

Independent Advisor on Poverty and
Inequality

Shifting the Curve

A Report to the First Minister

JANUARY 2016

ACKNOWLEDGEMENTS

In summer 2015, Nicola Sturgeon, the First Minister of Scotland, asked me to offer informed advice to her government on poverty and inequality. This report is the main output from my work to date. It has been informed by one-to-one conversations, group discussions, public meetings, and presentations; as well as by a wealth of research, data and analysis.

The central question in my meetings with people has been: how can we shift the curve? In other words, what actions could the Scottish Government (and others) take to significantly reduce the numbers of people living in poverty in Scotland? The report explores three main areas – in-work poverty, housing affordability, and young people’s life chances – and provides a series of recommendations about each of them. For reference a summary of the recommendations is provided at the back of this report.

It would have been impossible to produce this paper without a great deal of help and support. I’m grateful to everyone that I have met. I’ve been struck by the genuinely open and constructive approach that people have taken in engaging with me in my role as Independent Advisor.

Firstly, thank you to all those who have shared their expertise and experience. In particular, the Poverty Truth Commission and Marie Therese Martin, who gave so freely in sharing her experiences with me. I would also like to thank the people that I met on project visits, particularly those that attended the Haven Project discussion group; and Liz Dahl and Anna Flaherty of Circle for arranging the session. I’m also grateful to Professor Suzanne Fitzpatrick, Professor Annette Hastings, Professor Nick Bailey, Professor Glen Bramley, Professor Mark Stephens and Professor Ken Gibb, who shared their academic expertise, knowledge and research.

Secondly, thank you to the many Scottish Government officials, local government and third sector representatives and other individuals who again have been so helpful and supportive. And finally, a big thank you to Shirley Laing, the lead Scottish Government official for this work, and my Secretariat team – Adam Reid, Caro Cowan, Paul Tyrer, Alison Stout and Clare McIntyre – who have done a huge amount to support me in the development of this report.

While all the above made significant contributions to this report, the recommendations are mine, as an independent advisor. Any errors or misjudgements are entirely my responsibility.

I now have pleasure to pass this Report to the First Minister.



Naomi Eisenstadt CB

CONTENTS

| | |
|--|-----------|
| INTRODUCTION | 5 |
| HOW IS SCOTLAND PERFORMING ON POVERTY?..... | 5 |
| KEY FOCUS FOR THE PAPER | 6 |
| 1. IN-WORK POVERTY | 7 |
| 2. HOUSING AFFORDABILITY..... | 16 |
| 3. YOUNG PEOPLE’S LIFE CHANCES..... | 19 |
| 4. CROSS-CUTTING ISSUES..... | 23 |
| FINAL THOUGHTS..... | 25 |
| SUMMARY OF RECOMMENDATIONS | 28 |

INTRODUCTION

I've been given the task of advising the Scottish Government on reducing poverty – identifying what's already in place and is working well, what more could be done, and what's not working. In particular, I've been tasked with coming up with ideas for 'shifting the curve' – making serious proposals that could, in combination and over the longer term, move large numbers out of poverty.

This is a significant challenge. If there were easy solutions, governments would have introduced them years ago. But to make a start, this report to the First Minister proposes a set of fifteen recommendations. The recommendations have been informed by statistical and research evidence, by the views of stakeholders, Ministers and officials, and by testimony from the most informed experts of them all – people with experience of living in poverty. Recommendations fall into four main areas: tackling in-work poverty; young people's life chances; housing affordability issues; and cross-cutting issues.

I'm aware that some, though not all, of the recommendations I am making may have spending implications. I'm also aware that the Scottish Government has recently published its Draft Budget for 2016-17, and is likely to be publishing a Spending Review later this year. In the coming year, there's a real opportunity to think not just about the recommendations I've made, but more broadly – about how the Scottish Government spends its money, whether it could direct spend more effectively, and whether it could take decisions to shift and group together investment so it has maximum benefit for those on low incomes. This would likely mean some tough decisions, but tackling poverty does demand hard choices.

HOW IS SCOTLAND PERFORMING ON POVERTY?

Before I begin, it's worth offering some context on how Scotland has been performing over recent years on poverty. In many ways, it's a positive story. Despite austerity and recession, rates of relative poverty, before housing costs, speak of success of some kind: at 14% for all individuals in 2013/14; the same level for children and working age adults; and 15% for pensioners. These are, for the most part, better figures than for the UK as a whole, and low compared to recent years.

However, Scottish Government statisticians also publish relative poverty figures *after* housing costs (AHC), and this is a more important way of looking at poverty. Everyone needs somewhere to live and most of us need to find some way of paying for it. So this paper focuses on the AHC measure – despite the fact that 'before housing costs' is the headline measure at UK level.

And once housing costs are taken into account, Scotland's poverty figures are consistently better than the UK's. For children, for example, there's a six percentage point positive difference between the Scottish figures and the UK ones. The bad news is that the Scottish AHC poverty figures are still too high, affecting 18% of all individuals in 2013/14; 22% of children; 19% of working age adults; and 12% of pensioners (who do better mainly because many of them have low housing costs). The fact that these figures have stayed relatively flat over recent years could in itself

be considered a good result, bearing in mind the recent economic context. However, much more could be done.

The Scottish Government has already introduced a range of anti-poverty actions, particularly around welfare reform. It has fully mitigated the bedroom tax, plugged the gap in council tax reduction funding, set up a successful welfare fund providing crisis and community care grants, actively supported social housing, funded advice services, strengthened the educational maintenance allowance, and promoted the Living Wage. These policy decisions have been important in protecting people from poverty, or from a greater depth of poverty, and often they've had support across the political spectrum in Scotland. But at all levels of government more could be done, and this report offers some specific ideas.

KEY FOCUS FOR THE PAPER

In order to 'shift the curve' on poverty, I wanted first of all to identify groups with large enough numbers already in poverty, or at risk of it, to ensure that policy adjustments can bring about significant changes in poverty rates. This approach doesn't exclude, for example, disabled people or minority ethnic groups, who are often the most disadvantaged and may have additional barriers to face in escaping poverty. However, I don't intend to do detailed work on these groups at this stage. Suffice it to say that the implementation of many of these recommendations won't be successful unless due attention is paid to the specific barriers that some groups face, and the inevitable diversity of needs within, as well as between, groups.

