Scottish Child Payment and the Labour Market

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Riaghaltas na h-Alba

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Executive Summary

1. Scottish Child Payment (SCP) is a successful anti-poverty policy providing a vital and regular income source to hundreds of thousands of low income families in Scotland each year.

2. SCP is a "top up" benefit, qualified through Universal Credit (UC) and other benefits administered in Scotland by the Department for Work and Pensions (DWP). Eligibility for UC is determined by earned income with awards tapered to zero in line with increases in earnings from employment. When someone's earnings rise above a certain limit and they are no longer eligible for UC, or for any other reason they lose eligibility for UC, they are also no longer eligible for SCP. As with other means tested benefit payments, clients could have a financial incentive to not earn so much through paid work that eligibility is lost.

3. Stakeholders have discussed the interaction between SCP and work incentives in different forums and in January 2024 the Poverty and Inequality Commission recommended[1] the Scottish Government publish analysis of any impact of SCP on labour market participation. **This report explores what is known about how SCP interacts with the labour market in Scotland** and theory and evidence of how clients' labour market choices could be affected by SCP.

4. Identifying and measuring SCP's overall effect on the labour market is challenging due to the limitations of available data to capture the labour market outcomes of SCP clients specifically and to identify causality between those outcomes and receipt of SCP. However, labour market economic theory and empirical evidence can inform how SCP interacts with labour market choices.

5. Marginal Effective Tax Rates (METRs) are used to reflect the overall net financial gain to labour market participants of their labour market choices. These reflect the proportion of an extra £1 of gross earnings that is lost due to tax rates, other deductions, and knock on effects to benefit income. **SCP awards are not tapered, so for some SCP clients METRs can be very high when at the margin of losing underlying benefit eligibility (e.g. UC) and their full SCP award.** It is likely this is a more significant issue for households with larger families and more children, who have the potential to lose more SCP income.

6. However, METRs are not the only influence on labour market decisions. For parents and carers with children, the opportunity cost of working (the foregone utility of the next most optimal use of that time) could also be a factor. When they have the choice, parents of children, particularly young children, may place importance on spending time with them rather than working. The UC conditionality and sanction regime also has an impact on labour market choices

[1] Poverty-and-Inequality-Commission-consultation-response-Social-Security-Amendment-Bill-January-2024.pdf (povertyinequality.scot)

of parents, through work requirements in place to obtain UC awards, and penalties when those work requirements are not met.

7. The weekly rate of SCP (for children under 6) has increased by more than 150% since its introduction in February 2021 and at higher SCP rates METRs could increase further for households close to earning more than the earnings limit for UC/SCP. Employment rates of parents, particularly women, tend to be lower when dependent children are younger, especially before they reach school age. Combined with the costs of childcare, the high opportunity costs of working and high METRs, in theory, higher rates of SCP could provide further financial incentives for households with young children to limit their engagement with the labour market.

8. **However, evaluation and survey evidence from SCP clients suggests if or how it affects labour market behaviour is highly dependent on individual client circumstances and can operate in different directions.** For example, receiving SCP has enabled some clients to pay for travel to interviews, a new job or college. For others, it has been used to pay for childcare, enabling them to work full-time hours. For some SCP clients, it has enabled them to reduce working hours and spend more time with their children.

9. In addition to supply side considerations around METRs, labour market activity of SCP clients will also be influenced by demand side factors from employers – the economic cycle and the availability of suitable jobs in the labour market. This will be influenced by the extent jobs available in the labour market match the skills of SCP clients seeking work, wage rates offered by employers, and working hours and conditions of jobs.

10. Changes to SCP's design could improve financial incentives to work for some recipients. For example, METRs could be reduced by tapering awards gradually rather than flat award rates based on UC and other reserved benefit receipt that are gained or lost entirely. However, a taper rate could be expensive and complex to implement and also increase METRs for a much larger number of households, even if additional households are brought into eligibility. The overall anticipated labour supply impact of a taper is unclear and would be highly dependent on design.

11. **Analysis of economic data around the labour market, UC award data and employment likelihood of UC conditionality regimes suggests SCP is not currently negatively affecting labour market outcomes at scale in the economy.**

    - Analysis of UC planning for work conditionality clients in Scotland - the vast majority of whom should be receiving SCP - compared with the same client group in England where SCP is not available, suggests these

clients are consistently more likely to be in employment in Scotland and their likelihood of being in employment has not been affected by SCP.

- If SCP has a significant effect on the employment earnings of UC clients eligible for SCP we might expect to see lower incentives to work reflected in rises in small UC award amounts in Scotland around the time of SCP milestones and compared with awards in England for similar households. However, trends in Scotland and England appear very similar to date, aside from small spikes in Scotland for low award amounts for new claims around the time of the eligibility extension in November 2022.

12. The most effective method to track how SCP interacts with labour market outcomes could be data linkage between SCP benefit receipt and employment data or a longitudinal survey of SCP clients, isolating the effect of SCP by controlling for other influencing factors (e.g. UC conditionality regime) and tracking how the labour market outcomes of people receiving SCP change as they receive the benefit. However, these would be costly and complex forms of research.

13. Scottish Government analysts will continue to assess the evidence base of how SCP is interacting with the labour market. A further evaluation of SCP is due to be published in 2025 and will include a survey of around 1500 recipients including questions about how and why SCP has affected their labour market activity. This will enhance current understanding of SCP's role in influencing labour market outcomes of recipients.

Background and Outlook

14. SCP is a weekly payment to low income parents and carers of eligible children aged under 16 on qualifying benefits[2] and is one of the Scottish Government's "Five Family Payments", alongside Best Start Foods and Best Start Grant (Pregnancy and Baby payment, Early Learning Payment, and School Age Payment).

15. SCP was introduced in Scotland in February 2021 as a measure to tackle child poverty and paid at £10 per week per eligible child aged under 6. It was increased to £20 per week per eligible child in April 2022. Eligibility was extended to include children aged between 6 and under 16 in November 2022 and its value increased to £25 per week per eligible child. As of April 2024, SCP is paid at £26.70 per week per eligible child.

16. At the end of March 2024 the families of 329,055 children across Scotland were in receipt of SCP[3]. This equates to over one third of the population of children aged under 16 in Scotland. All families in receipt of SCP must be receiving a means tested benefit.

17. The Scottish Fiscal Commission (SFC)[4] expect the number of children receiving SCP to gradually rise to 332,000 children by 2026-27, before gradually falling in subsequent years. This reflects a forecast steadily declining child population and eligible SCP pool in Scotland combined with a broadly stable take-up rate (the proportion of eligible clients who go on to receive their benefit).

18. In 2024-25, around £460 million is expected to be spent on SCP[5]. This reflects a significant re-distribution of income from the general taxpayer to low income households with children. Analysis published by the Scottish Government in March 2024 highlighted the economic boost spending on social security payments can provide to the economy[6].

19. As of April 2024, families in receipt of SCP could expect to receive almost £1,400 per year for each eligible child (£26.70 per week), with no limit on the number of children who can receive the payment in a family. By the time a child reaches 16, SCP could have paid over £22,000 (in current prices) to an eligible family, rising to around £25,000 (current prices) when including the other Five Family Payments.

20. This reflects a significant financial investment in low income families with potentially longer term returns. Positive impacts on health and wellbeing,

[2] Scottish Child Payment - mygov.scot
[3] Social Security Scotland - Scottish Child Payment: high level statistics to 31 December 2023
[4] Scotland's Economic and Fiscal Forecasts – December 2023 | Scottish Fiscal Commission
[5] ibid
[6] Economic impact of spending on social security - Technical note - gov.scot (www.gov.scot)

particularly from interventions when children are at a young age, can result in less public sector expenditure in future[7].

21. Analysis published annually[8] by the Scottish Government suggests the vast majority of families entitled to SCP go on to get it. SCP was paid to the families of around 95% of eligible children aged under 6 in 2022-23. Although comparable estimates of take-up for children aged 6 to 15 are not yet available (an estimate for 2023-24 will be published in Autumn 2024) take-up is estimated to be lower for older children and was around 77% in March 2023. However, these take-up rates are expected to converge over time, as set out in assumptions made by the SFC[9].

22. The impact on families of receiving SCP and its overall impact on poverty in Scotland has been praised widely by stakeholders. In evidence provided to the Scottish Parliament as part of the 16th meeting of the Social Justice and Social Security Committee in May 2024, Professor Danny Dorling of the University of Oxford said “Given that the money is so well targeted, and because it is not tapered and families do not lose other benefits because of receiving the payment, the effect in taking children above various poverty thresholds should be very great indeed”. Professor Ruth Patrick of the University of York said “I honestly cannot imagine a better use of the funds. It is an excellent resource investment.”[10]

[7] Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program | NBER
[8] Take-up rates of Scottish benefits: November 2023 - gov.scot (www.gov.scot)
[9] Scotland’s Economic and Fiscal Forecasts – December 2023 | Scottish Fiscal Commission, supplementary tables, Figure S.5.8
[10] Scottish Parliament Social Justice Social Security Committee 16th Meeting Official Report

Poverty

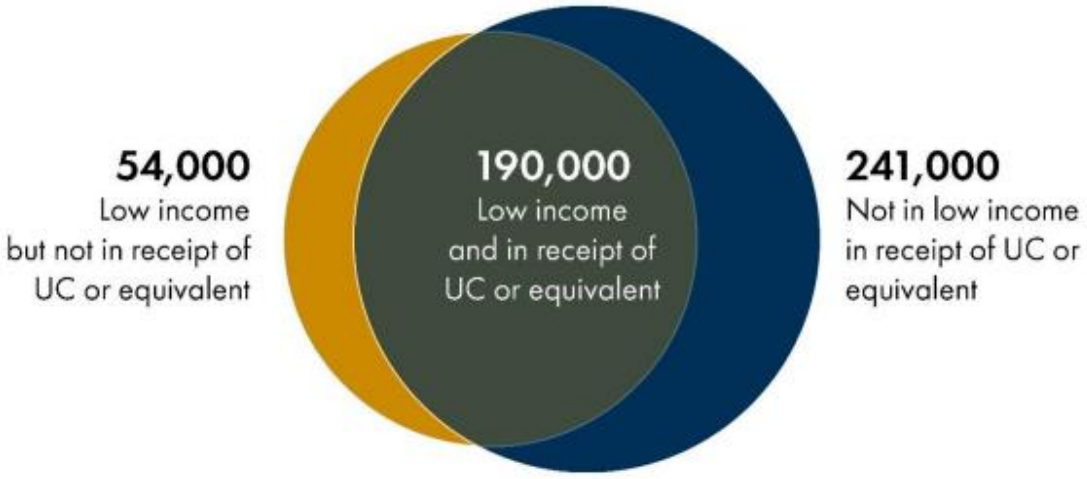
23. Latest Scottish Government poverty statistics published in March 2024 show 26% of children in Scotland lived in households in relative poverty in 2022-23[11]. This is an increase of 3 percentage points from the year before (23% in 2021-22). The Scottish Government's interim child poverty target is to reach below 18% of children in Scotland living in households in relative poverty in 2023-24.

