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SCOTTISH GOVERNMENT POSITION PAPER

SCOTTISH CHILD PAYMENT

Introduction

The Scottish Government has announced it will introduce a new benefit for low income families to reduce levels of child poverty in Scotland.

The Scottish Child Payment will be made to children under the age of 6 before the end of this parliamentary term (March 2021); and to all eligible children aged under 16 by the end of 2022.

The Scottish Child Payment will be administered by Social Security Scotland through an application-based process; and will be a payment for each eligible child in the family; and will be paid on a monthly basis.

This paper sets out the process of development of the Scottish Child Payment and the expected policy impacts it will have. It has been published alongside both the *Tackling Child Poverty Delivery Plan – First Year Progress Report 2018-19* and *Analysis of Options for the Income Supplement* - a detailed analytical paper that shows the consideration given to a wider set of policy options.

Tackling child poverty in Scotland

The Scottish Government is ambitious for Scotland's children, and does not believe that poverty is inevitable. We want to ensure that children have the best start in life and have access to a full range of opportunities as they grow up. We want to help parents who are looking to move back into the workplace and, for those already in work to access better-paid jobs and greater security in which to bring up their families. We also want to take further action to tackle the deep-seated inequalities in our society.

To support these aspirations, the Child Poverty (Scotland) Bill passed unanimously in the Scottish Parliament in November 2017. The Act sets four income based targets to reduce child poverty to be met in an interim period (2023/24), with final targets in 2030/31. They are shown in the table below, along with current rates of child poverty. All these are measured on an 'after housing costs' basis.

Table 1 - Child Poverty Targets

	2017-18 Rate	2023-24 Interim Targets	2030-31 Final Targets
Relative child poverty	24%	18%	10%
Absolute child poverty	22%	14%	5%
Combined low income and child material deprivation	14%	8%	5%
Persistent child poverty	17%	8%	5%

The role of social security

Every Child Every Chance, the first Tackling Child Poverty Delivery Plan (TCPDP) was clear that, while social security was important in meeting the targets, it could not secure the targets on its own. This view is supported by the independent Poverty and Inequality Commission based on research undertaken by think-tank IPPR Scotland. Their advice to the Scottish Government made clear that *"…reaching targets through devolved social security alone is not realistic and would require billions of pounds of additional spending"*.[1]

The most recent child poverty statistics show that the majority of children living in poverty in Scotland are in a household where at least one adult is in paid employment. Only around 1 in 10 children live in a household where all adults are unemployed.

As advised by the Poverty and Inequality Commission, our TCPDP recognises that sustainable, fair work is a long term route out of poverty, and takes a number of actions in this area to improve employment opportunities and earnings, including for those who are currently not in work.

Given the key role of social security, the TCPDP included a commitment to work towards introducing a new income supplement for low income families who need it most within the lifetime of the plan (2018-2022); and that it would take appropriate steps to ensure that it met two tests:

- It is targeted on those families who need it, and that it's therefore helping to lift the maximum number of children out of poverty.
- There is a robust and viable delivery route to get it to families, and that the delivery costs are reasonable – ensuring we maximise the resources available.

Since the publication of the TCPDP, significant work has been undertaken to develop the income supplement, now called the Scottish Child Payment, alongside the clear government priority placed on ensuring the safe and secure delivery of the benefits devolved under the Scotland Act 2016.