I've identified two specific groups to focus on during my time as independent advisor:

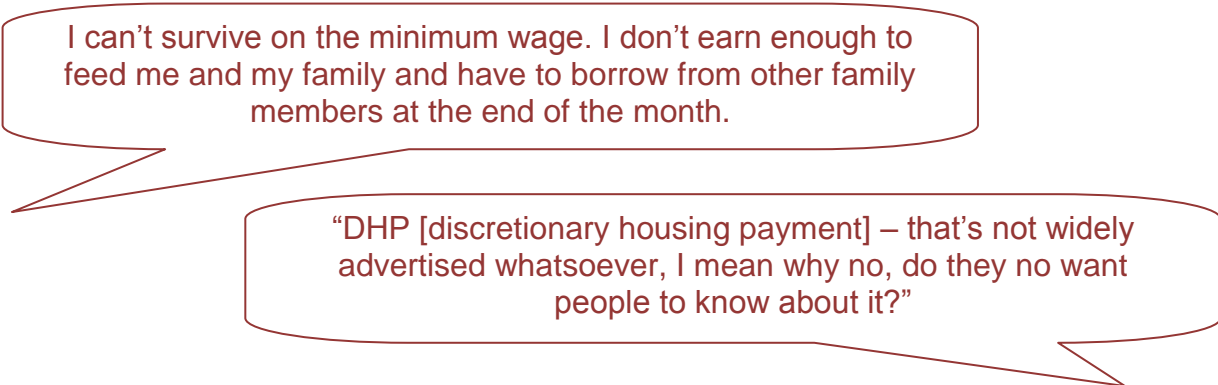
- **Those in in-work poverty** – They make up a large group of those in poverty. In the most recent year (2013/14), 50% of the working age adults who were in relative poverty after housing costs, and 56% of the children, lived in a household with at least one person in paid employment.
- **The life chances of young people (16-24)** – There's no doubt that the first five years of life lay down the foundations for future success. But we also now know that brain plasticity lasts well into early adulthood. Increasing dependence on financial support from parents at this age increases the likelihood of intergenerational poverty. And research shows that unemployment during this period can have a significant impact on future earnings potential¹.

And I've identified an additional area of attention which is important for both of these groups – **housing affordability**. As mentioned above, the gap between relative poverty before and after housing costs is large and persistent enough to warrant particular attention.

The report now considers each of these groups/areas in brief, and makes recommendations for the Scottish Government to consider. There are a couple of **cross-cutting** recommendations, too. Each section includes a couple of examples of **personal testimony** from people who are living in poverty. And I close the report with some final reflections.

¹ <http://www.bristol.ac.uk/media-library/sites/cmpo/migrated/documents/wp97.pdf>

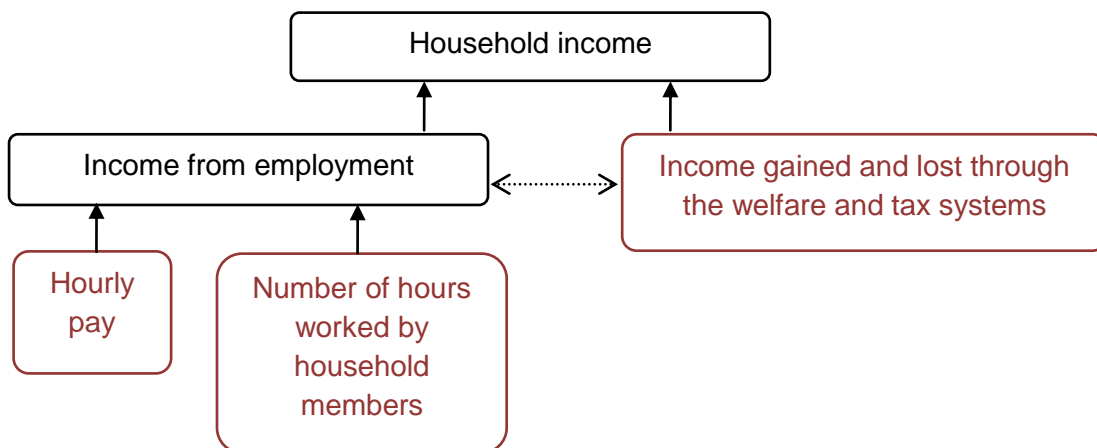
1. IN-WORK POVERTY



In-work poverty is a serious problem. In 2013/14, half (50%) of working age adults in relative poverty after housing costs were in 'in-work poverty'. That is, they were living in households with at least one adult in employment, and they were still poor. The same was true for more than half (56%) of children in poverty. Employment is regularly hailed as the way for people to get out of poverty. But for increasing numbers of people in Scotland, and the UK more generally, just getting a job has not meant getting out of poverty. This is a depressing picture, but it's one we need to hear about and talk about more.

Solving in-work poverty is not straightforward. There are a range of key factors driving it, as shown in Figure 1.

Figure 1: Factors driving in-work poverty



The narrative in the remainder of this section considers these drivers (the ones in red) and frames recommendations around each of them.

Hourly pay

RECOMMENDATION 1 - Build on Living Wage Accreditation – a focus on larger employers, and on incentives, would be useful

It might seem an obvious point, but low paid workers face a much higher risk of poverty than workers who are not on a low hourly pay. This means that attempts to raise hourly pay – for example, by encouraging employers to pay the Living Wage – are important.

The Scottish Government funds the Poverty Alliance to promote take up of the Living Wage Accreditation Scheme and increase the number of employers across Scotland paying the Living Wage. 439 employers had been accredited at the time of writing, which is really positive progress over a short time.

Stakeholders told me that the Scottish Government should take a more assertive approach to encouraging take up of the Living Wage. Progress in signing up employers has been positive and Scotland seems to do well on the living wage compared to the UK as a whole, with only the South East doing better. And even if the living wage isn't the answer to poverty wages on its own – because of how the tax and benefits system interacts with gross pay – it's clearly an important signal of intent, and research suggests it has a range of knock-on benefits.² With that in mind, more could be done.

Stakeholders' suggestions included using procurement more effectively to ensure that employers signing up to public sector contracts pay the living wage. Since those discussions, the Scottish Government published (6 October 2015) statutory guidance that requires all public bodies to consider whether it is relevant and proportionate to include a question on fair work practices (such as payment of the Living Wage, and addressing the inappropriate use of zero hours contracts) as part of the procurement process. The outcomes of this new guidance in terms of pay need to be monitored carefully.

More should also be done in particular to encourage more medium- and large-sized employers to pay the living wage. This is likely to be the best way of boosting the numbers of people who get the living wage, and larger organisations often have greater capacity to absorb costs. So it's great that large employers such as the Royal Bank of Scotland and Standard Life are paying the living wage. But what about other large employers? Of the 439 accredited employers in Scotland to date, only 11 are large private sector enterprises.³

Low pay industries such as retail and hospitality will need to absorb higher increases in their wage bills due to the planned rise in the UK adult minimum wage, to over £9.00 in 2020. Given this, they may well be harder to influence in the interim and may look less favourably on paying the living wage. But this doesn't mean to say that

² <http://www.gov.scot/Publications/2015/05/3374>

³ Scottish Living Wage Accreditation website <http://scottishlivingwage.org> accessed 2 Dec 2015. Large private sector enterprises are defined as those with over 250 employees. In March 2015, there were 2,295 large private sector enterprises in Scotland.

the Scottish Government and its partners shouldn't engage to promote longer term change.

