Child poverty modelling: update

March 2025

Scottish Government
Riaghaltas na h-Alba

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1. Summary

This report estimates the impacts of a package of Scottish Government policies on child poverty, updating the modelling that was originally undertaken for the second Tackling Child Poverty Delivery Plan. The report also examines a number of UK Government welfare policies from a child poverty perspective and estimates the impacts of a selection of hypothetical reforms.

The report focuses on two of the four statutory measures of child poverty, namely relative and absolute poverty after housing costs. Relative poverty is defined as having household income below 60% of the UK median. It therefore compares the incomes of households at the lower end of the income distribution with those in the middle. Absolute poverty is defined as having household income below 60% of the 2010-11 UK median, adjusted for inflation. It therefore tracks the extent to which low incomes are keeping up with prices.

The report also contains analysis on deep (or 'severe') poverty, defined as having household income below 50% of the UK median; and low income, defined as having household income below 70% of the UK median. For all measures, household income is defined by taking total household income from all sources net of tax, subtracting housing costs, and adjusting for household composition ('equivalisation').

The report finds that:

- Scottish Government policies are estimated to keep 70,000 children out of relative poverty in 2025-26, with the relative child poverty rate seven percentage points lower than it would be without these policies in place. This impact grows over time to reach 10 percentage points (100,000 children) by 2028-29.

- In terms of absolute child poverty, Scottish Government policies are estimated to keep 60,000 children out of poverty in 2025-26 on this measure, with the absolute child poverty rate six percentage points lower than it would be without these policies in place. This impact grows over time to reach 11 percentage points (110,000 children) from 2026-27 onwards.

- The Scottish Child Payment alone is estimated to keep 40,000 children out of relative poverty in 2025-26, with the relative child poverty rate four percentage points lower than it would be without the policy in place. Mitigating the two-child limit is estimated to keep 20,000 children out of relative poverty in 2026-27, representing an impact of two percentage points on the relative child poverty rate.

- The estimated impacts of the policy package on deep child poverty are equivalent to, or greater than, the impacts on relative child poverty. The deep child poverty rate is projected to be 7 percentage points lower in 2025-26 than it would be without the policy package in place, representing some 70,000 children who would otherwise be in deep poverty. Since deep poverty is a more stringent measure of poverty, the impacts are proportionately greater. An estimated 41% of children who would be in deep poverty without the policy package in place will be kept out of deep poverty in 2025-26, compared to 26% on the relative measure and 14% on the less stringent low-income measure.

- On average, households with children in the poorest 10% of households benefit from the policy package by an estimated £2,600 per year in 2025-26, representing over 20% of their income. This value is projected to grow to an average of £3,700, or nearly 30% of income, by 2029-30.

- By the end of 2024-25, the two-child limit will have withheld an estimated cumulative total of £377 million from Scottish households since it was introduced (£424 million in 2024-25 prices). Meanwhile, the benefit cap will have withheld £57 million (£71 million in 2024-25 prices) with the vast majority of this income withheld from households with children. Between 2011-12 and 2023-24, freezes and caps to Local Housing Allowances reduced the income of households in Scotland by an estimated cumulative total of £66 million (£81 million in 2024-25 prices), of which £26 million (£32 million in 2024-25 prices) was withheld from households with children.

- In 2025-26, the relative child poverty rate would be 2 percentage points lower if the UK Government abolished the two-child limit, representing an additional 20,000 children who would not be in poverty. The impact of replicating the Scottish Child Payment in Universal Credit would likewise be 2 percentage points (20,000 children), while the impact of introducing an Essentials Guarantee would be 4 percentage points (40,000 children). The cumulative impact of these changes, plus removing the benefit cap, would be to lower the child poverty rate by an estimated 10 percentage points relative to the baseline, representing an additional 100,000 children who would not be in poverty.

All modelling is subject to a degree of uncertainty, relying on a number of assumptions and simplifications. The results presented in this report, particularly projections of outturn poverty rates, should therefore be treated with caution.