24. Scottish Government analysis[12] published in February 2024 projects relative child poverty would be 6 percentage points higher in Scotland in 2024-25 in the absence of SCP. This equates to keeping around 60,000 children across Scotland out of relative poverty that year.

25. The same analysis projects Scottish Government policies overall will keep around 100,000 children in Scotland out of relative poverty in 2024-25, and the relative child poverty rate 10 percentage points lower than it otherwise would be.

26. Analysis published by the Scottish Parliament Information Centre (SPICE) sets out estimates of overlaps and gaps in children in households in poverty and receipt of benefits in Scotland. See Figure 1.

Figure 1 – Estimates of overlap between children in poverty and benefit receipt status, averaged over 2021-22 and 2022-23



Source: SPICE briefing, Social Justice and Social Security Committee 16th meeting, May 2024.

[11] Child poverty analysis - gov.scot (www.gov.scot)
[12] Child poverty cumulative impact assessment: update - gov.scot (www.gov.scot)

27. This analysis is based on Households Below Average Income (HBAI) data for Scotland and adjusts for the under-reporting of benefit receipt in the Family Resources Survey (where the HBAI data originates from) and estimates around half of children on UC in Scotland are not in relative poverty (241,000 out of 431,000). However, some of those children defined as living in households not in poverty in Scotland will have been lifted out of poverty by SCP.

28. SPICE also estimates around a fifth of children in poverty may not be in receipt of UC or equivalent benefits (54,000 out of 244,000), and that much of this might be explained by UC non take-up – families eligible for UC but who do not apply for it, with a small proportion possibly explained by people who are not eligible for UC – e.g. some parent students and those with no recourse to public funds. Anyone not in receipt of UC or an equivalent benefit would not be eligible for SCP.

29. This analysis demonstrates that some families receiving SCP will not be in poverty and some families in poverty will not be receiving SCP. However, some of those defined as not in poverty will move in and out of poverty over time and even when above the poverty line households can face significant financial challenges and be close to poverty thresholds. Poverty indicators are also income rather than needs based and aside from housing costs do not consider day to day costs incurred by households. All SCP clients are in low income households by virtue of qualifying for underlying means tested benefits (e.g. UC) and could be considered either in poverty or at risk of moving into poverty.

Labour Market Overview

30. The majority of SCP clients are women. Across the five family payments, 81% of clients responding to the client survey for August – November 2023 identified as women[13]. Previous client survey data also suggests these women receiving SCP are broadly evenly split between living in lone parent and couple households. In couple households the other adult will most often be male and is also likely to have access to SCP income. Depending on household dynamics SCP could affect labour market outcomes of men in addition to women.

31. Latest labour market statistics for Scotland based on the Annual Population Survey show the employment rate of women (aged 16-64) in Scotland is 72.7% for the year ending December 2023[14]. This is slightly higher but broadly similar to the UK as a whole (72.2%).

32. The gap in employment rates for men and women has narrowed significantly in Scotland and the UK over the past 20 years as employment rates for women have risen steadily. However, employment rates for women remained around 4 percentage points lower than for men (72.7% vs 76.9%) in Scotland in 2023.

33. There were around 1.3 million women in work in total in Scotland in 2023. Women who receive SCP are likely to represent around 100,000 of this total, so less than 10%. Unless SCP had very significant effects on labour market outcomes it would be difficult to identify an SCP effect on these headline labour market statistics.

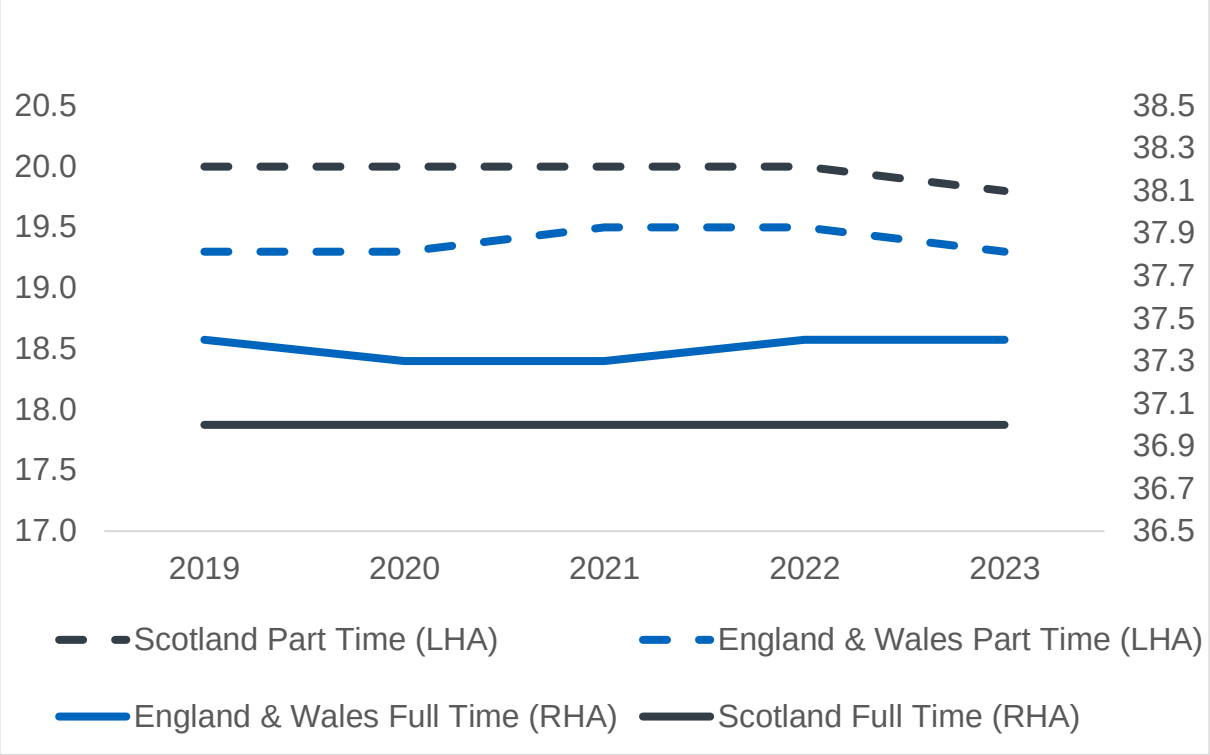
34. The Office for National Statistics (ONS) Annual Survey of Hours and Earnings[15] is the most robust measure of the hours worked and paid earnings of labour market participants in the UK. Although SCP clients cannot be isolated within this data, it can be used as a general guide to the trends of worked hours and earnings in the economy.

35. Figure 2 shows there has been very little change to the average (median) hours worked per week by female workers, both part time and full time, and in Scotland and England & Wales, since 2019. Female part time workers tend to work around 20 hours a week in Scotland and female full time workers tend to work around 37 hours a week.

36. Figure 3 shows female workers in Scotland tend to earn more than in England & Wales, both part time and full time workers. For full time workers particularly, earnings in Scotland have been growing more quickly than in England & Wales over the past four years.

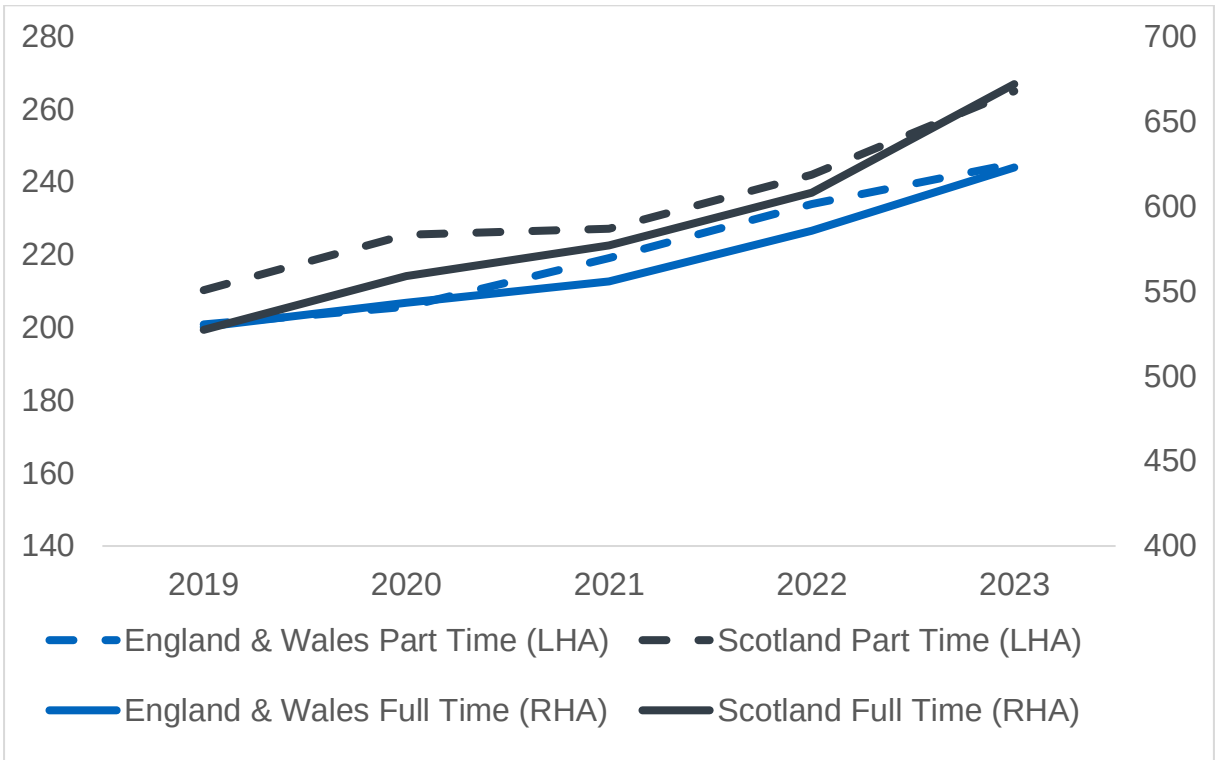
[13] Social Security Scotland - Client Survey: Five Family Payments (August – November 2023)
[14] Scotland's Labour Market Insights: April 2024 - gov.scot (www.gov.scot)
[15] Employee earnings in the UK - Office for National Statistics (ons.gov.uk)

Figure 2 – Median total weekly hours worked, Female, part and full time



Source: Office for National Statistics, Annual Survey of Hours and Earnings, March 2024