However, low pay sectors are also more likely to have lower profit margins, so it would make sense, at least in the short term, to focus first on low pay in higher profit activities. These employers may respond best to the promise of reputational benefits, and this approach may ultimately have knock-on effects to the rest of the labour market.

RECOMMENDATION 2 - Encourage pay ratio disclosure as a way of tackling pay inequality

Pay ratios are one tool to provide transparency on the extent and scale of pay disparity between the highest and lowest earners in any one organisation. There has been some limited political discussion on this to date – for example via the Hutton Review on Low Pay in the Public Sector (2011).⁴ Hutton recommended that: 'The [UK] Government should not cap pay across public services, but should require that from 2011-12 all public service organisations publish their top to median pay multiples each year to allow the public to hold them to account.' In other words, Hutton did not seek to regulate public sector pay, *per se*, but rather to ensure that particularly large pay gaps had to be considered and explained. Following Hutton, most but not all public bodies in the UK are now required to report on pay ratios.

To move this agenda on further, the Scottish Government could now make public body pay ratio information available annually in one place, so that it can be subject to public scrutiny. Ideally, the declared ratio would also include contract staff, to encourage organisations to contract with employers who pay the Living Wage.⁵ The Scottish Government could also extend the requirement to report to all public bodies, although how local authorities report will need careful consideration bearing in mind the variety of staff employed.

The consequences for the private sector of widening gaps between senior management and workers' pay across the company hierarchy also merit further discussion. High income inequality damages economic growth, according to a number of experts, including the OECD, and has negative consequences for well-being and the cohesiveness of societies. This, in other words, is in everyone's interests to get right.

⁴ http://webarchive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/d/hutton_fairpay_review.pdf

⁵ This report from the New Economics Foundation is useful in that regard. http://b.3cdn.net/nefoundation/15c112d0bb14368496_ukm6ib653.pdf

Number of hours worked by household members

Poverty among working families is not always the result of low hourly pay. Less than half of UK adults in working poverty live in households where at least one earner was paid below the living wage⁶. Work intensity (the number of hours worked by household members) and household characteristics (such as whether there are dependent children) are the more important drivers in these cases. This has strong implications for designing anti-poverty policies. Any measure that targets only individual low-wage workers is likely to miss many of the working poor.

As table 1 shows, households only working part-time have high rates of poverty. Couple households where one person is working full-time but the other isn't in paid employment also have relatively higher rates of poverty. This is especially true when couples have dependent children. Among couples with one adult in full time employment and one not in employment, 21% of those with dependent children are in poverty, compared to 10% of those without dependent children. Households where all are in full-time employment, or a mix of full and part-time employment, have much lower rates of poverty, irrespective of whether they have dependent children or not.

Table 1 - Rates of relative poverty after housing costs, by family type and economic status, 2013/14⁷

| Employment status | Family type | % in poverty |
|---|-----------------------------------|--------------|
| Part-time employment only | Couple with dependent children | 47% |
| | Single parent | 15% |
| | Couple without dependent children | 29% |
| | Single adult | 26% |
| One in full time, one not in employment | Couple with dependent children | 21% |
| | Couple without dependent children | 10% |
| One in full time, one in part time employment | Couple with dependent children | 7% |
| | Couple without dependent children | * |
| All in full time employment | Couple with dependent children | 4% |
| | Single parent | 10% |
| | Couple without dependent children | * |
| | Single adult | 8% |

Source: Family Resources Survey (FRS), DWP

Note: * indicates cells where sample sizes are too small to provide robust estimates

The following recommendations focus on helping families to balance work and caring responsibilities, as a route to tackling in-work poverty.

⁶ <https://www.jrf.org.uk/report/monitoring-poverty-and-social-exclusion-2013>;
<https://www.jrf.org.uk/blog/increasing-minimum-wage-only-half-answer-poverty>

⁷ <http://www.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty>

RECOMMENDATION 3 - Ensure childcare commitments focus on quality to improve outcomes for children, and consider providing a limited number of free hours of childcare for primary school aged children

A lack of affordable, good-quality, and flexible childcare is a barrier for many parents who would like to work, or would like to work more hours. The Scottish Government increased the entitlement to free early learning and childcare (ELC) from 475 to 600 hours per year through the Children & Young People Act 2014, including extending this offer to vulnerable 2 year olds, and has pledged to increase this entitlement to 1140 hours per year by the end of the next Parliament – equivalent to around 30 hours per week if delivered during term time.

Research evidence on the role of publicly-funded ELC in promoting parental (and, in particular, maternal) employment is still developing. There appears to be a consensus that a more complex set of factors than childcare costs alone are at play, which condition women's roles and opportunities. Nevertheless, it's encouraging that, as ELC in Scotland has expanded, levels of female employment have risen. In April-June 2015, Scotland had the second highest female employment rate (70.6%) amongst the EU 28 countries (Sweden had the highest female employment rate at 74.0%)⁸.

But if the ELC is of poor quality, it won't deliver the school readiness goals that help ensure the next generation have the educational attainment necessary for higher skilled and better paid jobs. So investment in quality of ELC as well as affordability is crucial. International evidence confirms that low quality ELC disproportionately affects poor children's development. And the evidence also highlights the key role of practitioner qualifications and training in ensuring high quality.

A review that I contributed to on behalf of the Sutton Trust recommended that all staff working with funded two year olds be qualified to at least A-level standard and have support from a graduate practitioner, with improved pay to reflect improved qualifications. The recent review carried out by Professor Siraj on the Scottish childcare workforce also emphasised the importance of staff qualifications. Nursery managers in Scotland are required to have a childcare degree, and the Scottish Government has committed that, by 2018, every nursery in the most deprived areas will have an additional qualified teacher or childcare graduate.

However, while steps are already in hand to put higher qualified staff in poorer areas, more needs to be done to ensure early years practitioners are trained to the same standard as teachers of children in school, and pay and conditions differentials are ironed out. An added bonus of improving pay and conditions generally in the early years workforce will be the additional income for a largely female workforce on traditionally low wages.

⁸ Scotland and UK employment rates based on 15-64 year olds (non-seasonally adjusted) - Labour Force Survey, April-June 2015, 2. Eurostat (15-64 year olds for employment) (<http://ec.europa.eu/eurostat/data/database>).

Balancing the dual aims of providing high quality ELC that's also affordable and flexible enough for working parents on low incomes can be challenging. The Scottish Government is aiming to improve the flexibility of the free ELC it provides, to better suit parents' working patterns – for example, by providing the option of taking their available hours as full day sessions as well as half days, and of spreading the hours over the summer holidays as well as term time. For example, this could mean a child attending 2 long days per week, rather than five half days. While this flexibility helps part time working, inconsistent hours of childcare may reduce the school readiness benefits of attending childcare. While there is no evidence to confirm this risk, the evidence on the positive effects of early education and care has been measured mainly in children attending regular part day sessions four or five days a week.