2. Introduction

In March 2022, the Scottish Government published a Cumulative Impact Assessment (CIA) to accompany the second Tackling Child Poverty Delivery Plan, *Best Start, Bright Futures*.[1] The CIA set out projections for relative and absolute child poverty, in addition to the estimated impact of Scottish Government policies, using the latest information available at the time. The modelling was subsequently updated in June 2023 alongside the annual Progress Report.[2] A further update was published in February 2024, extending the analysis to include deep poverty and including additional estimates on a selection of hypothetical UK Government welfare reforms.[3]

The update set out in this report incorporates the economic forecasts published by the Office for Budget Responsibility (OBR) in October 2024; UK and Scottish Government policy announcements, including from the 2024 Spring and Autumn UK Budgets as well as the Scottish Budget as published on 4 December; and updated household survey information, including an additional year of data (2022-23) from the Family Resources Survey (FRS). We also extend to the modelling horizon to 2029-30; expand the CIA to include distributional impacts; and present new analysis on UK Government welfare reforms. Note that this update does not incorporate the March 2025 Spring Statement or the associated OBR forecasts, nor does it include the FRS data for 2023-24.

The most significant UK policy changes that have been incorporated in our model since the last update relate to taxes on earnings, which tend to affect middle- and higher-income households more than those at the bottom of the income distribution. After the previous UK Government introduced a further cut to employee National

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[1] Tackling child poverty delivery plan 2022-2026 - annex 4: cumulative impact assessment - gov.scot

[2] Tackling child poverty delivery plan - annual progress report: annex b - cumulative impact assessment update - gov.scot

[3] Child poverty cumulative impact assessment: update - gov.scot

Insurance Contributions (NICs) in 2024-25, the new Government chose to increase NICs for employers beginning in 2025-26, though the latter does not directly affect household incomes. In terms of benefit policy, the Government has lowered the maximum rate at which UC awards can be reduced in order to repay debts to 15%, although this rule already applied to households with no earnings. Reforms to disability and incapacity benefits have also been announced, coupled with increases to the standard allowance of Universal Credit, but at the time of writing insufficient detail was available to incorporate these changes in our model.[4]

On the other hand, the Scottish Budget in December included a commitment to mitigate the two-child limit, which restricts support through UC to the first two children and is widely considered to be a key driver of child poverty in large families. The Budget also increased the starter- and basic-rate income tax thresholds by 3.5%, whereas UK income tax and NI thresholds are set to remain frozen until 2027-28.

The macroeconomic outlook has fluctuated since our last update, but remains challenging. Inflation forecasts were downgraded in the 2024 Spring Budget, but were then upgraded again in the autumn. The effects of the cost-of-living crisis persist: consumer price levels are set to be around 25% higher by the beginning of 2025-26 than they were before inflation began to accelerate in 2021-22, and at the time of writing inflation rates were expected to remain above the Bank of England's target of 2% until 2029-30. Forecasts for nominal earnings growth were also revised upwards in the October forecasts, having shown little change in the previous March, though the implications for child poverty will ultimately depend on how this growth is distributed as well as the effects of tax policy.

Overall, real disposable household income has grown more quickly than previously expected over the last two years, but is now expected to stagnate over the medium term such that the outlook remained virtually unchanged by the end of the forecast

[4] Pathways to Work: Reforming Benefits and Support to Get Britain Working Green Paper - GOV.UK

horizon at the time of writing. This measure of living standards is set to be only two percent higher in 2025-26 at the UK level than it was before the Covid-19 pandemic, with little growth forecast over the next half-decade.

In terms of the input data, we are now able to incorporate FRS data for 2022-23 along with 2021-22, which allows us to drop 2019-20 from the sample. The modelling should therefore be more representative of the post-Covid world, although it continues to be affected by the higher levels of uncertainty and volatility that come with using a pool of two years data rather than three. We plan to revert to a three-year pool once input data for 2023-24 is available for use in the model.

In this instance, updating the input data has led to a considerable deterioration in our projections, reflecting the increase in single-year poverty rates observed in 2022-23. As noted in previous updates, this effect is sensitive to the method chosen for calibrating the outputs of the model to the official child poverty statistics, and fluctuations can occur in both directions as the input data is updated over time. The final section of the report sets out the results from using an alternative calibration method.

The outlook for child poverty could change with future events. Besides the aforementioned reforms to disability and incapacity benefits, the UK Spring Statement is due to be issued shortly before this update, followed by the UK Government's Child Poverty Taskforce strategy later in 2025. In March 2026, the Scottish Government will then publish its final Tackling Child Poverty Delivery Plan, which will set out a path to meeting the final child poverty targets in 2030-31. The UK Government has also committed to reviewing Universal Credit (UC).[5] In addition, the data and forecasts underpinning the model will continue to be updated over time, which will have a bearing on our estimates.