DEVELOPMENT OF THE SCOTTISH CHILD PAYMENT

As set out in the *Analysis of Options for the Income Supplement* report, the first stage in the policy development process[2] was to establish a set of key objectives to help guide the development of the Scottish Child Payment, determine potential options and support future evaluation. The objectives set for the Scottish Child Payment are to:

[1] Advice on the Scottish Government's Child Poverty Delivery Plan 2018, https://povertyinequality.scot/wp-content/uploads/2018/02/Child-Poverty-Delivery-Plan-advice-Final-Version-23-February-2018.pdf

[2] Full details of the process to determine options are set out in the analysis published alongside the first update report on the Tackling Child Poverty Delivery Plan. [www.gov.scot/isbn/9781787819603]

- **Achieve a minimum reduction in child poverty (relative, after housing costs) of 3 percentage points when the income supplement is fully rolled out.** This provides a tangible, identifiable outcome which can be measured once the Scottish Child Payment is rolled out, and ensures that social security provides a substantial part of our reduction in poverty whilst being clear it cannot be the only solution.
- **Reduce the depth of poverty and provide support to those who need it most**. This ensures we support people across the lower deciles of the income distribution, rather than simply getting those closest to the poverty line over the threshold.
- **Help to support a sustainable and lasting reduction in poverty for families with children**. This ensures outcomes beyond redistribution, supporting people to access wider services and support should they want and require it – for example, fast-tracked access to a financial health check or employment support.

The second stage, guided by these objectives, was to develop a number of policy options and test these with stakeholders. Meetings have been held with stakeholders throughout the Scottish Child Payment's development, including two Scottish Government hosted workshops in February 2019 with representatives from academia, local authorities, anti-poverty organisations and think tanks.

The following options were considered as part of our policy development process:

1. Child Benefit (CB) based entitlement
2. Universal Credit (UC) based entitlement
3. Universal Credit (UC) based entitlement, with higher payments for targeted groups (lone parents, families with young children, larger families, families where a child or adult is disabled and young mothers)
4. Entitlement through a means-test unrelated to any existing benefit
5. Council Tax Reduction (CTR) based entitlement

The third stage was to undertake detailed policy modelling, to analyse the potential policy costs and impact on poverty, and complement it with a thorough consideration of how options compare against key criteria that would contribute to the success of the policy – factors such as **simplicity, consistency, take-up and impact on employment and earnings**. We also considered how automated payments would compare to application-based ones for each of the options under consideration.

Payment amount

The five policy options set out above were configured so as to meet our first objective, which is to reduce relative child poverty by 3 percentage points. Because the Scottish Child Payment is a policy that will be looking to make a lasting difference to children's lives, we looked at how the options would compare in steady-state, once Universal Credit (UC) is fully rolled out which is currently planned for 2023/24.

The modelling[3] suggests that to meet this first objective:

[3] The modelling is set out in detail in *Analysis of Options for the Income Supplement*

- Options 1, 2 and 4 would require a weekly payment of £10 per child
- Option 3 could reach the objective at £5 per child for all eligible children, plus an additional payment of £5 for lone parents, families with young children, larger families, families where a child or adult is disabled, and young mothers.
- Option 5 – CTR based entitlement – would require a much higher payment, in the region of £45 a week per child. This is because this policy would see the income supplement paid to a smaller group of children in poverty and miss a much larger group than any other option.

Consideration of evidence

On policy coherence, it was clear that options 1 and 5 could be ruled out. The option to top up Child Benefit would not achieve the targeting that we desired, being the most expensive policy option at £420-£460m per annum. It was also found to be the least targeted option with circa 75% of payments being made to children not in relative poverty.

On the other hand, the CTR option would miss a large number of children in poverty and, at £45 per week per child, potentially distort work incentives for some family groups. It was clear that this level of payment was not a sustainable way to help families get out of poverty and, at £290m-£330m per annum, it was also not the best use of resources.

The analysis illustrates that there is a trade-off between coverage and targeting. By introducing a more targeted income supplement, the risk that some children in poverty may not be included increases and the coverage of the policy falls. Conversely, the more universal the Scottish Child Payment, the higher the likelihood of paying it to families whose incomes are substantially above the poverty line. We therefore have to make careful decisions that balance the two objectives against each other.

Setting aside options 1 and 5, which are at the two extremes of the coverage and targeting objectives, the remaining three options – Options 2, 3 and 4 - strike the balance between them. This meant that a UC based entitlement (either simple or targeted) or creating a benefit with its own means-test needed to be examined further in terms of their delivery.