One option is to provide each child with regular group-based care (e.g. four or five half days in a nursery) combined with wrap-around domestic-based care (e.g. provided by a childminder) as required. Children would get their experience of social groups, regular school routines and a learning curriculum in their nursery setting, and childminders would be supported to deliver the key elements of the home learning environment. So it's timely that the Scottish Government has announced plans to develop a new standard of best practice for childminders, including a new training and induction programme they'll be expected to complete prior to registration.

The Scottish Government should consider a programme of pilots to test a variety of ELC delivery models, in preparation for the expansion to 1140 hours free ELC entitlement. One specific model would be that of blended childcare provision, to assess if it's feasible and affordable (and subsequently, if it is, to evaluate the impact on child outcomes). It would require a provider, ideally a children's centre or childminder agency, to match children with childminders willing to have two or three children in the morning and two or three in the afternoon. It would also require some flexibility on ratios at hand-over time, or longer half day sessions in group care. The childminders ideally would be salaried, and parents would pay one agency for all the care their child received over and above their allowance of free hours of childcare. This model would be particularly appropriate for two year olds eligible for the free fifteen hours, but also good for older pre-school children.

Many parents find childcare for school aged children is as much, or more, of a challenge as care for under 5s. The Scottish Government could ask one or two local authorities to pilot a comprehensive out of school hours service from school buildings. The service need not be delivered by school staff, but could be subcontracted to a social enterprise or voluntary organisation. Having use of the building and sharing cleaning and heating costs would reduce the price of the service to parents. Out of hours school-based childcare should be less expensive to deliver: the qualifications of staff are less critical than in early years settings, as children will be spending most of their day with qualified teachers; and staff/child ratios are less stringent than those for younger children. As part of these local pilots, the Scottish Government may consider offering some free childcare to school aged children. Lone parents in particular are more likely to seek employment as children enter school.

RECOMMENDATION 4 - Make family flexible working more explicit within the Business Pledge, and consider whether approaches such as the Timewise programme could promote flexible working in Scotland

The importance of family-friendly working in tackling in-work poverty has been somewhat underplayed in the political narrative to date, and employers, particularly in the private sector, can definitely do more. It's not only good for their employees; the evidence increasingly shows it's good for them too⁹.

The Scottish Business Pledge is a voluntary commitment by private and third sector employers to adopt fair and progressive business practices. To make their Business Pledge, an employer has to be paying the Living Wage, already delivering at least two other elements from the following list, and committed to achieving the rest over time:

1. Paying the living wage
2. Committing to an innovation programme
3. Pursuing international business opportunities
4. Not using exploitative zero hours contracts
5. Supporting progressive workplace policies
6. Supporting Invest in Youth
7. Making progress on gender balance and diversity in the workforce and boardroom
8. Playing an active role in the community
9. Paying suppliers promptly

At the time of writing, 186 employers had signed up since the end of May 2015, when the Business Pledge website went live.

The development of the Business Pledge is welcome. But to get employers to think differently – not just about poverty, but also about the range of underlying drivers – it would be useful to make 'Family Friendly' a more explicit priority within the overall package. Elements I'm keen to see highlighted include promoting best practice on parental leave / terms and conditions; supporting employees to access their social security entitlements; being flexible in the face of childcare issues; and having flexible work schedules that fit with local transport constraints.

There are other ideas on flexible working that could benefit employers and employees. Timewise, a social enterprise that provides consultancy and recruitment services to employers, delivers a continuous improvement programme to help local authorities and other employers identify, adopt and share best practice in flexible working. At the end of the programme, employers have a structured improvement plan with clear actions – to drive change in flexible working, flexible hiring and flexible commissioning; and to use learning externally to influence employers to stimulate a more flexible local labour market for residents.

⁹ http://www.workplacechange.org/resources/0000/0682/WPU-OP-01_Flexible_Working_Benefits.pdf

Recent research from the Centre for Economics and Business Research found that flexible working could add £11.5 billion to the UK economy through more productive use of hours¹⁰. Larger corporate businesses working with Timewise to implement and manage workplace flexibility have already seen an estimated £15m in financial benefits per annum through improved productivity, reduced travel and real estate costs and improved staff attraction and retention. It would be useful to consider whether Timewise approaches could be expanded in Scotland to grow the number of family-friendly workplaces.

Income gained and lost through the welfare and tax systems

Hourly pay and number of hours worked are crucial factors in determining whether a household is in poverty or not. But how household incomes are topped up through tax and benefits systems is also crucial.

RECOMMENDATION 5 - Do more to ensure that people claim the benefits they are entitled to

We know that some people who are entitled to benefits don't claim them. For example, although Scotland-level statistics aren't available, we know that at the UK level it's estimated that as many as 45% of those entitled to income-based Job Seeker's Allowance don't claim it. The reasons for this are varied: they may be unaware of the existence of the benefit or their entitlement to it, or they don't know how to apply; the application process may be too complex or time consuming; and social barriers, including a sense of stigma, or a lack of trust in the administering institutions, can also stop people applying.

A range of advice services around benefits are already in place in Scotland, including through Citizen's Advice Scotland, and the Making Advice Work programme run jointly by the Scottish Legal Aid Board and the Money Advice Service. The Scottish Government and its partners should build upon these services to develop a strategic programme of activity. This would be based upon evidence on levels of uptake for the different benefits, the characteristics of those who don't claim but who could, particular barriers to uptake, and what can be done to address these.

RECOMMENDATION 6 - Make effective use of new social security powers but proceed with caution

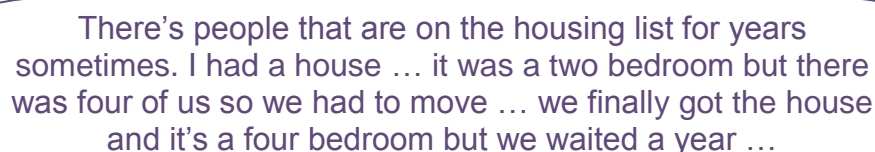
The UK Government's proposals on removing £12 billion from the welfare system over the course of this UK parliament are obviously worrying on a number of levels. The Scottish Government could seek to mitigate any changes it felt unhappy with - as it has (very positively) with the bedroom tax. Plugging Scotland's share of any £12 billion gap with mitigation will, however, be expensive. It will probably not be possible. And the challenge for a fixed budget is making sure that plugging the gap doesn't mean withdrawing money from services or other support vital to those on low incomes.