Figure 3 - Median gross weekly pay, £, Female, part and full time

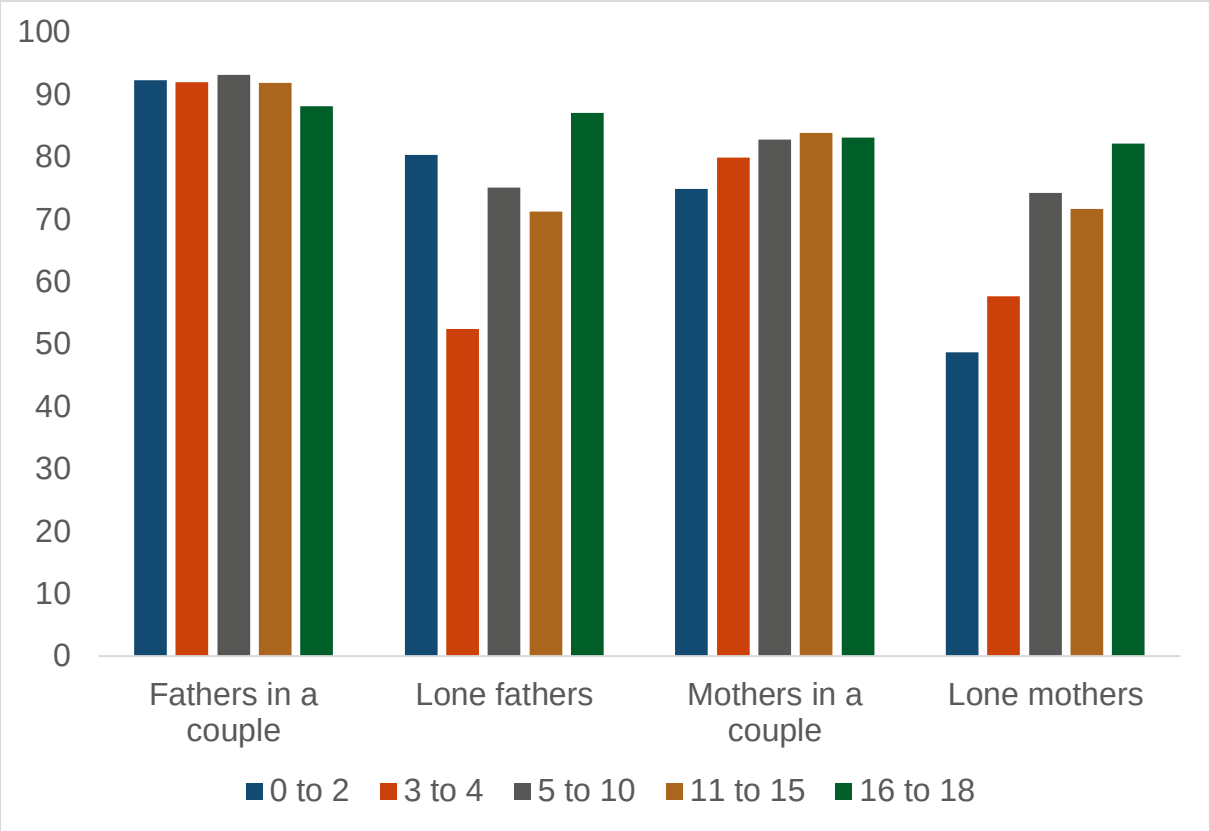


Source: Office for National Statistics, Annual Survey of Hours and Earnings, March 2024

37. The underlying eligibility of SCP is assessed by earnings (e.g. via UC) rather than hours worked, and since SCP's introduction in February 2021 earnings for both part time and full time female workers have grown more quickly in Scotland than in England & Wales.

38. The ONS publish Labour Force Survey data on families in the labour market that sets out labour market outcomes and trends by parental status, gender and the age of children. This data gets much closer to isolating labour market outcomes for SCP clients only.

Figure 4 - Employment rate % of parents living with dependent children by family type and age of youngest child, January to March 2024, UK



Source: Working and workless households in the UK: January to March 2024 - Office for National Statistics (ons.gov.uk)

39. Figure 4 above shows employment rates of parents by family type and age of youngest child. This shows employment rates for mothers tend to be higher as children get older, and for lone mothers particularly, employment likelihoods generally increase significantly as children get older. This is very likely to be driven by greater childcare requirements for mothers when children are younger and not in school and that single parent households do not have a second parent to provide childcare. The employment rate of lone mothers with children

aged between 0 and 2 in the UK was over 25 percentage points lower (48.7% vs 74.9%) than mothers in a couple, in January to March 2024[16].

40. Given the large disparity between employment rates of lone mothers with older and younger children, where SCP does have positive impacts on labour market outcomes, there could be greater scope for improvements to employment rates of lone mothers than mothers in couples, and where children in the household are at a young age. However, there is also the potential for SCP to widen these employment disparities, for example, through its effect on increasing METRs for particular groups. Therefore, the way in which SCP impacts labour market outcomes is likely to be complex and operate in different directions, leading to both increases and decreases to short term labour market indicators (e.g. employment rates, earnings, worked hours).

[16] UK data is used here rather than Scotland as sample sizes are small for lone parents in Scotland

Labour Market Economic Theory

Marginal Effective Tax Rates

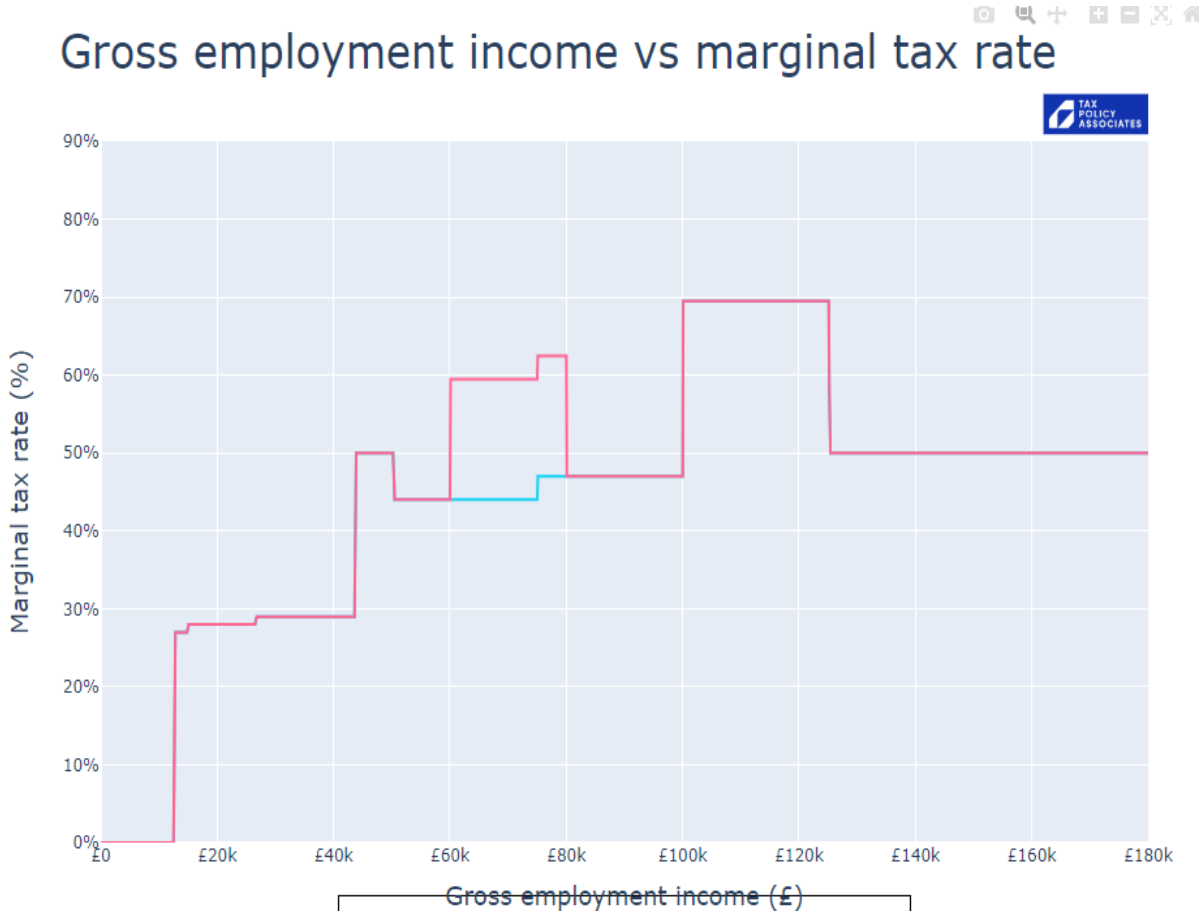
41. Marginal effective tax rates (METRs), also referred to as marginal deduction rates, reflect the net financial impact to an individual of earning more through paid work, by taking into account reductions to gross earnings from tax and knock-on effects to benefit income. METRs vary at different levels of earned income as different tax rates and other reductions come into effect. Increases to METRs are considered to reduce incentives to work and vice versa for decreases to METRs.

42. The law of diminishing marginal utility argues lower income households place more importance on an additional £1 of income than higher income households, since at higher incomes, that additional £1 of income represents an ever smaller proportionate increase to someone's income, with diminishing impact on utility (satisfaction).

43. While METRs do not consider the income of individuals, due to diminishing marginal utility, a low METR, of for example 20% (20% of additional gross earnings is lost through tax and benefit impacts), could be expected to be an even larger draw for a low income household to earn more through paid work than the same METR for a higher income household. In general, higher income households can have higher METRs than lower income households due to progressively higher income tax rates as income rises.

44. Figure 5 shows marginal tax rates for Scotland for 2024-25 with (red line) and without (blue line) the effect of the high income child benefit charge, applicable when annual taxable earnings reach £60,000 for an individual. This shows how METRs increase as employment income increases with particular pinch points when higher tax rates and benefit reductions and charges come into effect.