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[5] Universal Credit - Hansard - UK Parliament

3. Cumulative impact assessment

This section sets out the estimated impacts of Scottish Government policies on two of our target measures, namely relative and absolute child poverty. We also present analysis on how these policies are affecting children at different points in the income distribution.

The original CIA sets out the full details of our methodology.[6] As in previous modelling, we run two scenarios in each year: a baseline (or 'policy') scenario, which represents our main projection, and a counterfactual scenario, which represents a hypothetical world in which a package of Scottish Government policies did not exist. The difference between the two scenarios represents the cumulative impact of these policies.

The policy package has been updated to include mitigation of the two-child limit. In addition, we have improved our modelling of Free School Meals (FSM) to include more accurate assumptions on take-up and a value per meal that is consistent with the FRS. Otherwise, the same policies are included in the policy package as in the original CIA, along with any changes to these policies that have been announced or implemented in the interim period. Section 5.1 includes further details on our methodology, including the policies included in the package and the changes we have introduced.

3.1 Target measures

Figure 1 and Table 1 summarise the results of our analysis in terms of relative child poverty, with the results for absolute child poverty shown in Figure 2 and Table 2. Relative poverty is defined as having equivalised household income below 60% of the UK median, while absolute poverty uses 60% of the UK median in 2010-11, adjusted for inflation.

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[6] Tackling child poverty delivery plan 2022-2026 - annex 4: cumulative impact assessment - gov.scot

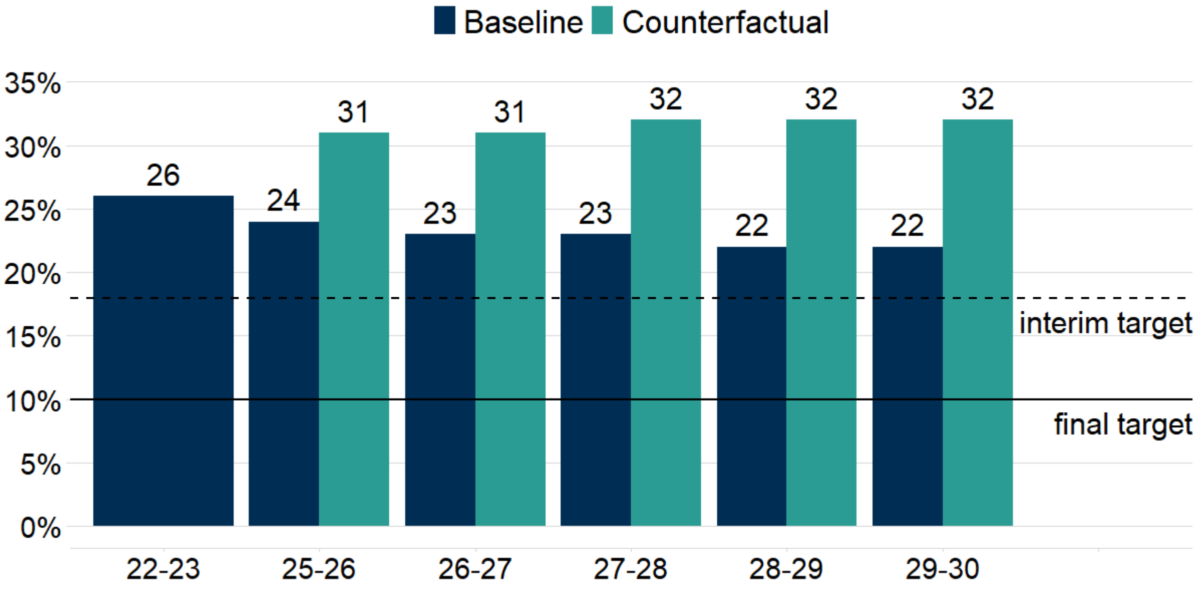
Our projections of child poverty as represented by the baseline scenario have deteriorated since our last update. As noted above, this is largely due to the incorporation of the 2022-23 FRS data – particularly the process of calibrating the model to this data, as set out in Section 6. Upward revisions to forecasts for inflation and earnings growth have also contributed by raising the absolute and relative poverty lines respectively, with the latter additionally affected by changes in UK Government tax policy that favour households at the median.