On delivery, when exploring options for the Scottish Child Payment, a key driver was the timeliness of each option, recognising the urgency with which the Scottish Child Payment needed to be rolled out. A further key driver was to utilise the capabilities and learning that had already been developed by the Social Security Programme.

We considered the potential to build our own means-tested benefit – Option 4. However, this option would add significant complexity in terms of continuous assessment of incomes. It would have a 2–3 year development window and involve concurrent development of technology and operations, alongside the already complex introduction of the devolved benefits. We therefore ruled out Option 4 on the basis of these delivery risks.

This meant that entitlements based on UC - Options 2 and 3 - were the only remaining options. In order to make decisions between these two, we first considered whether we would deliver them on an automated or application basis.

The modelling shows that, in terms of coverage, automated payments have an advantage. They are also much simpler from the perspective of the families who would be eligible for Scottish Child Payment, as they would not need to fill in an additional application form. It would also help with issues of non-take up. We recognise these advantages of automated payments.

However, given the challenges with UC, which is not due to be fully rolled out until 2023 at the earliest, an automated UC-based delivery model was not considered to be a robust delivery route, as we could not guarantee that all eligible households would be transferred onto UC within the timescales of the TCPDP (2022). Having to build interfaces with the suite of legacy benefits in mitigation of this risk was deemed to be too technically complex, time-consuming and not cost-effective, given that UC is designed to replace those systems.

In light of the considerations above, we have settled on the approach of adopting an application based process delivered by our own social security agency, Social Security Scotland. A multi-channel application process is tried and tested, and based on user feedback, and the agency has experience of processing applications of this nature. Taking this approach is therefore an efficient and timely option, which ensures that clients are treated with dignity and respect.

Direct contact with clients would also offer more scope to explore routes through which we could meet the third objective for this policy as we could have better opportunities to direct families to other support and services that could help achieve a sustainable route out of poverty.

We were also mindful of the need to reduce technical complexity and risk, and deliver within the required timescales. We therefore looked at how we could build on existing infrastructure developed for the Scottish low income benefits and specifically for Best Start Grant. Option 3, as a more technically complex benefit, with accompanying delivery risks, was therefore ruled out.

This led to a focus on Option 2 as it provides an opportunity to build on the existing platform, using the same eligibility rules, data feeds, and regular payment functionality.

SCOTTISH CHILD PAYMENT POLICY AND DELIVERY DETAIL

Having taken into consideration both the policy modelling and analysis, the delivery and timing implications and the impact on the existing Social Security Programme, we concluded that a refined version of Option 2, as set out in the analysis report, is one that balances the risks against the benefits. This option fits with our criteria of targeting those families who need it, maximising resources available and is one which could be delivered speedily and with dignity and respect, within the lifetime of the current *Tackling Child Poverty Delivery Plan*.

We intend to introduce this new benefit by the end of 2022 to all children under 16 in eligible families.

We anticipate that an estimated 410,000 children will be eligible for the benefit. [4]

It will be an application-based payment to families in receipt of UC delivered by Social Security Scotland. Given the lifetime of our plan and our desire to reduce child poverty and as payments will begin before UC is fully in place to all families, we have also included other qualifying benefits, as set out below.

While we will build on the existing low income benefit infrastructure additional development is still needed, including ensuring we have all relevant data from the UK Government for children under 16, and to configure the platform to manage the caseload.

As with all our benefits, we will work in close partnership with the UK Government, especially the DWP so they can make the necessary changes to their systems, and support our development of the new benefit. We will progress these discussions over the summer.

<u>Early delivery</u>

We are aware that child poverty is deep-seated and that it can affect the life chances of children. We want to change that.

We will therefore introduce this payment for eligible children under 6 at an earlier date and will begin payments by the end of this parliamentary term.