Figure 5 – Illustrative marginal tax rate chart



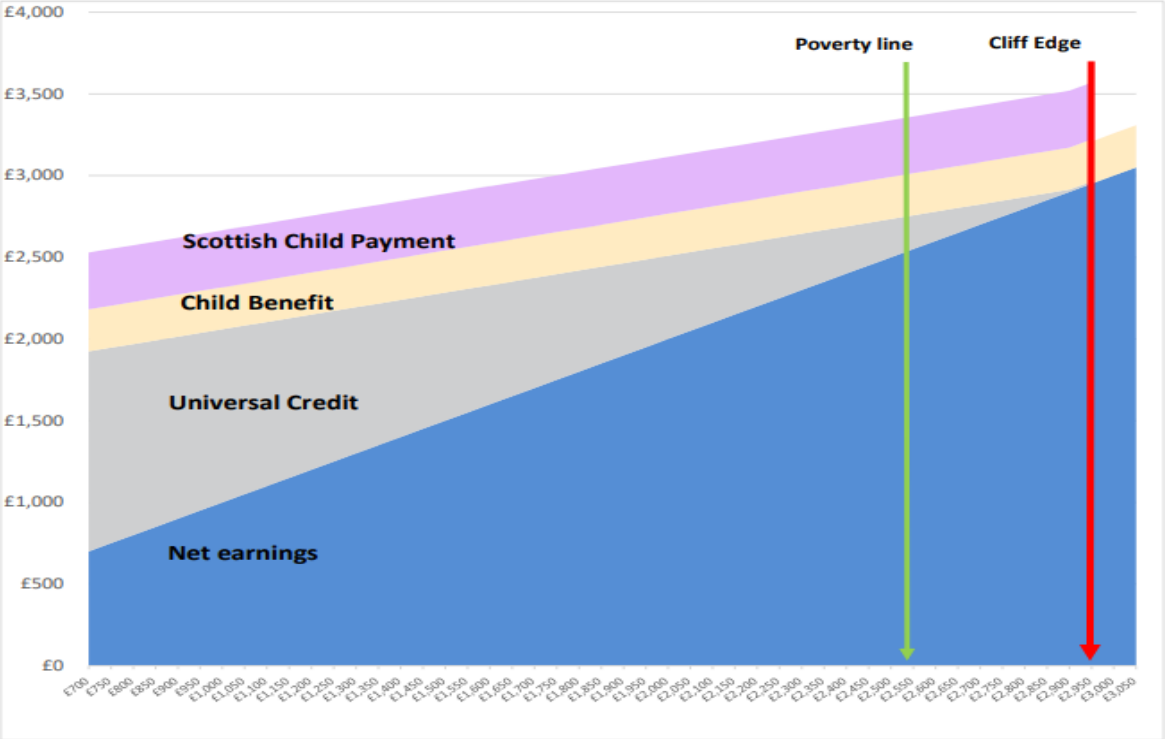
Source: [Interactive marginal tax rate chart - June 2024 - Tax Policy Associates]

45. In certain circumstances METRs can exceed 100%, and individuals can face a net financial loss of earning more through paid work. This can apply to SCP clients who are on the verge of earning above the limit where they would lose UC and their full SCP award.

46. Analysis by SPICE sets out an illustrative example of how different forms of monthly benefit income changes with monthly net earnings for a couple household aged over 25 with three children in Scotland. This demonstrates how UC awards taper to zero as net earnings grow, with overall income increasing, but how SCP income remains constant until after the poverty line for this household type until it is no longer paid in its entirety[17]. It is at this "Cliff Edge" where a household's METR would be particularly high and even when net earnings increase, overall income declines. See figure 6.

[17] Although child benefit income also remains constant at the earnings levels shown in the chart it is subject to a high income charge when individual annual taxable earnings reach £60,000, with the charge reaching 100% of child benefit awards once earnings reach £80,000. See [High Income Child Benefit Charge: Overview - GOV.UK (www.gov.uk)]

Figure 6 – illustrative interaction between net income, net earnings, the poverty line and the SCP cliff edge



Notes and Sources: SPICe calculations based on 2024-25 benefit rates and poverty line (from UK-MOD 2024-25 60% net household income after housing costs, equivalised for couple with 3 children under 10) Vertical axis is total monthly income (earnings plus benefits), horizontal access is net monthly earnings. Scenario is: couple 25+, 3 children (eldest born before 2017), no rent, £700 housing costs (mortgage interest and council tax).

Source: SPICE briefing, Social Justice and Social Security Committee 16th meeting, May 2024.

47. METRs reflect the net financial effect of labour market decisions but are not a definitive guide to how labour market decisions are made. For example, METRs do not consider the opportunity cost of paid work. Opportunity costs in economics describes the loss of utility from alternative choices, specifically the next most optimal choice. For parents and carers with children and especially young children, the opportunity cost of working could be particularly high. Where they have a choice, parents of young children may place added importance on spending time with them at that young age rather than working, and this may wane as children grow older, although individual value judgements will come into play. Therefore METRs - which do not consider the opportunity costs of working - may be more representative for parents of older children than younger children.

48. Even where reductions in earned income do take place as a response to earning benefit income, these changes could have societal benefits and are not necessarily a net loss to the economy. There is an established body of research that highlights the limitations of typical economic metrics in representing certain types of work in the economy, primarily unpaid caring, often undertaken by

women[18]. The assumption there is a net negative impact on the economy when a person moves from paid employment to spending more time with their children, implicitly undervalues that parent/carer and child interaction for both the parent/carer and the child.

49. Analysis[19] published by the Joseph Rowntree Foundation used Understanding Society data to estimate the carer pay penalty – defined as estimated foregone earnings from undertaking unpaid care – incurred by carers in the UK economy. This analysis estimates by the end of the sixth year, unpaid child-care givers (carers of children who are not sick or disabled) will have foregone a cumulative total of more than £100,000 in gross pay on average, while unpaid social-care givers (carers of someone who is sick, disabled or elderly) will have foregone over £30,000. These carer pay penalties are disproportionately experienced by women and households in poverty.

50. The ONS have developed an inclusive income methodology[20] as a new measure of economic progress to build upon existing measures such as Gross Domestic Product (GDP). GDP measures the market and non-market production and consumption of goods and services. However, GDP omits certain activities, such as unpaid household production of services, which might still be considered as economic activities and as activities that contribute to economic progress and well-being. Inclusive income expands the "production boundary" to include household production within its definition of economic activity giving greater prominence for human and natural capital, as well as non-market economic activity including household production.

51. In recognition of the importance of parents spending time with children at very young ages, maternity and paternity leave entitlement is a statutory right protected by legislation[21]. Parents could use the extra income from social security to spend more time with their child shortly after birth (Gonzalez, 2013)[22] and this has been shown to improve children's cognitive development (Baum, 2003)[23]. There can be positive long run economic impacts associated with these types of effects, e.g. improved productivity in the economy[24].

52. Although there can be a short term loss to the economy from reduced labour market participation/supply of labour and its effect on reducing economic output and government revenues (e.g. PAYE receipts), this loss is exaggerated on the basis that unpaid care is typically not captured by traditional economic

[18] Findings - International mechanisms to revalue women's work: research - gov.scot (www.gov.scot)
[19] The caring penalty | Joseph Rowntree Foundation (jrf.org.uk)
[20] Inclusive Income methodology - Office for National Statistics (ons.gov.uk)
[21] Statutory Maternity Pay and Leave: employer guide: Entitlement - GOV.UK (www.gov.uk)
[22] The Effect of a Universal Child Benefit on Conceptions, Abortions, and Early Maternal Labor Supply - American Economic Association (aeaweb.org)
[23] Does Early Maternal Employment Harm Child Development? An Analysis of the Potential Benefits of Leave Taking on JSTOR
[24] Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program | NBER

performance metrics. If this change enables people to use their time in a way that benefits them in the longer term, for example improving human capital though training for a job that more closely matches their skills, there can also be a net gain for the economy over the longer term. This could be amplified if this activity causes a change to an occupation that adds more value to the economy through higher wages, particularly if this is an occupation where there is currently a shortfall of supply – with potential benefits to business productivity.

Tapered benefit payments

53. Some stakeholders have recommended the Scottish Government consider tapering SCP awards to smooth cliff edge points where full SCP awards are lost[25]. This could operate in different ways. For example, it could operate similar to UC so that SCP awards reduce gradually as clients near the earnings threshold for their underlying benefit eligibility. **The analysis set out here is an analytical discussion of hypothetical changes to SCP's design and does not in any way reflect Scottish Government policy intent.**

54. Eligibility for UC is based on income not working status[26] and if a client's earnings are above their defined limit they lose eligibility for UC entirely. However, due to the UC taper rate (55%), as earnings near that threshold UC award amounts reduce gradually, so that every time a UC client earns more through paid work, there is still a net benefit even taking into account their reduced UC award (55p award reduction for every £1 of additional earned income). Only net earnings are taken into account for reductions to UC awards via the taper, after tax and other deductions have already been made.

55. UC taper rates also only begin when UC claiming households with children begin to earn more than their work allowance. If someone gets help with housing costs, their payment will start to reduce when monthly wages reach £404, equivalent to working around 8 hours per week at the national minimum wage (£11.44 if aged 21 or over). If someone does not get help with housing costs, their payment will start to reduce when monthly wages reach £673, equivalent to working around 14 hours per week at the national minimum wage.

56. If an SCP taper rate moved in tandem with the UC award taper, it could increase work incentives for a small number of SCP clients at the margin of losing eligibility for UC who now have lower METRs and less concern of losing SCP awards entirely when earning more. Where a taper moves METRs from above 100% to below 100%, households now have a financial incentive to work more, as an increase in worked hours and earned income will now increase overall income, where it didn't before.

[25] Scottish Child Payment Regulations: response to report - Scottish Commission on Social Security (socialsecuritycommission.scot)
[26] UC and earnings - GOV.UK (www.gov.uk)

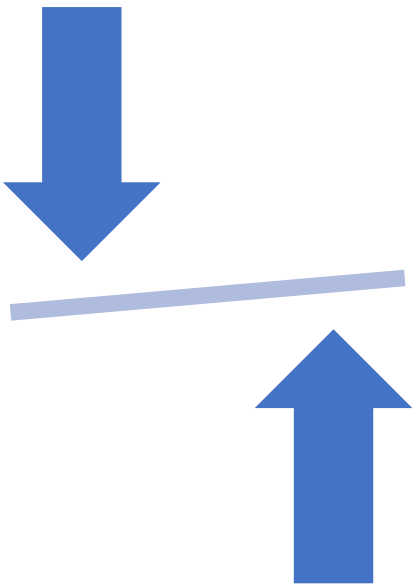
57. Work incentives could improve for households where METRs fall and this should be most obvious for households around the margin of UC income thresholds, reflected by small UC awards. However, this is likely to affect only a small share of SCP clients. For UC awards for households with children aged under 16, around 2% of awards in February 2024 were under £100 a month, representing around 3,000 households. This would also represent around 2% of the households forecast to receive SCP in 2024-25.

58. However, a much large number of SCP clients would have higher METRs as taper rates are applicable where they weren't before, and increases to earnings now result in reduced benefit income, with potential impacts on child poverty as benefit income previously paid at a flat rate, now reduces with earnings.

59. An SCP taper rate designed so that no current SCP clients experience lower awards would need to bring more households into SCP eligibility (since SCP eligibility and any taper would need to begin at income levels above current SCP eligibility – broadly above UC income thresholds) and this would increase Scottish Government expenditure on SCP, already at close to £0.5 billion.

60. It would also decrease work incentives for those households newly eligible who can now earn the same income as before by working less. Newly eligible households would also experience higher METRs at those earnings amounts where SCP is tapered, as even though overall income is now higher with the new inclusion of SCP, at the margin those households now lose a portion of benefit income when earning an additional £1 through work.

Figure 7 – Interaction between Marginal Effective Tax Rates and labour supply



When a taper rate increases METRs, **labour supply falls** (e.g. anyone newly eligible for SCP or getting SCP and not close to the UC income threshold)

When a taper rate reduces METRs, **labour supply rises** (e.g. anyone currently getting SCP close to the income threshold of UC eligibility)

61. The opportunity cost of not working would also decline for any households newly eligible for a tapered SCP, making this option more financially attractive than before, as working less would now be partially compensated by a tapered SCP award, potentially reducing work incentives.