¹⁰ <http://www.cebr.com/wp-content/uploads/2014/12/UK-Citrix-Report.pdf>

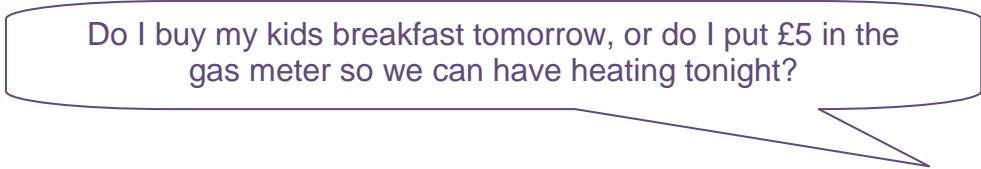
The social security benefits being devolved largely provide either universal financial support to people who are not in work or targeted support to specific groups of people (e.g. pregnant women or carers); disabled people on low incomes may be helped by the transfer of responsibility for certain disability benefits.

The 'new benefits' clause in the Scotland Bill is a wide power which could be exercised in a number of ways. Whatever choices the Scottish Government makes in the future, it should proceed with caution in the exercise of those powers, given the complexity of devolving part of what is a heavily integrated UK benefits system.

2. HOUSING AFFORDABILITY



There's people that are on the housing list for years sometimes. I had a house ... it was a two bedroom but there was four of us so we had to move ... we finally got the house and it's a four bedroom but we waited a year ...



Do I buy my kids breakfast tomorrow, or do I put £5 in the gas meter so we can have heating tonight?

Housing costs push many in Scotland into poverty. This is clear from the gap between poverty measured before and after housing costs. Around 290,000 people (working age adults and children) were in in-work poverty before housing costs, but around 420,000 people after housing costs were taken into account.

This means that any attempt to tackle in-work poverty also needs to consider housing-related costs. The focus of this needs to be on core costs like rent and local property-related taxes, and home energy costs, and these are the focuses of my recommendations here.

RECOMMENDATION 7 - Build more social housing

Stakeholders repeatedly raised affordable housing with me as a key issue and it's apparent that the Scottish Government has been taking positive action to increase affordable housing supply on a number of fronts. For example, the ending of Right to Buy sends a strong signal of intent about the importance of local authority housing and the social sector. If, as government estimates suggest, the policy will lead to 15,500 social homes being retained over a 10-year period, then this is a very positive development – and a profoundly different picture from England.

The target of the Affordable Housing Supply Programme is to provide 30,000 affordable homes over this parliament, including 20,000 for social rent. It has now been announced that this target has in fact been met, several months before the deadline. The programme's allocation formula, which takes into account factors such as deprivation and homelessness, is also positive. However, some stakeholders told me that the current target is insufficient and that more social housing, in particular, is needed.

Therefore, the recent commitment by the First Minister to increase the target for social housing to 35,000 homes over the next parliament, as part of a broader affordable homes target of 50,000, is very welcome. This would appear to match the suggestion by the Commission on Housing and Wellbeing for an additional 7,000 social homes for rent per year, which was specifically raised with me by academics from Glasgow and Heriot Watt Universities. The challenge is now to build the social homes in the numbers promised and to make sure that the social infrastructure to build successful communities is also adequately funded.

RECOMMENDATION 8 - Ensure fuel poverty programmes are focused to support those on low incomes, and do more to tackle the poverty premium in home energy costs

Another major investment by the Scottish Government is the Home Energy Efficiency Programmes for Scotland (HEEPS): which installed over 34,000 energy efficiency measures in 2013/14. This is obviously welcome as part of a strategy to address fuel poverty, as domestic energy costs are still a considerable part of household expenditure and anything that lowers bills is welcome.

However, questions have been raised about whether the definition of fuel poverty is helpful in terms of targeting this spend at the poorest. I have seen analysis that indicates that over half of all ‘fuel poor’ households probably wouldn’t be classified as ‘income poor’ in terms of relative poverty measures¹¹. This suggests to me that the fuel poverty definition needs to be looked at again – so that future programmes focus more specifically on helping those in fuel poverty who are also in income poverty.

Many stakeholders, particularly people with experience of poverty, told me that there was a ‘poverty premium’ in domestic energy costs (space and water heating): people on low incomes are paying more for their home energy simply because they are poor. Expensive pre-pay meters, reluctance to switch from their current supplier in case the next supplier was more unhelpful, difficulties getting the best deal because of problems associated with direct debit – these barriers all contribute to the difficulty of meeting energy costs. I realise that the Scottish Government has limited powers here, but lower energy costs seem to me crucial to reducing deprivation, and more could be done in some areas – for instance, on encouraging people to switch energy providers.

RECOMMENDATION 9 - Be bold on local tax reform

The SNP Government has been signalling changes to the council tax since its first term in office. The current policy platform includes a council tax freeze and council tax reduction, interventions which jointly protect all households from increasing council tax bills, but at a cost, and with disagreements about the equality and poverty impacts of the freeze. Stakeholders pointed out to me that the cumulative cost of the freeze in 2015/16 is £560 million; and that over the period 2008/09 to 2015/16, the freeze has cost £2.5 billion. The Scottish Government’s recent Draft Budget proposed continuing with the freeze for 2016/17, but there is a real opportunity in the next parliamentary term, because of last month’s report by the Commission on Local Tax Reform, to do things differently.

The Commission recommended that there should be reform to the current system of council tax. This is very welcome - the council tax is widely viewed as no longer fit for purpose. I do not have a clearly worked out position on what the new system should look like. But I do recognise that this is a central moment of political decision, an opportunity to introduce a much more progressive system, one that will have

¹¹<http://www.gov.scot/Topics/Built-Environment/Housing/warmhomes/fuelpoverty/ScottishFuelPovertyForum/briefingnote>

important implications, particularly for working households at or just above the poverty line.

Many stakeholders told me that the Scottish Government's commitment to plug the 10% funding gap for council tax reduction has been vital in protecting the incomes of poor households – and, of course, these households must continue to be protected in any new system. But it is those on low incomes at or above the poverty threshold, who may not be covered by full council tax reduction, who should be the main beneficiaries of any change in approach. The OECD has stressed the importance of supporting the incomes of the bottom 40% of the income distribution in order to tackle income inequality effectively¹². So local tax reform is a real opportunity to protect the incomes of both the working poor and those at risk of in-work poverty. But it will require boldness and vision.

Of course, any reform of council tax is likely to take some time – and it's worth taking time to make sure the system is going to be genuinely progressive and effective. In the meantime, the Scottish Government should consider ending the council tax freeze from 2017/18 onwards. Many stakeholders told me that this would make a contribution to protecting the public services that are particularly supportive of families in poverty.