We anticipate that around 170,000 children in around 140,000 households will be eligible for the Scottish Child Payment in this age group.

Almost 60% of children living in poverty are in households where the youngest child is under 6 years old. As such, policies that help families with children in the early year’s age groups are likely to be impactful.

<u>Payment</u>

This will be a regular cash payment families who are in receipt of qualifying benefits and who have responsibility for a child.

The rate will be £10 per week, per child, to be paid on a monthly basis.

The Scottish Child Payment will not have any cap on the number of eligible children a family can receive a payment for. The Scottish Government firmly rejects the punitive approach taken forward by the UK Government, such as the two-child limit

[4] The impacts set out in this paper are based on Scottish Government’s own analysis using DWP’s Policy Simulation Model for Scotland

and the ‘rape clause’, and instead is putting in place a devolved social security system with dignity and respect at its heart.

Payments will be made to an individual, on behalf of a household. The payment process will use technology being built for the existing devolved benefits, with payments made monthly to the client’s bank account.

Further details – such as processing times, client communication, and appeals – will be finalised as we progress the design of the benefit, but we would ensure we aligned with existing and established processes within Social Security Scotland which have gone through detailed user research.

<u>Eligibility and process</u>

Given that we are delivering Scottish Child Payment before UC migration will have completed, we will extend eligibility to families in receipt of other benefits. The qualifying benefits will be:

- Child Tax Credit
- Universal Credit
- Income Support
- Pension Credit
- Working Tax Credit
- Housing Benefit
- Income-based Jobseeker’s Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)

The application process will follow established procedures within Social Security Scotland, ensuring we reduce the barriers to claiming, promote take up, make the process as simple and straightforward as possible, and ensure clients are treated with dignity and respect. The expectation, as with the other benefits being delivered by the agency, is that people would have three channels by which they could apply: online, by phone, or via a paper form.

The application, which would be made by an individual on behalf of a household, will be as light touch as possible, and similar to the existing application for Best Start Grant, ensuring that only information that is required to make a payment is requested. This includes information on what qualifying benefit the client is in receipt of, which Social Security Scotland would then use to verify that the individual is eligible.

Policy impacts

As noted previously, the headline objective for the Scottish Child Payment is to help secure at least a 3 percentage point reduction in the relative child poverty rate (after housing costs) against the baseline. As shown in the table below, a payment of at least £10 per week, per child, could be expected to secure this.

In common with all the devolved benefits, we want to maximise take-up and ensure all eligible families are receiving the support they are entitled to. The Scottish Child Payment will be a key feature of future benefit take-up campaigns, and we will work closely with stakeholders to promote it widely.

Table 2 - Poverty impact, payments to children aged 0-16 in 2023/24

Illustrative weekly payment per child	**Change in children in relative poverty**	**Number of children eligible**	**Number of children reached**	**Of which: in poverty vs not in poverty**	**% of 0-16 children in poverty reached**	**% of children in poverty reached**	**Policy Cost**
£10	-30,000* (-3 p.p.)	410,000	340,000	45% vs 55%**	80%**	65%**	£180 million