62. Introducing a taper rate to SCP would require changes to legislation and could require complex changes to Social Security Scotland payment systems to incorporate household earnings, income or UC data, potentially with high administration costs.

63. To determine whether a taper rate would provide value for money for the economy and taxpayer, the potential benefits of introducing a taper rate (e.g. any positive impacts on labour market outcomes or reduced expenditure on SCP) would need to be considered against the potential costs (e.g. increased costs for Social Security Scotland in implementing the payment, any societal cost (e.g. increase in poverty) of a reduction in income for benefit clients).

64. In summary, the current SCP award design of no taper concentrates high METRs for a small number of households close to the margin of eligibility where work disincentives may exist. Introducing a taper rate would reduce METRs for those people but would increase them for a much larger number of households and the expected overall net labour supply effect is unclear. A taper could also be very expensive and complex to introduce. Dependent on design, it could increase expenditure on SCP by widening eligibility or reduce awards for current clients, potentially with negative impacts on child poverty.

65. The following section presents analysis of UC data to explore what evidence currently exists about work disincentives for SCP clients, particularly for households close to the margin of SCP eligibility.

Labour Market Indicators

UC Conditionality Data

66. A way to explore how SCP could be impacting incentives to work is to study UC conditionality/labour market regime data, alongside employment status.

67. There are six UC conditionality regimes that place work related requirements upon clients to obtain their full UC entitlement. These regimes are part of a client's claimant commitment and should limit the extent SCP clients can reduce hours worked as there would be a corresponding DWP response, including potentially sanctions or implications for UC award amounts[27]. See figure 8.

68. The Planning for Work conditionality regime covers: Expected to work in the future. Lone parent / lead carer of child aged 1(a). Claimant required to attend periodic interviews to plan for their return to work.

Figure 8 – Conditionality regimes and description

Conditionality Regime	Description
Searching for work	Not working, or with very low earnings. Claimant is required to take action to secure work - or more / better paid work. The Work Coach supports them to plan their work search and preparation activity.
Working - with requirements	In work but could earn more, or not working but has a partner with low earnings
No work requirements	Not expected to work at present. Health or caring responsibility prevents claimant from working or preparing for work.
Working - no requirements	Individual or household earnings over the level at which conditionality applies. Required to inform DWP of changes of circumstances, particularly if at risk of decreasing earnings or losing job.
Planning for work	Expected to work in the future. Lone parent / lead carer of child aged 1(a). Claimant required to attend periodic interviews to plan for their return to work.
Preparing for work	Expected to start preparing for future even with limited capability for work at the present time or a child aged 2(b), the claimant is expected to take reasonable steps to prepare for work including Work Focused Interview.

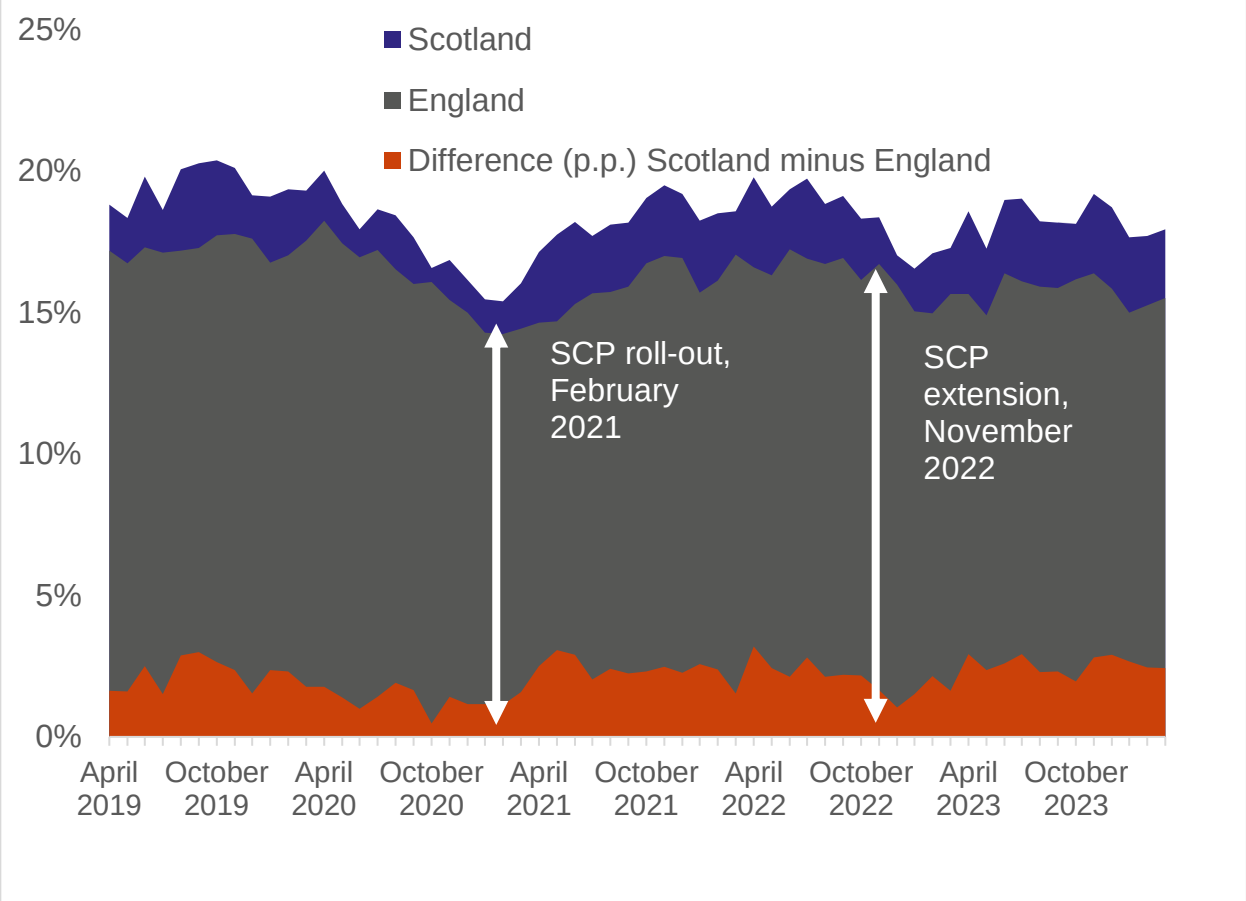
Source: DWP StatXplore

[27] Universal Credit: Your claimant commitment - GOV.UK (www.gov.uk)

69. All the clients within the planning for work regime should be eligible[28] for SCP. Although these UC clients should not be in employment, since the regime (count date) and employment status (assessment period) are registered at different times[29], clients can be counted as in the planning for work regime and also as employed. However, this should mean these clients are not employed when counted in that conditionality regime, but when indicated by their employment indicator, either just before or just after their count date.

70. DWP advise caution when comparing these two figures but the proportion of planning for work clients counted as employed could be considered as the likelihood of these clients being employed around the time of being in that regime. This can provide a useful comparison between Scotland and England and inform analysis of SCP's impact on employment behaviour.

Figure 9 - Employment likelihood of planning for work UC clients, Scotland and England, April 2019 to March 2024



Source: DWP, Stat Xplore, People on Universal Credit

[28] The only exception would be where someone is specified as a lone parent/lead carer on a UC application but an SCP application for that same child has a different lone parent/lead carer specified. This is assumed to apply in only a very small number of cases.
[29] Conditionality Regime is based on an individual's circumstances on the count date. Employment Indicator shows whether earnings were recorded within an individual's completed UC assessment period closest to the count date.

71. Figure 9 compares that likelihood of being in employment for planning for work clients in Scotland and England. This shows these clients are consistently more likely to be in employment in Scotland than in England over time.

72. If SCP acted to reduce the likelihood of planning for work clients in Scotland being in employment, the gap between employment likelihood in Scotland and England might be expected to narrow as employment indicators for planning for work clients fell in Scotland, particularly at SCP milestones.

73. Figure 9 shows employment likelihood is always higher in Scotland and the gap between Scotland and England has remained broadly similar over time at around 2 percentage points. The impact of COVID can be seen in the declines of employment likelihood in both Scotland and England between March 2020 and February 2021.

74. Although there is a decline in employment likelihood in Scotland around the time of the November 2022 eligibility extension, this is also observed for UC clients in England where SCP is not available.

75. A wide range of factors will influence any differences between this employment likelihood in Scotland and England, including the UC roll-out, the availability and affordability of childcare, demographic differences, and differences in labour market conditions (e.g. availability of flexible jobs).

76. The Scotland data reflects around 7,000 UC clients and the vast majority should be claiming SCP. If SCP was acting as a disincentive to employment, some convergence of those employment likelihoods with clients in the same regime in England could be expected. However, this effect would only be observed when an SCP client's labour market status moves from employment to not employed, and would not for example, highlight changes in working hours. UC award amount data can be used to analyse trends in changes to working hours and earnings.

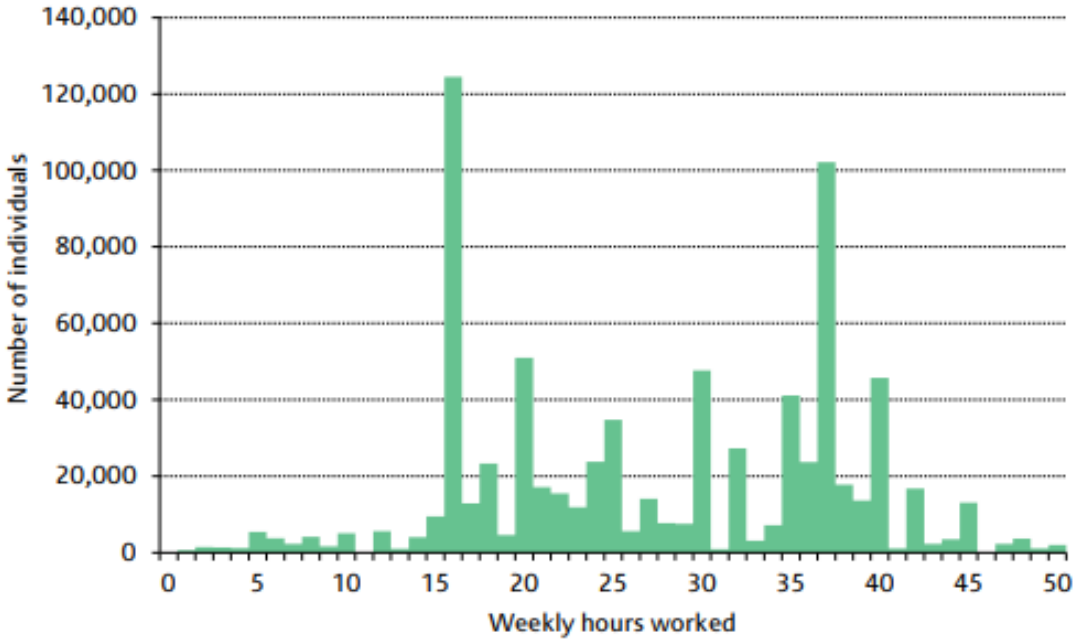
UC Award Data

77. Around three quarters of SCP clients qualify through UC. UC's eligibility criteria and taper rate means people who earn more through paid work should have lower UC award amounts.