In closing this section, I should also say that stakeholders had praise for a range of community and housing-related interventions that the Scottish Government has introduced. Welfare reform mitigation was seen as particularly important – for example, I heard that the Scottish Welfare Fund is performing much better than local equivalents in England at helping people in crisis and/or in need of support locally. This fund provides crucial practical support, enabling people in crisis to buy essential items for running a home. Approaches to homelessness at national and local levels were also seen as more person-centred and holistic than elsewhere. In other words, the action the Scottish Government has already taken provides a firm basis for tackling poverty effectively.

¹² http://www.oecd-ilibrary.org/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en

3. YOUNG PEOPLE'S LIFE CHANCES

She just wanted money for her birthday so she could put it towards her school trip to the outdoor centre. And I just felt so sad that that's what she had to ask for – for her birthday. Children should be children and not have that worry.

Growing up was really hard because my mum's disabled, and she's ill quite a lot. I became a young carer when I was about 13 ... I had to cook and clean and, when mum couldn't do something like shopping and stuff, I had to do it. When I came home from school, I had to practically be a parent, but to my mum. I had to do everything, and fit in my homework when I could.

Over the last twenty years, a significant shift has occurred in how we view early childhood. It is now widely accepted that the first five years of life lay down the foundations for future success. However, this important emphasis on early years has not been matched with a similar narrative on older children, particularly the period from mid-teens to early adulthood. While Sarah Jane Blakemore's groundbreaking work has established that brain plasticity lasts well into early adulthood, and other research has looked at risk and resilience in this group, there has been no comprehensive examination of the evidence about 'what works' for adolescents and young adults.

Young adulthood is probably one of the most challenging periods in the life cycle. It is a period when parents have less influence on their children's behaviour as peers become increasingly important, and when the likelihood of risky behaviour is high. Increasing dependence on financial support from parents at this age increases the likelihood of intergenerational poverty. Some parents simply cannot afford the support offered to children that is increasingly common in better off families: private tuition, culturally enriching holidays, and deposits for a first home.

With this in mind, this next section of my report looks at young people's life chances.

RECOMMENDATION 10 - Carry out a comprehensive review of policies and services relevant to the life chances of older children and young adults, with particular emphasis on young people from poorer backgrounds

The Scottish Government should commission a wide ranging literature review of the research concerning young people's life chances, and carry out a comprehensive internal review of policies, interventions, and mainstream services for young people, from secondary school age through to young adulthood: physical and mental health, access to sports and leisure, education, employability and training. Does the effort and expenditure on the less advantaged match that on the most advantaged?

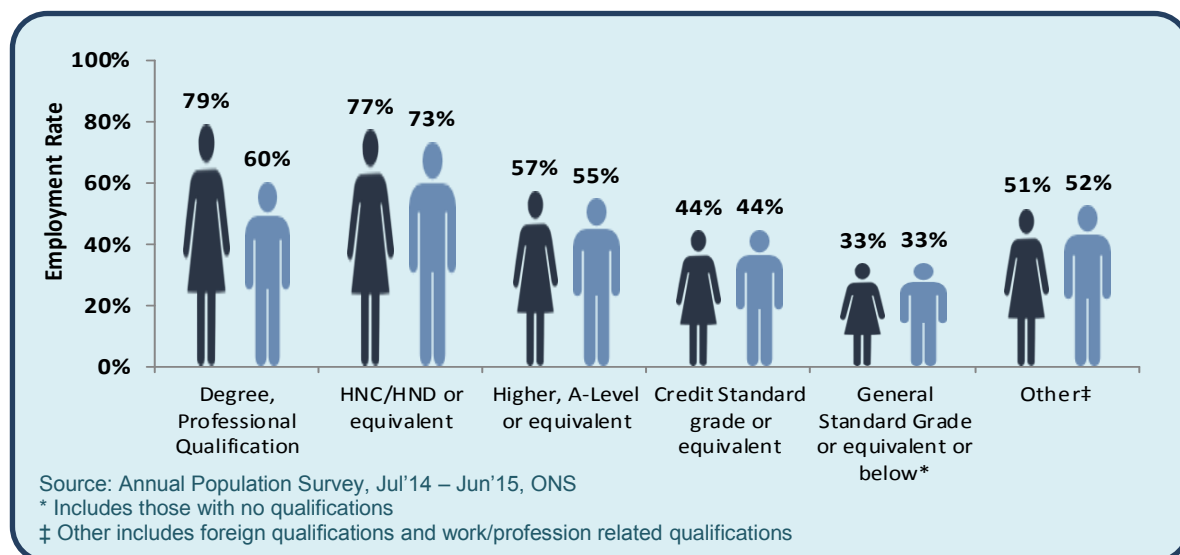
A developed understanding of what constitutes well-being is essential for this group who are often physically healthy and therefore not likely to come into contact with health services, but often have high levels of mental illness including depression, self-harm, and anti-social behaviour. This issue was recognised in the Draft Budget, with additional funding made available for child and adolescent mental health services. However, an overarching review would try to establish how to reduce the incidence of mental health problems in young people, and look more broadly at the relative contribution that family support, leisure and sports provision can make to improving well-being.

As in earlier reviews by the UK Government on under 5s, the Scottish Government has a chance to rethink the way we approach young adulthood, with particular reference to those less likely to go to university and enter lucrative careers. Action is already in hand on employment matters raised in the next three recommendations, as a result of the Wood Commission and Developing the Young Workforce, Scotland’s Youth Employment Strategy. However, they need a stronger sense of urgency while the above suggested overarching review is in train.

RECOMMENDATION 11 - Reduce the number of government-supported employment programmes targeting 16-24 year olds and simplify the landscape, to provide a clearer, sharper focus

Worklessness for the under 25s is a critical issue to be tackled. Research shows that unemployment during this period can have a significant impact on future earnings potential¹³. Youth unemployment is significantly higher than unemployment in general, and the proposed changes to the minimum wage may have both good and bad effects: incentives exist for employers to hire this group, but most likely in low skill jobs that may be insecure.

Figure 2 – Young people’s employment and qualification rates



As figure 2 shows, young people in Scotland with further or higher education qualifications have higher employment rates than those with lower qualifications. The

¹³ <http://www.bristol.ac.uk/media-library/sites/cmpo/migrated/documents/wp97.pdf>

Scottish Government invests significant public funding in those who pursue a school to university route, and Scotland has world class higher education. However, comparable efforts must be made to ensure that all young adults are supported into a wide range of valuable routes into work that avoid lifetime disadvantage.

In many ways, Scotland has a positive story to tell in terms of supporting young people into work. The latest statistics suggest that positive school leaver destinations are at an all-time high¹⁴, the target for Modern Apprenticeship starts has been surpassed for each of the last six years¹⁵, and 92% of modern apprentices who completed their apprenticeship were still in work six months later¹⁶.

However, as table 2 shows, youth unemployment remains challenging. Of all 16-24 year olds unemployed and not in full-time education, around two thirds are male, one-third female.

