting 20,000 children out of relative poverty and have similar costs and impacts in 2025/26.
7. As part of its consultation on the new Scottish carer's assistance payment, **the Scottish government should consult on how the new payment can bring carers up to the new national income floor** outlined above.
8. In line with ambitions to deliver a minimum income guarantee, new **devolved child, adult, and pension-age disability payments** should be set to meet the

19 We estimate the revenue raised in static terms through this policy to be around £690 million in 2025/26. This compares to the cost of increasing the SCP to £40 per week in the same year of £500 million. We have left this gap to leave headroom (of up to 28 per cent) for any behaviour change that would reduce revenue raised from the policy.

new national income floor outlined above, and on a trajectory towards the minimum income standard. Consultation on how this should be assessed and delivered should be led by disabled people's organisations.

9. Scottish government should explore how to lift, mitigate or circumvent '**no recourse to public funds**' restrictions where they limit access to social security or core public services.
10. Delivering a minimum income guarantee will rely on delivering **a new social contract for work**. As a first step, the Scottish government should consult on how to most integrate a commitment to providing '**living hours**' – that is, a minimum reliable work pattern that support a living income – into its Fair Work First approach.

REFERENCES

Aizer A, Eli S, Ferrie J, and Lleras-Muney A (2016) 'The Long-Run Impact of Cash Transfers to Poor Families' *American Economic Review*, 106 (4): 935–71. https://www.aeaweb.org/articles?id=10.1257/aer.20140529

Arnold A, Caddick D, Krebel L (2021) 'How our benefits system was hollowed out over 10 years', NEF. https://neweconomics.org/2021/02/social-security-2010-comparison

Avram S (2020) *Hours and pay insecurity in the UK labour market*, Nuffield Foundation. https://www.iser.essex.ac.uk/files/projects/pay-insecurity/Savram_Nuffield_report_Nov2020.pdf

Bangham G and Judge L (2019) *Taking stock: Report for the Scottish Poverty and Inequality Commission.* Resolution Foundation. https://www.resolutionfoundation.org/publications/taking-stock/

Berg A, Buffie EF and Zanna L-F (2016) 'Robots, growth and inequality', *Finance & Development*: 53(3)

Butler P (2018) 'Welfare spending for UK's poorest shrinks by £37bn', *Guardian*. https://www.theguardian.com/politics/2018/sep/23/welfare-spending-uk-poorest-austerity-frank-field

Biegert T (2017) 'A generous welfare state can help reduce unemployment – if there are good job opportunities for the jobless', LSE US Centre, blog post. https://blogs.lse.ac.uk/usappblog/2017/10/03/a-generous-welfare-state-can-help-reduce-unemployment-if-there-are-good-job-opportunities-for-the-jobless/

Birt C (2021) *Scotland's child poverty targets are possible – with political confidence and urgency*, JRF, blogpost. https://www.jrf.org.uk/blog/scotlands-child-poverty-targets-are-possible-political-confidence-and-urgency

Birt, C, Bennet S, Cebula C (2021) *Poverty a key priority for people in Scotland in advance of May's election*, JRF. https://www.jrf.org.uk/report/poverty-key-priority-people-scotland-advance-mays-election

Brewer M and Patrick R (2021) *Pandemic Pressures: Why families on a low income are spending more during Covid-19*, Resolution Foundation. https://www.resolutionfoundation.org/publications/pandemic-pressures/

Butler P (2018) 'Welfare spending for UK's poorest shrinks by £37bn', *Guardian*. https://www.theguardian.com/politics/2018/sep/23/welfare-spending-uk-poorest-austerity-frank-field

Cheetham M, Moffatt S, Addison M, Wiseman A (2019) 'Impact of Universal Credit in North East England: a qualitative study of claimants and support staff', *BMJ Open.* https://bmjopen.bmj.com/content/9/7/e029611

Chorley M (2021) 'More people think benefits are too low', *Times.* https://www.thetimes.co.uk/article/more-people-think-benefits-are-too-low-vxqvql2xg

Close the Gap (2020) *Disproportionate disruption: The impact of Covid-19 on women's labour market equality*. https://www.closethegap.org.uk/content/resources/Disproportionate-Disruption---The-impact-of-Covid-19-on-womens-labour-market-equality.pdf

CPAG (2019) 'High Court finds DWP unlawful on universal credit assessments', blog. https://cpag.org.uk/news-blogs/news-listings/high-court-finds-dwp-unlawful-universal-credit-assessments

Commission on Tax Reform (2015) *Just Change: A New Approach to Local Taxation*. http://localtaxcommission.scot/download-our-final-report/

Corlett A (2019) *The benefit freeze has ended, but erosion of the social safety net continues*, Resolution Foundation. https://www.resolutionfoundation.org/publications/the-benefit-freeze-has-ended-but-erosion-of-the-social-security-safety-net-continues/

Department for Work and Pensions (2014) *Evaluating the labour market impacts of Universal Credit: a feasibility study*. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/333912/evaluating-labour-market-impacts-universal-credit-feasibility-study.pdf

De Henau J and Reed H (2016) *A cumulative gender impact assessment of ten years of austerity policies*, Women's Budget Group. https://wbg.org.uk/wp-content/uploads/2016/03/De_HenauReed_WBG_GIAtaxben_briefing_2016_03_06.pdf