78. One way to test how SCP recipients' labour market incentives are changing is to analyse how these award amounts are changing over time for SCP clients in Scotland, and compared with a natural control group, similar households in England, where SCP is not available.

79. If SCP incentivises people to not earn more than their UC earnings limit to retain eligibility for UC and SCP, we might expect to see a rise of low award amounts in Scotland at particular times (e.g. when SCP was doubled from £10 per week to £20 per week in April 2022) and compared with similar household types in England. This could reflect either clients who would a) ordinarily earn have earnings too high to qualify for UC and reduce their earned income through work in order to qualify, or b) clients whose earnings are almost too high to qualify for UC and reduce or don't increase their earned income through work to avoid losing eligibility. This type of effect has been observed before, for example with a clustering of lone parents working exactly 16 hours a week – the minimum requirement for working tax credit eligibility. See figure 10.

Figure 10 – Weekly hours worked by lone parents, Institute for Fiscal Studies analysis using 2013-14 Family Resources Survey



Source: Institute for Fiscal Studies, Green Paper (2016), page 238.

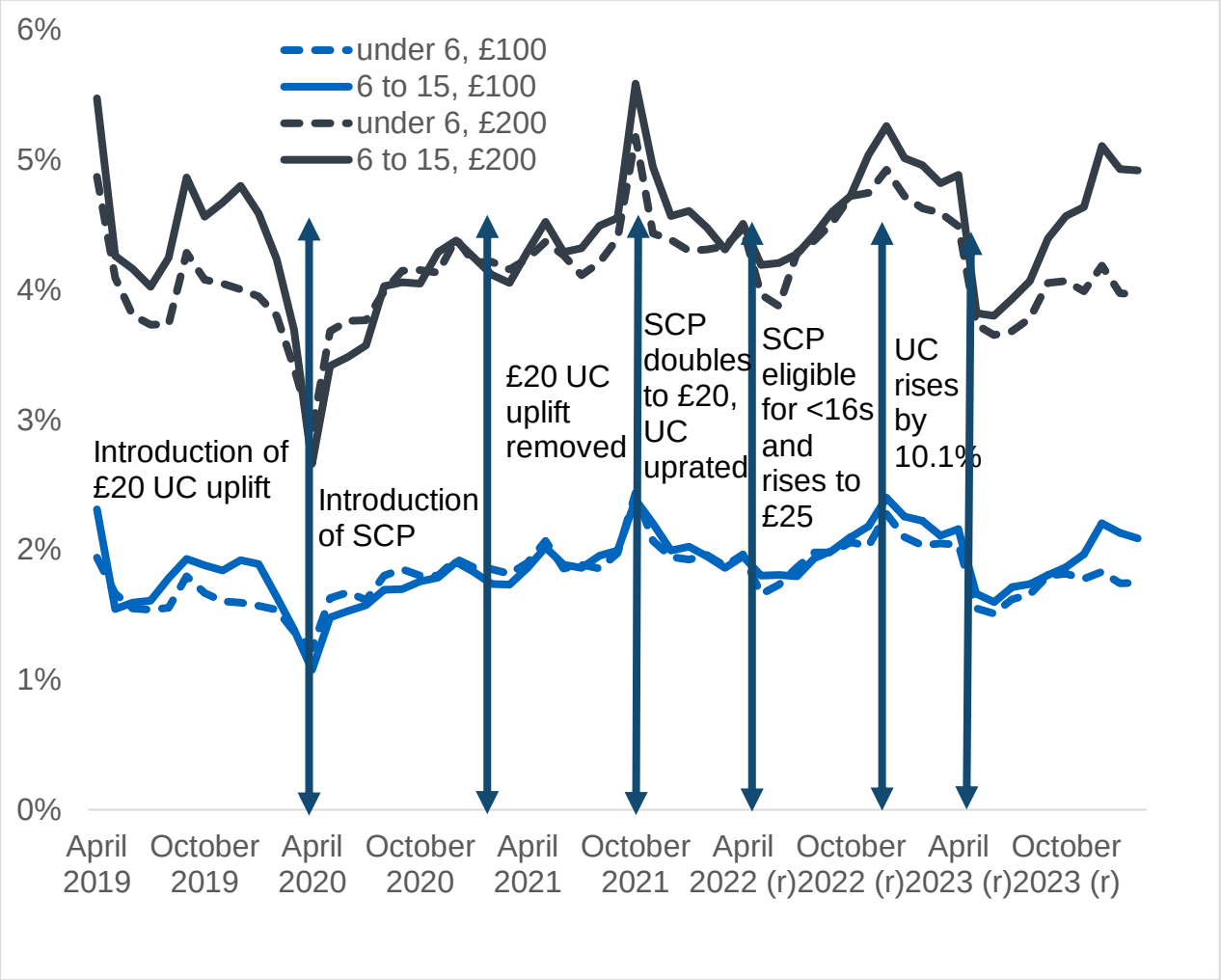
80. Where SCP clients purposely reduce earnings this is likely to be reflected by reduced working hours rather than wage rates. Employees will be unlikely to seek lower wage rates and minimum rates of pay are protected by legislation. However, it is likely to be difficult for some SCP clients to control their working hours. Some SCP clients will have fixed contracts where hours worked cannot be easily reduced or employers require particular shifts to be worked.

81. A labour market response to SCP could also be reflected not in reductions to earnings but avoidance of increased earnings e.g. some SCP clients in work could avoid taking promotions or changing to more highly paid jobs.

82. If these effects are present it would be expected to be most apparent at the margin of UC income thresholds where eligibility for SCP could be lost or gained. Low award amounts have been defined here as less than £100 per month. Due to the UC taper rate of 55%, at a UC award of £100 per month, UC clients should be able to earn around a further £180 net earnings per month before they would lose their UC award entirely. If a UC client paid no tax on those earnings this would reflect around 16 hours of paid work per month at the national minimum wage. However, this would be dependent on hourly wage rates and income tax and national insurance liabilities.

83. The following charts set out analysis of low UC award amounts in Scotland, for families with children eligible for SCP, compared with comparable households in England, and before and after the introduction of SCP.

Figure 11 - Percentage of households with children receiving UC with monthly awards of under £100 and £200, by age of youngest child, Scotland, April 2019 to February 2024



Source: DWP, Stat Xplore, Universal Credit Household Data

84. Figure 11 shows how the percentage of low award amounts as a percentage of all award amounts, for households with children aged under 6 and aged 6 to 15 in Scotland, have changed over time. Award amounts under £100 typically reflect around 2% of households with children aged under 16 and around 5% for award amounts of under £200 (around 4% where children are aged under 6).

85. These proportions have remained similar over time but with impacts from significant changes to UC rates. For example, the introduction of the £20 UC uplift in April 2020 leads to a reduction in proportions as awards previously under £100 and £200 become higher. Similarly, as the £20 UC uplift is removed in October 2021, there's a spike in proportions as awards previously over £100 and £200 become lower. There's also a large drop in proportions shortly after a larger than normal uprating to UC elements of 10.1% in April 2023.

86. The impact of these changes is very similar across households where the youngest child is aged under 6 and where the youngest child is aged 6 to 15. There are less obvious impacts from any SCP milestones. There is a rise of low award amounts in the months leading up to the eligibility extension to include children aged 6 to 15. However, these impacts appear smaller in magnitude.

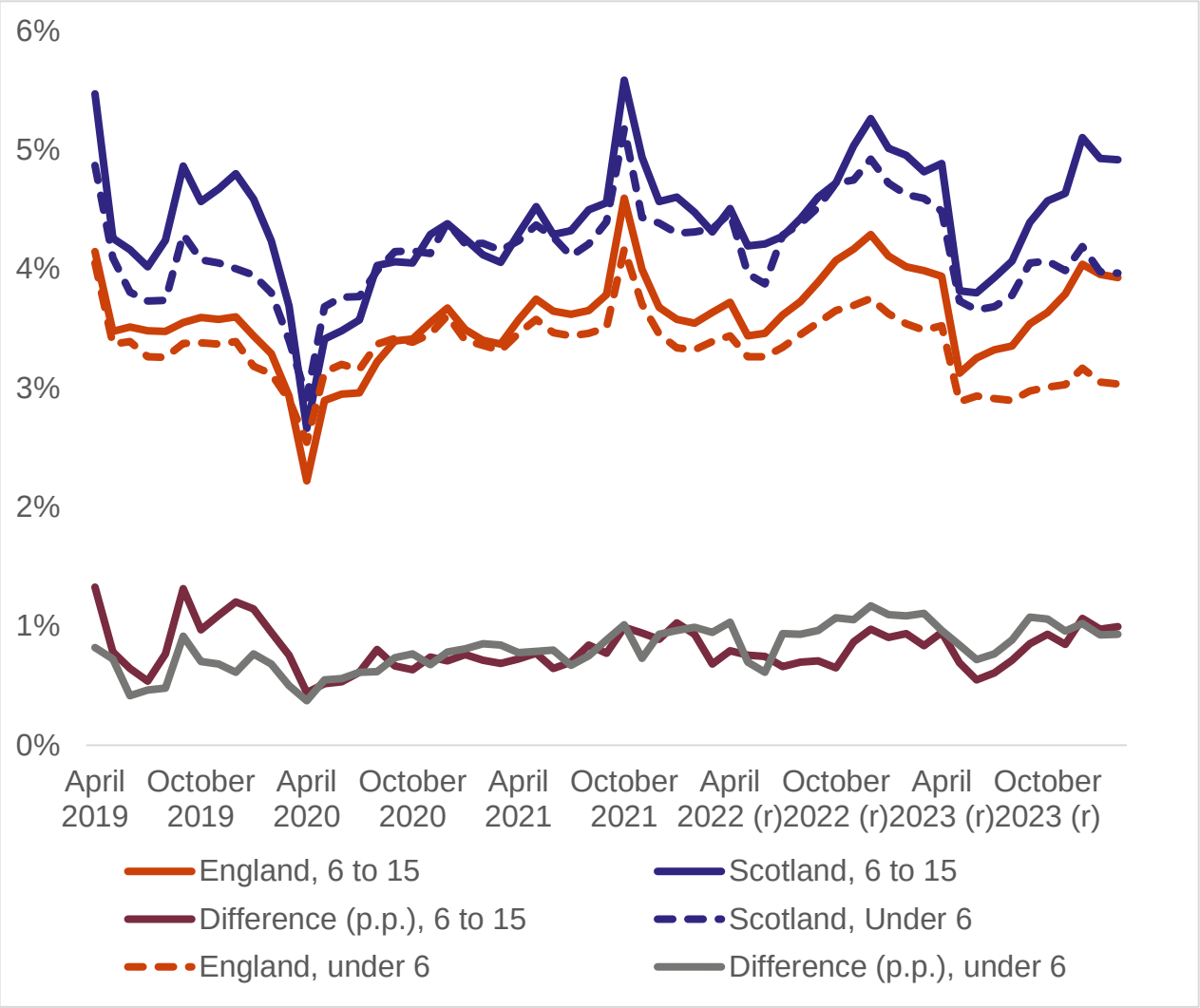
87. Figure 12 now includes households in England, and shows the difference in proportions of small award amounts between Scotland and England.