Table 2: Proportion of all 16-24 yr olds unemployed and not enrolled in full-time education, by gender

| | Jul '08 - Jun '09 | Jul '09 - Jun '10 | Jul '10 - Jun '11 | Jul '11 - Jun '12 | Jul '12 - Jun '13 | Jul '13 - Jun '14 | Jul '14 - Jun '15 |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Male | 62% | 61% | 63% | 62% | 66% | 60% | 66% |
| Female | 38% | 39% | 37% | 38% | 34% | 40% | 34% |
| Unemployed 12 months + | 18% | 24% | 28% | 30% | 29% | 33% | 28% |

Source: Annual Population Survey, ONS

Note: Percentages show proportion of total (16-24) unemployed and not in FT education.

Scotland already has a vast array of support programmes for young people's employability. For example, I've been told about Modern Apprenticeships (including Foundation Apprenticeships), Community Jobs Scotland; the Employability Fund; Scotland's Employer Recruitment Incentive; and the In Work Support Package. There are many more.

This suggests a lack of focus. All these programmes are, I'm sure, worthwhile – but there must be opportunities to build on the current efforts of Developing the Young Workforce, Scotland's Youth Employment Strategy, for a more consolidated approach. Young people need clear, simple messages about the choices and consequences of their choices, and about the kinds of support available to help them decide their options and pursue their goals.

RECOMMENDATION 12 - Ensure that the new approach to employer engagement in education is having an impact on improving skills for work of young people

Students in secondary school who are university bound have a clear route laid out, with advice and support on choice of subjects, appropriate courses, and a relatively

¹⁴ Summary Statistics for Attainment, Leaver Destinations and Healthy Living, Scottish Government, June 2015

¹⁵ Modern Apprenticeship Statistics, Skills Development Scotland, June 2015

¹⁶ Modern Apprenticeship Outcomes, Skills Development Scotland, 2012

clear transition from living at home to living independently. Those not university bound have traditionally had little exposure to the world of work until near the end of their school career.

Addressing the needs of this group will require some consideration of the role that schools currently play in preparing young people for work, in ensuring as much effort is expended on the non-academic as the academic, and developing collaboration with employers on skills gaps well before school leaving age.

The fundamental relationship between what is taught at school and what skills are needed in the local economy is weak. More opportunities for work experience, better consultation with employers on skills shortages, and a more systematic linking of education and employment could improve both the local economy and the chances for young people leaving school. Some of these actions are already in train, through the establishment of regional 'Developing the Young Workforce' groups.

RECOMMENDATION 13 - Do more to tackle occupational segregation

The Scottish Government has committed to provide 30,000 new Modern Apprenticeship opportunities every year by 2020. The programme has a lot to commend it. Efforts are made to collect rich data to help keep track of how the programme is doing overall. And because of that data, officials are fully aware that more needs to be done to tackle under-representation on the programme. It's positive that Developing the Young Workforce, Scotland's Youth Employment Strategy, is helping progress this.

However, the fact remains that much less is spent on skilling up (mainly young) women from the programme than is spent on (mainly young) men. The overall level of qualifications gained by young women is lower than those gained by young men. And the average pay of young women emerging from the programme is likely to be lower than the pay of young men.

Reducing occupational segregation is crucial for genuinely inclusive growth. Occupational segregation is not something that the Scottish Government or its partners can easily fix. It's going to take time to make real progress, but a proper start has to be made. The Scottish Government should set out how it and its partners can target their effort and resources to areas where it is most likely to deliver better outcomes by gender, but also in terms of disability and ethnicity. It's positive that Skills Development Scotland has recently published an Equalities Action Plan for Modern Apprenticeships, and that the Scottish Funding Council will do likewise for the further and higher education sectors, backed by Scottish Government investment. A close eye will be needed on performance monitoring, to identify both early impacts and areas where not enough is being achieved.

4. CROSS-CUTTING ISSUES

Respect is at the heart of it, it's the change we need to make first. The way people are shown on TV for example, as relying on benefits or food banks, they aren't shown with dignity. If we don't treat everyone with dignity, we have to ask what kind of society do we want to live in?

I felt small, simply because I was poor did not mean I should have no choice, I want to be happy.

These two final recommendations are about how public services are delivered, and about the policy making process itself. Both of these involve difficult challenges in terms of culture change: do we really value all citizens equally, and do we actively consider the needs of the most disconnected when designing policies and delivering services?

RECOMMENDATION 14 - Ensure that public service delivery is respectful, person-centred and preserves the dignity of people in poverty: pre-employment and in-service training should include the importance of avoiding stigma and developing understanding of the challenges of living on a very low income

A recurring theme in my many meetings with people in poverty, academics and the voluntary sector was how people felt about the services they received. This has also been a recurring theme in the consultation on a Fairer Scotland. Many people spoke about one fantastic teacher, or health visitor, or housing officer. Sadly, these were the exception, and the speakers who commented on very good experiences were always both surprised and enormously grateful. More often, people felt ashamed, belittled, and exhausted with the effort required to get basic needs met.

Some ethnic groups are more likely to be living in poverty, so may have a higher dependence on a public service that fails to meet their needs. Disabled people, likewise, are often denied access to the full range of services that most of us take for granted. An inclusive public service needs to be flexible enough to meet a variety of needs, without making assumptions about any individual's requirements. It is as unhelpful to assume a need where one does not exist, as to deny support where it is needed.

It's very difficult to deliver services that are under constant strain. After my poverty lecture in Glasgow, a DWP manager approached me asking how he could change the culture of the staff he manages, given the pressure they're under to meet targets. Nonetheless, much more effort could be made to provide in-service and pre-employment training to ensure that public services are provided with courtesy and respect for the user. It's likely that such a culture change would improve staff morale as well as the services themselves.

RECOMMENDATION 15 - Commence the socio-economic duty in the Equality Act 2010, when powers are available to do so

Stakeholders also suggested that Scottish Ministers should commence the socio-economic duty, currently in the Equality Act 2010, as soon as practicable. The duty seeks to ensure that all policies are evaluated through the lens of social and economic circumstances. It is ironic that under the Equality Act 2010, all groups are 'protected' save the largest group that encompasses huge numbers of the individuals in the protected groups: people in poverty. Particularly in terms of gender, race and disability, rates of poverty for these groups are higher than for the general population. As stated above, services that perceive themselves to be 'gender neutral' or 'race blind' are unlikely to deliver a high quality service. A framework already exists for policies to be screened for their impact on different groups, but not for their overall impact on poverty. Given the clear overlap between the aims of the equality and anti-poverty agendas, more could and should be done to link them.

Critical to the duty's success in practice will be buy-in from public bodies and from people on low incomes, who will need reassuring that their best interests are actually being protected. So it would make sense to develop guidance collaboratively – across the range of stakeholders – as to how the duty should ultimately be framed. Public bodies already report on equality duties, so there should be benefit from building upon existing mechanisms when developing the socio-economic duty.