Disability Rights UK (2018) 'Disability benefit spending reduced by £5 billion over the last decade', news article. https://www.disabilityrightsuk.org/news/2018/september/disability-benefit-spending-reduced-%C2%A35-billion-over-last-decade

Dwyer et al (2018) *Welfare Conditionality: Final findings – disabled people*, ESRC. http://www.welfareconditionality.ac.uk/wp-content/uploads/2018/05/40414-Disabled-people-web.pdf

Engender (2020) *Gender and unpaid work: the impact of Covid-19 on women's caring roles*. https://www.engender.org.uk/content/publications/1594974358_Gender--unpaid-work---the-impact-of-Covid-19-on-womens-caring-roles.pdf

Gangl M (2004) Welfare States and the Scar Effects of Unemployment: A Comparative Analysis of the United States and West Germany, American Journal of Sociology 109:6, 1319–1364

Rahim N, Graham J, Kiss Z and Davies M (2017) *Understanding how Universal Credit influences employment behaviour – findings from experimental research with claimants*, Department for Work and Pensions. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/643953/understanding-how-universal-credit-influences-employment-behaviour-summary.pdf

Reader M (2021) *The birthweight effects of universal child benefits in pregnancy: quasi-experimental evidence from England and Wales*, Centre for Analysis of Social Exclusion (CASE). https://sticerd.lse.ac.uk/case/_new/publications/abstract/?index=7768

Registers of Scotland (2020) 'UK House Price Index figures for December 2020', dataset. https://www.ros.gov.uk/data-and-statistics/uk-house-price-index

Roberts C and Jung C (2020) *The chancellor's challenge*, IPPR. https://www.ippr.org/files/2020-11/the-chancellor-s-challenge-1-.pdf

Scottish Government (2018) *Tackling Child Poverty Delivery Plan: 2018–2022*. https://www.gov.scot/publications/child-chance-tackling-child-poverty-delivery-plan-2018-22/

Scottish Government (2020) *Poverty and Income inequality in Scotland 2016–19*, report. https://www.gov.scot/publications/poverty-income-inequality-scotland-2016-19

Scottish Government (2020a) 'Scottish Local Government Finance Statistics (SLGFS) 2018-19', dataset. https://www.gov.scot/publications/scottish-local-government-finance-statistics-slgfs-2018-19/pages/3/

Scottish Government (2020b) 'Council Tax collection statistics 2019–2020', dataset. https://www.gov.scot/publications/council-tax-collection-statistics-2019-20/pages/2/

Scottish Government (2021) 'Universal Credit (Scottish choices)', webpage. https://www.gov.scot/policies/social-security/universal-credit/

Scottish Government (2021b) 'Wellbeing Economy Governments (WEGo)', webpage. https://www.gov.scot/groups/wellbeing-economy-governments-wego/

Sheehy-Skeffington J and Rea J (2017) *How poverty affects people's decision-making processes*, JRF. https://www.lse.ac.uk/PBS/assets/documents/2017-sheehy-and-rea-report-3234-final-1.pdf

Social Renewal Advisory Board (2021) *If not now, when? – Social Renewal Advisory Report, January 2021*, Scottish Government. https://www.gov.scot/publications/not-now-social-renewal-advisory-board-report-january-2021/

Suhrcke M, Nugent R A, Stuckler D and Rocco L (2006) *Chronic Disease: An Economic Perspective*, Oxford Health Alliance

Statham R, Parkes H and Gunson R (2020) *Weathering the winter storm: Strengthening financial security in Scotland through the ongoing Covid-19 crisis*, IPPR Scotland. https://www.ippr.org/research/publications/weathering-the-winter-storm

University of Essex, Institute for Social and Economic Research (2020) 'Understanding Society: COVID-19 Study, 2020', dataset, 4th Edition, UK Data Service. SN: 8644, 10.5255/UKDA-SN-8644-4

Weida EB, Phojanakong P, Patel F and Chilton M (2020) 'Financial health as a measurable social determinant of health', *PLoS ONE*, 15(5): e0233359. https://doi.org/10.1371/journal.pone.0233359

Women's Budget Group (2019) 'WBG Briefing: Social security and gender', policy briefing. https://wbg.org.uk/analysis/uk-policy-briefings/2019-wbg-briefing-social-security-and-gender/

Wright S and Dwyer P (2020) 'In-work Universal Credit: Claimant Experiences of Conditionality Mismatches and Counterproductive Benefit Sanctions', *Journal of Social Policy*, 1(19). doi:10.1017/S0047279420000562 https://www.cambridge.org/core/journals/journal-of-social-policy/article/inwork-universal-credit-claimant-experiences-of-conditionality-mismatches-and-counterproductive-benefit-sanctions/82C05CC442F9EBA049E99E0523A9C3F0

Institute for Public Policy Research

GET IN TOUCH

For more information about IPPR Scotland,
please go to www.ippr.org/scotland

You can also e-mail info@ippr.org
or tweet us @ipprscotland

Institute for Public Policy Research

Registered Charity no. 800065 (England & Wales),
SC046557 (Scotland), Company no, 2292601 (England & Wales)

The progressive policy think tank