88. Scotland consistently has higher proportions of low awards than in England and these differences are gradually growing over time. However, this trend is apparent for both age groups before SCP could have had an impact (February 2021 for under 6 and November 2022 for 6 to 15). Trends over time show for both age groups, timing and magnitude of changes are very similar in England and Scotland. The rise in low awards around November 2022 is also present for England, where SCP is not available.

89. The gradual growth of low UC awards in Scotland relative to England could be linked to the UC roll-out and differences between Scotland and England in the income distribution and awards of households migrated from legacy benefits to date, and also the higher rates of housing entitlement award amounts in England, the only differential UC rate between Scotland and England.

90. All of this data suggests SCP is not leading to particular increases in low UC award amounts for households eligible for SCP in Scotland relative to England. As would be expected, trends in low award amounts seem more closely linked to changes to UC rates and are very similar for comparable households in England, where SCP has never been available.

Figure 12 - Percentage of households with monthly UC awards under £200, Scotland and England, children aged under 6 and 6 to 15, April 2019 to February 2024

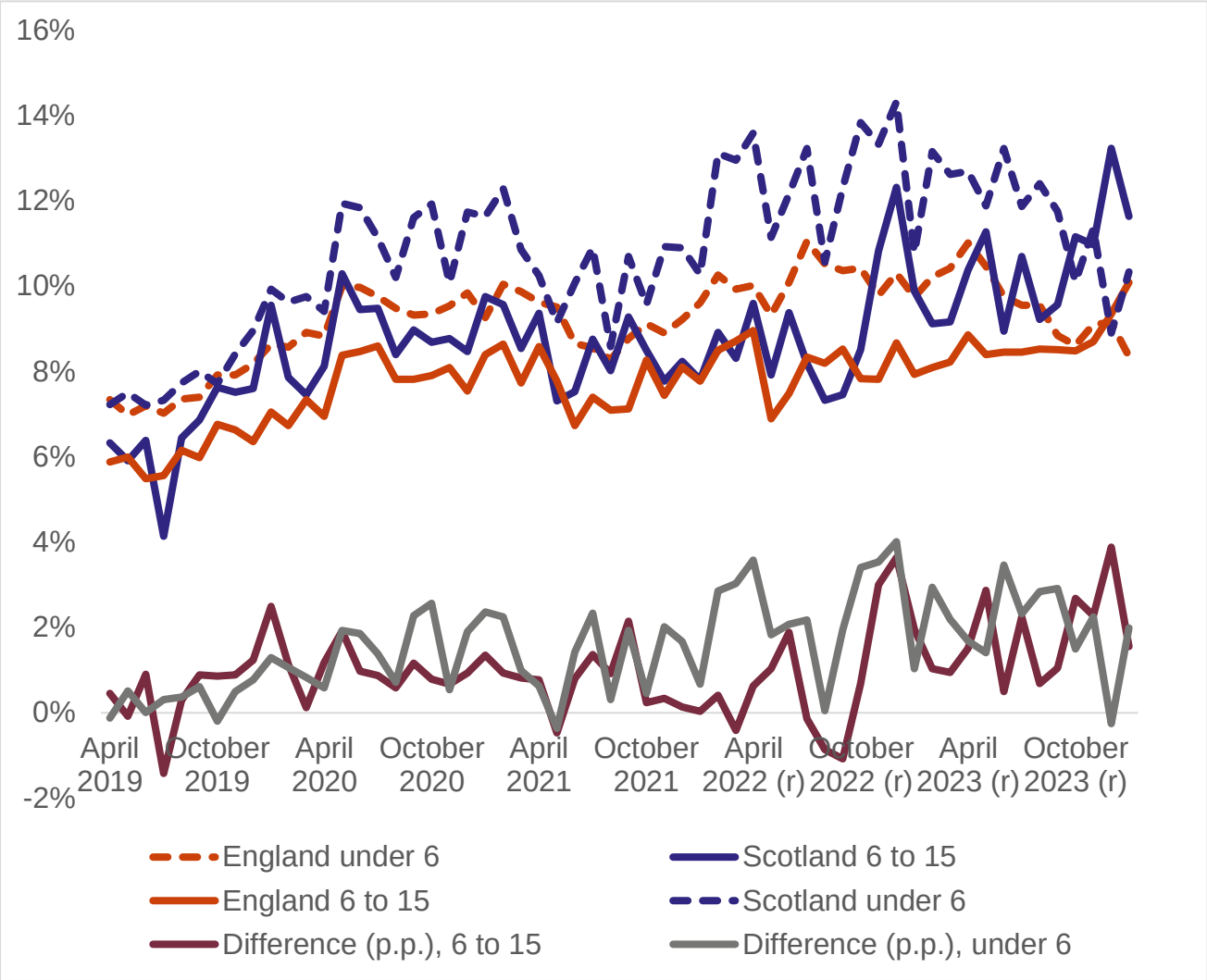


Source: DWP, Stat Xplore, Universal Credit Household Data

91. However, we might expect to see more impact when focusing only on new claims to UC. A discernible rise in low award amounts for new claims could reflect people aiming to obtain eligibility for UC in order to also obtain receipt of SCP.

92. Since the number of households counted in new UC claims is much lower than overall claims, to increase the number of households in scope, the threshold for low award amounts is set to £300 per month and shown in figure 13.

Figure 13 - Percentage of households with new UC awards under £300 per month, Scotland and England, children aged under 6 and 6 to 15, April 2019 to January 2024



Source: DWP, Stat Xplore, Universal Credit Household Data

93. When comparing this data with SCP milestones there does appear to be a spike of low UC award proportions in Scotland relative to England, for both under 6 and 6 to 15 households, around the time of the November 2022 eligibility extension. The extension would impact both households types as under 6 households reflects the age of the youngest child only, those households could also have a child newly eligible for SCP in November 2022.

94. However, those spikes when considered in the context of overall UC claims for households eligible for SCP, are small in scale. Excess low new UC claims compared with the longer term average appear concentrated in October, November and December and total around 100 to 150 additional low new UC claims over that period. This is compared to around 7000 new UC claims made over that time, representing less than 2% of new UC claims from households eligible for SCP.

95. In summary, if SCP had a significant impact on labour market decisions of clients and the amount earned from paid work, we could expect to see this reflected in changes to UC award amounts. Impacts would likely be concentrated at low award amounts where clients are close to earnings limits for UC/SCP. Low UC awards have been used to reflect proximity to that margin.

96. The analysis set out above of low UC award amounts suggests SCP is not impacting labour market decisions at scale in the economy. For households eligible for SCP, low award rates appear to be rising gradually in Scotland relative to comparable households in England. However, these trends are present before households in Scotland became eligible for SCP and timing and magnitude of changes are similar in England and Scotland. Additionally, where differential impacts between comparable households in Scotland and England are observed, as should be expected, these appear to be more closely linked to changes to UC rates (e.g. the £20 UC uplift) than SCP milestones.

97. The exception is analysis of new UC claims. Here, there are signs that Scotland saw a spike in new low award UC claims around the time of the eligibility extension in November 2022. This could reflect SCP incentivising clients to not earn above the UC threshold. However, this is small in scale, and at around an additional 100 to 150 new UC claims, represents around 0.2% of the almost 90,000 new SCP applications[30] made in November 2022. Rather than changes to labour market behaviour, this could also reflect increased take-up of UC of households already eligible, but who have submitted claims for the first time.

Family Resources Survey

98. The Family Resources Survey (FRS)[31] is a continuous survey of households published by the DWP every year and is a leading source of data on incomes of households across the UK. The FRS is used to produce a range of statistics outputs and by the Scottish Government to produce an annual official statistics publication of poverty rates in Scotland[32].

99. Unlike most other established national surveys, the FRS allows labour market indicators of SCP clients to be isolated, for example, median hours worked in employment. However, the underlying sample size of the FRS is too small to allow robust analysis of labour market outcomes of SCP clients specifically.

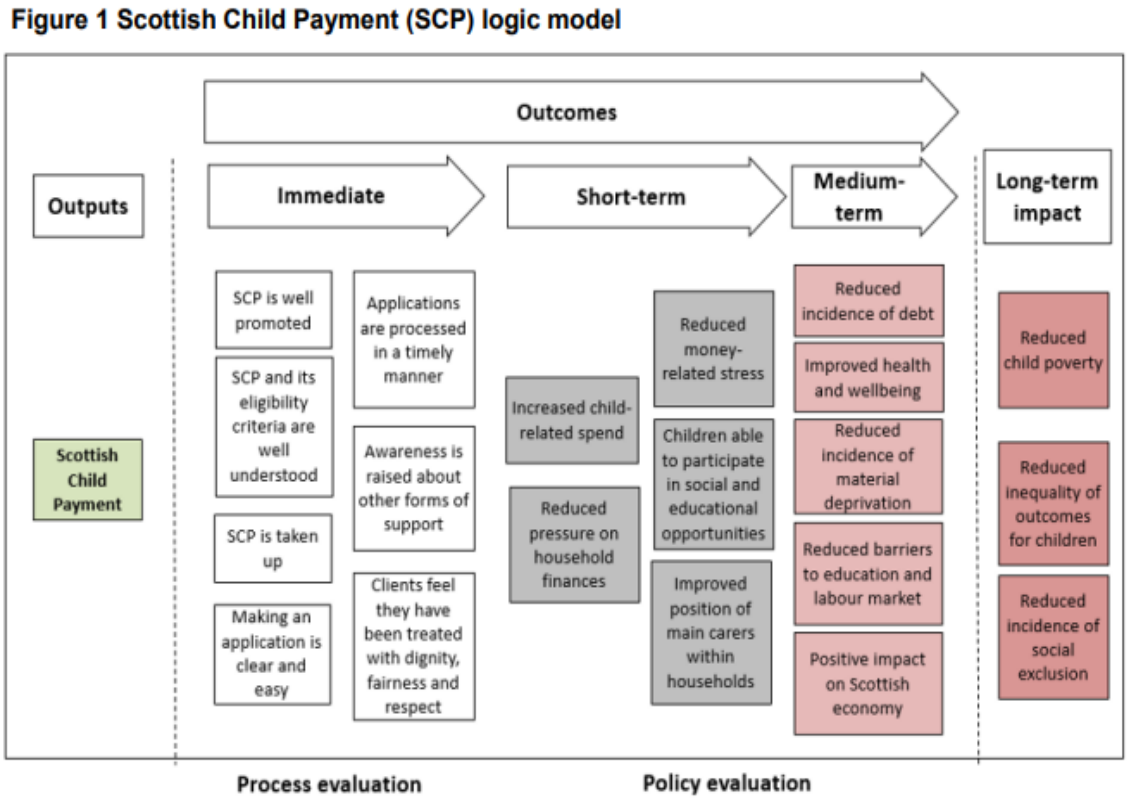
100. Scottish Government analysts will continue to explore the FRS data and future FRS releases to determine if and how it can be used to inform analysis of SCP's interaction with the labour market.