FINAL THOUGHTS

The recommendations in my report will not solve the problems of poverty and inequality on their own, particularly if welfare reform continues on the same track as in recent years. But, if implemented well, these ideas should make a contribution to shifting the curve. I've tried to look at ways to increase income to families by improved wages and hours of work, and to reduce their expenditure by looking at housing costs, childcare costs and fuel costs.

I've met with a very wide range of people in the course of this work, most of whom are very positive about the Scottish Government's commitment to an anti-poverty agenda. But it has been frequently stressed that alongside policies that can reduce the numbers of people in poverty, policy should also address the lived experience of people in poverty, especially in their contact with public services. Comments were made not only about the accessibility of public services, but also on the need for them to be delivered with respect for the end user, protecting the dignity of the citizen.

Tackling inequality is particularly hard. Increasingly, pensioners are enjoying the benefits of a strong economy of the past, and carry the least burden of current weaknesses. Progressive taxation, including inheritance tax, while unpopular with some groups, offers clear routes to a fairer and a more just society.

While family income is critical in tackling poverty, public services are also crucial in mitigating the impact of poverty and creating a fairer society. There's ongoing debate about which public services, and which income transfers, should be targeted, and which should be universal. In times of financial constraint, it's particularly important to test whether public money is being spent effectively to meet key policy goals. Universal access can sometimes be no more expensive, avoiding the bureaucratic costs of testing eligibility. However, universal can also mean spreading a limited budget too thinly to help those who need the service the most, and making little difference for those who need it less but choose to use it. Irrespective of the fiscal climate, tax-payers' money should be spent on trying to level the playing field, not, as is sometimes the case, reinforcing ongoing disadvantage.

These are contentious issues, but there may be ways through the log-jam. It would be very useful to have a clear and shared understanding of what a progressive, or as Michael Marmot would have it a 'proportionate', universal system would look like in practical terms. I would be interested in engaging in further debate about this in Scotland, as it seems to me to be key to developing anti-poverty policies.

Area-based open access services represents a third option between universal and targeted services – this is in place in a limited way in the UK but could be expanded; again more debate on this would be useful. It makes sense to put services in areas where people need them the most, and have most difficulty taking up the services. While education is for all, we should be putting family support services into schools in the poorest areas. Smoking reduction services should be available in GP surgeries in the poorest areas, where smoking rates are highest.

The final two recommendations in this report are highly relevant to this debate. One of the arguments for universalism is the stigma often associated with targeted services. I recommend in this report better training for front line staff in treating service users with dignity and respect. The stigma often associated with targeted services is sometimes the result of the way users of targeted services are treated. This was raised in all the meetings I had with people in poverty. Yet I know it is possible for targeted services to be delivered without stigma: services for poor people do not have to be poor services. Indeed one of the key achievements of Sure Start was the creation of an intervention specifically aimed at disadvantaged families living in poor areas that everybody wanted.

The final recommendation, on commencing the socio-economic duty in the Equality Act 2010, would enable a good test on the universal vs targeted debate. This is, of course, a more complex issue than the binary terms in which it is often presented, but I'm absolutely clear that modelling the impact of any change to the delivery of services or benefits, or indeed new services, should be tested against the likely impact on the most disadvantaged.

A fundamental issue for Scotland, which underpins the implementation of a number of the recommendations, is the nature of the economy: are there enough well-paying jobs? The recommendations about improving vocational education and training will not be helpful if the jobs do not exist. The nature of the job, and the industry, determine rates of pay and skill requirements. Encouraging or mandating payment of higher wages needs to be complemented by working with employers to improve employment practice, boost innovation and drive up their demand for skilled workers. This should, in turn, support higher productivity, creating greater capacity to pay higher wages. Increasing hours of work on minimum wage will increase family income in the short term, but does little to ensure in work progression. The evidence tells us that workers who are low paid in one period are much more likely to be low paid later in life, and are less likely to be offered training by their employer. And many organisations and sectors lack clear career pathways or 'ladders'.

The long-term goal must be to move towards a genuinely different economic model, based on inclusive growth. Scotland has already committed to an inclusive approach in its most recent economic strategy, and this is to be welcomed. However, the devil's in the detail, and it's really important to be clear what exactly is meant by 'inclusive growth' and how this approach promotes equality, tackles inequality and alleviates poverty.

Competitiveness and reducing inequality are not fundamentally opposed. In fact, increasingly the evidence shows that inequality is bad for the economy¹⁷. If we don't address poverty and inequality now, in the long term we will have a less prosperous economy. As one person told me, it's not just about ensuring that the pie is distributed more evenly amongst all members of society, but ensuring that all members of society are supported to contribute to making the pie bigger. This means that people are supported into work, removing the barriers to participation in the labour market where possible, and the jobs that people have are fairly paid, and offer

¹⁷ http://www.oecd-ilibrary.org/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en

security and prospects. It also means increasing the importance placed on the wider social responsibilities of organisations. An inclusive economy should see an end to in-work poverty, the development of a more diverse workforce, the creation of new modes of employment, and paths for progression for new, young entrants to the labour market. The recommendations in this paper start to outline some of the steps that are needed to move towards this model.

SUMMARY OF RECOMMENDATIONS

In-work poverty

1. Build on Living Wage Accreditation – a focus on larger employers, and on incentives, would be useful
2. Encourage pay ratio disclosure as a way of tackling pay inequality
3. Ensure childcare commitments focus on quality to improve outcomes, and consider providing a limited number of free hours of childcare for primary school aged children
4. Make family flexible working more explicit within the Business Pledge, and consider whether approaches such as the Timewise programme could promote flexible working in Scotland
5. Do more to ensure that people claim the benefits they are entitled to
6. Make effective use of new social security powers but proceed with caution

Housing affordability

7. Build more social housing
8. Ensure fuel poverty programmes are focused to support those on low incomes, and do more to tackle the poverty premium in home energy costs
9. Be bold on local tax reform

Life chances of young people, aged 16-24

10. Carry out a comprehensive review of the policies and services relevant to the life chances of older children and young adults, with particular emphasis on young people from poorer backgrounds
11. Reduce the number of government-supported employment programmes targeting this group of young people and simplify the landscape, to provide a clearer, sharper focus
12. Ensure that the new approach to employer engagement in education is having an impact on improving skills for work of young people
13. Do more to tackle occupational segregation

Cross-cutting

14. Ensure that public service delivery is respectful, person-centred and preserves the dignity of people in poverty: pre-employment and in-service training should include the importance of avoiding stigma and developing understanding of the challenges of living on a very low income
15. Commence the socio-economic duty in the Equality Act 2010, when powers are available to do so



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