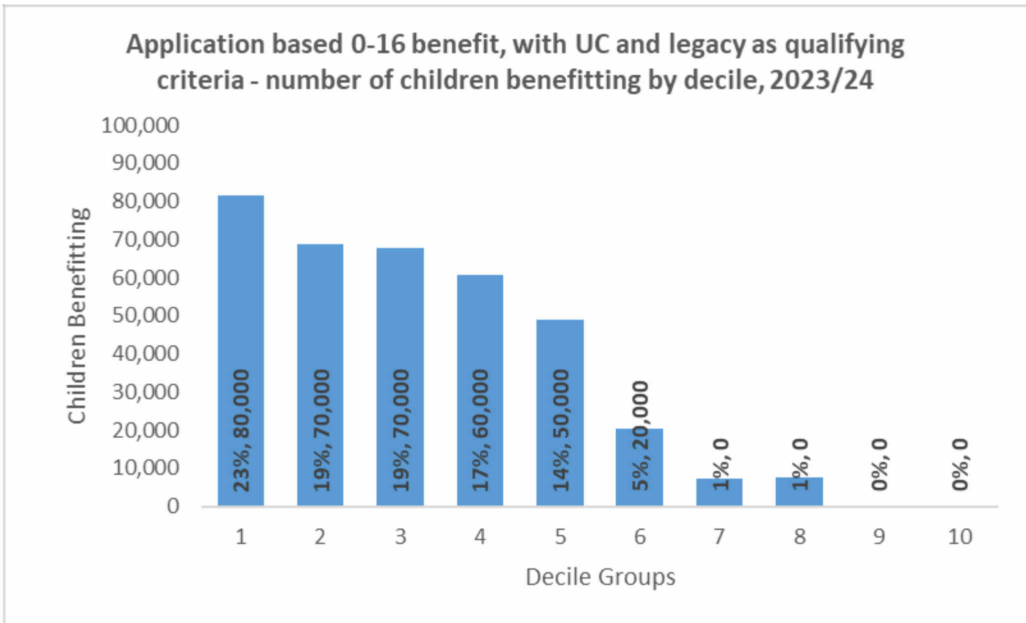
Source: Scottish Government's own analysis using DWP's Policy Simulation Model for Scotland
**The modelling assumes a take-up rate of 83% (which is the Child Tax Credits take-up)*
*** These ratios are subject to a high level of uncertainty due to the potential for take-up rates to differ across different household types.*

Distributional analysis

As shown in Table 2, to ensure that we reach as many children in poverty as possible, we also need to provide payments for children in households above the relative poverty threshold. Since a significant proportion will sit just above the poverty line, as well as lifting families over the poverty threshold, the policy helps ensure that those just above the threshold, perhaps on insecure incomes, do not fall into poverty. This should also help make progress towards the Child Poverty Act low income/material deprivation target, which uses a higher poverty threshold.

The chart below shows the distributional impact, and where children benefitting from the proposed Scottish Child Payment would fall across the income deciles[5]. With almost two thirds in the first three deciles, there is a clear progressive element to this policy.

[5] Decile analysis breaks the entire population of children in Scotland into ten equal groups.



Source: Scottish Government's own analysis using DWP's Policy Simulation Model for Scotland
** Due to rounding decile figures may not sum up to 340,000 children*

NEXT STEPS

Delivering a new benefit on the scale of the Scottish Child Payment inevitably comes with challenges. Further work will be undertaken over the summer to determine more detailed implications and considerations for delivery.

As with all our benefits, we will work in close partnership with the UK Government – especially the DWP, Treasury and HMRC – who will need to confirm, as per the Fiscal Framework, for example, that the payment will not be off-set by reductions elsewhere in the UK benefit system, that it will not be considered income for tax purposes and the benefit cap will be adjusted appropriately to accommodate the additional payment.

There is also a financial challenge for the Scottish Government. Clearly the Scottish Child Payment is a significant investment in our lowest income families, and that will have an impact on the Scottish Government's budget. The Scottish Government set out in our Medium Term Financial Strategy a commitment to a Spending Review. In committing to this new benefit, we will have to consider other spending priorities to ensure a balanced budget position. We will ensure the Scottish Parliament has the opportunity to scrutinise these spending commitments and priorities in the course of the Spending Review.

Finally, we will make progress on the legislative basis for the Scottish Child Payment. In recognition of the urgency to introduce the Scottish Child Payment, we will do so through secondary legislation, using our powers to top up reserved benefits. We will introduce regulations by the end of 2019 and these will be submitted to the Scottish Commission on Social Security for scrutiny to ensure early delivery of this payment to families with a child under 6 by March 2021.

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