[30] Social Security Scotland - Scottish Child Payment: high level statistics to 31 December 2023
[31] Family Resources Survey - GOV.UK (www.gov.uk)
[32] Poverty and Income Inequality in Scotland 2020-23 (data.gov.scot)

Evaluation Evidence

101. The Scottish Government published an interim evaluation[33] of SCP in 2022 and intend to publish a further evaluation in 2025. As part of this work, the following logic model was published and sets out how a medium-term outcome of SCP is expected to be a reduction in barriers to education and the labour market for clients.

Figure 14 – Scottish Child Payment logic model



Source: Scottish Child Payment: interim evaluation, Scottish Government

102. As part of the interim evaluation there is only a limited amount of evidence that SCP has reduced barriers to education and the labour market. However, examples given by recipients include using the money to pay for travel to interviews, a new job, or college.

103. A further evaluation will be published in 2025 and will include a survey of around 1500 SCP clients, followed by interviews, asking to what extent their labour market decisions have been affected by SCP, if at all. This should provide valuable qualitative and quantitative evidence of how SCP is interacting with clients' labour market decisions.

[33] Scottish Child Payment: interim evaluation - gov.scot (www.gov.scot)

Client Survey Data

104. Social Security Scotland undertake and publish a client survey[34] that asks its clients about their views and experiences of the service they received. The results are used to measure how Social Security Scotland is performing and where it can improve.

105. In September 2023 a question was added to the Five Family Payments Client Survey asking about the impact of SCP on people's employment choices. Responses to this question have not previously been published in other Client Survey outputs.

106. The question was closed-ended with binary response options. However, those who indicated SCP had impacted their employment choices were able to expand in an open-ended text box:

Q. Has receiving Scottish Child Payment had an impact on your, or your partner's, employment choices?

By employment choices we mean choosing to start or stop working, or choosing to work more, fewer or different hours as a result of receiving Scottish Child Payment. This also includes any changes you or your partner plan to make in the future as a result of receiving Scottish Child Payment.

- Some changes made or planned as a result of receiving Scottish Child Payment
- No changes made or planned as a result of receiving Scottish Child Payment

[If 'Some changes made or planned…'] Please tell us about those changes, or planned changes, to you or your partner's employment choices.

107. Responses to the follow-up open text question suggest many respondents did not fully understand the initial closed-ended question, therefore the quantitative results of when SCP clients had or had not made or planned changes as a result of SCP have been deemed unreliable and are not included in this paper.

108. While a number of the open-text responses do provide an insight into the impact of SCP on employment choices, the overall number of these responses is small (n=59), and many of them are short statements that require interpretation. As such, the findings cannot be generalised to all SCP recipients, and are unlikely to give a full understanding of the impact of SCP on employment choices.

[34] Social Security Scotland - Client Survey 2022-2023

Qualitative findings: increased labour market activity

109. Respondents stated they had engaged in labour market activity in the following ways since receiving SCP:

- Started a new job search
- Increased working hours
- Continued existing job search
- Started a new job
- Stayed in current job
- Started new education course
- Increased study time

110. A number of respondents simply stated the change they (or their partner) had made without providing additional information on how SCP had influenced the decision, or why they made it;

> "I am now looking for part time work and going back into employment."
>
> "I am able to start looking into going back into teaching again."
>
> "Job search."

111. However, the other responses did provide some additional information. Three main themes emerged from these responses:

Engagement in labour market activity: insufficient income despite SCP

112. Several respondents said they (or their partners) were looking for a job or had increased hours because their income did not meet the cost of living. A small number of these responses indicated SCP was helping, but they were still struggling overall.

> "Had to look into a second job as the universal credits amount is poor and sporadic. The Scottish payment has remained the same and does help but the other benefit is too low."
>
> "The payment gives some relief to the day to day expenses, I am looking at working for myself or improving my living standards."
>
> "Now we receive this support but at the same time we have to pay electricity, and sometimes it's not enough, so we have to look for a job."
>
> "Try to get full time work as inflation is at its peak. Gas and electricity are crazy prices. Everything has gone up in price and living expenses doesn't meet that."

> "With little I get my partner now needs to work more hours to cover all bills plus trying to get our baby things that is needed which means my partner never spends time with his baby or myself due to little payment we get plus bills."

> "I am needing to go find work, as a single parent I don't feel as though my best start card helps with the cost of baby milk etc as 1 tub is £15 and lasts a week that's not including nappies etc."

Engagement in labour market activity: SCP helped with associated costs

113. A number of respondents said they (or their partner) engaged in labour market activity because SCP had helped with costs of doing so. For example, one respondent said SCP had helped them buy a car enabling them to return to work. Two respondents said SCP helped to pay for childcare allowing them to work full time hours.

> "I was able to afford to put my child to childcare (plus the universal credit payments). The universal credit payment, together with the Scottish child payment and the child benefit now cover about half of the monthly bill for full time childcare, which meant that for me it was worth working full time and gave me financial freedom."

> "We were both able to continue working full time as we have put this money towards childcare for my children."

114. The other responses indicated the general financial support provided by SCP had enabled them (or their partner) to increase working hours, start an education course, or increase study time. Two of these responses show how SCP can be associated with both engaging in - and decreasing - labour market activity at the same time, for the same person or family.

> "I can be at home to look after my children now. SCP covers a good part of my salary so it makes more sense for me to free up a job for someone and to look after my children during their crucial development years and my husband is able to increase his working hours now because I am at home."

> "I'm a full time student nurse and my partner is not working due to several (sic) disability. Thanks to the payments I could reduce shifts in nursing bank (on the top of my academical responsibilities) and focus more on my children and studies."

Engagement in labour market activity: SCP provided general support

115. Other respondents explained how SCP had supported them with an existing job search e.g. by providing a sense of motivation, dignity, or peace of mind.

"The intention to find a job and find employment has not changed. The desire to work has increased, as an incentive to live better."

"It did not impact my partner (or mine) employment choices but it gave us more dignity to keep looking for a new job."

"I am still trying to earn more but with receiving the payment we have a bit more peace of mind."

Qualitative findings: decreased labour market activity

116. Respondents stated they had decreased labour market activity in the following ways since receiving SCP:

- Reduced working hours
- Planned or considered reduced working hours
- Left job or second job
- Planned longer maternity leave
- Chose not to work

The two predominant and overlapping themes that emerged was that respondents (or their partners) decreased labour market activity: (1) due to the financial support they received from SCP, and (2) to spend more time with their child or children.

Decreased labour market activity: financial support from SCP

117. Most respondents who said or implied they (or their partners) decreased labour market activity, said it was because of the financial help received from SCP. Others were less clear in their response, but it is still likely they were able to make a change due to the financial support SCP provided. In these cases, respondents typically made statements like the following:

"One job instead of two."

"After maternity leave I will be going back to work 3 days."

Decreased labour market activity: to spend time with children

118. A key theme that emerged was respondents (or their partners) decreased labour market activity so that they could spend more time with their child or children. In several of these cases, the responses made clear this was a temporary change. Some respondents, including one with a disabled child, stated (or implied) decreasing their labour market activity was beneficial for their children.

> "It will allow me longer maternity leave to spend with my baby and older children."

> "I decided to take my full 1 year maternity leave and stay at home and look after my baby for 3 unpaid months. However, returning to work in November."

> "Nowadays I don't do as much overtime and that means I can spend more time with my kids. I have also put them in clubs."

> "Receiving child tax, good start grant and Scottish Child benefits made me decide to leave my 9 to 5 job so I can spend quality time with my child in the first 2 years, connect with my child and making sure that my child is reaching the expected development milestones."

> "I have been able to reduce my hours at work from 37.5 to 28 hrs a week. My son now receives CDP so I am able to be at home for him more often."

119. A small number of respondents felt their (or their partner's) decreased labour market activity was a good thing for their own wellbeing or overall family dynamics.

> "I can only work part time as a nurse due to childcare and being single. This payment has taken a lot of stress off of me trying to squeeze in extra shifts. I still do just as many extra shifts but I don't need to worry so much if I can't due to childcare reasons. This positively impacts my mental health as money impacts how I feel a lot of the time."

> "SCP has assisted my partner in not having to work more antisocial hours that would have impacted on our family time/life."

Decreased labour market activity: miscellaneous responses

120. Three respondents implied they decreased labour market activity due to a lack of help with, or ability to afford, childcare. However, it was not clear how (or whether) SCP influenced their decision. One respondent indicated that while they had no immediate plans to decrease labour market activity due to SCP, the payments "possibly could allow me to work part time due to my health."

> "I am a single parent and I have decided to go back to work part time as I don't have help with child care."

> "I have decided to stay at home with my children until they are entitled to funded nursery hours."

> "When my maternity ends, I plan to reduce my pre-pregnancy Full Time working hours to part time so I may continue to support my very high needs baby, poorly with GERD, at home rather than relying on very expensive childcare, less supportive of my sons needs with the endless staff and budget cuts experienced in the childcare sector."

Conclusion and limitations

121. In summary, with regards to engaging in labour market activity;

- SCP contributes to a range of associated behaviours, such as starting a new job, looking for a new job, taking on more hours, or starting an education course.
- One reason people make these decisions is because the income/government support they receive, including SCP, is not enough to meet living costs – although some recipients specifically say the payment does help.
- For others, SCP helps to cover costs (e.g. childcare) which allows them to make these decisions, or provides them with general support (e.g. motivation, peace of mind) while they try to access the labour market.

122. With regards to decreasing labour market activity;

- SCP contributes to a range of associated behaviours, such as reducing working hours, leaving a job, or taking longer maternity leave. Many indicate that these changes are temporary.
- Generally, the reason people make these decisions is because the financial support provided by SCP enables them to do so. However, there are cases where people decrease labour market activity due to issues with childcare - not necessarily because they want to.
- The main reason people say they (or their partner) have decreased labour market activity is so they can spend more time with their children, which many view as being beneficial for their child's development, their family dynamics, or their own wellbeing.

123. The qualitative data obtained in the Client Survey gives a key insight into the complex ways SCP can impact people's employment choices. However, the overall sample of relevant and usable responses (n=59) is quite small, and many of these are short answers missing context and/or require some interpretation.

124. Given these limitations, the following steps could be taken in future social research projects on SCP and employment choices, and have been factored into the forthcoming evaluation of SCP;

- Develop a new survey question (or questions) which are easier to understand. Any questions should take into consideration the qualitative responses described in this paper, which give a direct insight into how SCP interacts with labour market decisions.
- Ask for more detail on employment choices in qualitative interviews. This will make it possible to understand more about the specific influence of SCP in decisions, and the general context around them.

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