Given unevenness in the income distribution combined with the scale of the policy package, these changes have affected the baseline scenario more than the counterfactual scenario, resulting in a reduction in the measured impact of the policy package.[7] The revisions to FSM modelling set out in Section 5.1 have reduced this impact more directly, further explaining the deterioration in the projections. In 2025-26, we estimate that the policy package will keep 70,000 children out of poverty, with the relative child poverty rate seven percentage points lower than it would be without these policies in place. In terms of absolute child poverty, the impact is estimated to be six percentage points, representing 60,000 children who would otherwise be in poverty on this measure.

The impacts increase from 2026-27 onwards on both measures, translating into lower child poverty rates. By the end of the forecast horizon, the impact of the policy package is estimated to be 10 percentage points on the relative child poverty rate and 11 percentage points on the absolute child poverty rate, representing 100,000 and 110,000 children respectively. This increase reflects the introduction of two-child limit mitigation, as well as other factors such as benefit rates catching up with prices as elevated rates of inflation fall back to the Bank of England’s target.

[7] Unevenness in the income distribution refers to the fact that a disproportionate number of children are clustered around the poverty line, particularly on the relative measure. The scale of the policy package is also relevant because many recipient households would be in poverty without the package in place regardless of movements in the poverty line. For example, their only income may come from Universal Credit and Child Benefit in the counterfactual scenario, or they may have no income at all.

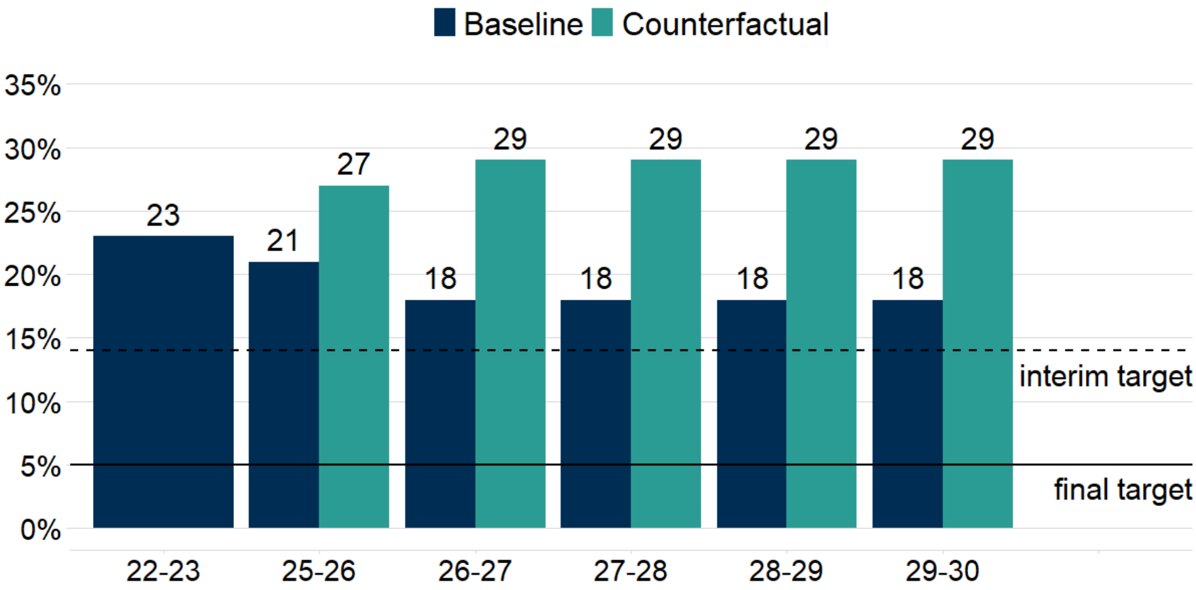
Figure 1: Estimated child poverty rate, relative poverty



Notes: Counterfactual scenario represents a hypothetical world in which a package of Scottish Government policies does not exist. See Section 5.1 for further details.

Source: SG analysis using UKMOD

Figure 2: Estimated child poverty rate, absolute poverty



Notes: Counterfactual scenario represents a hypothetical world in which a package of Scottish Government policies does not exist. See Section 5.1 for further details.

Source: SG analysis using UKMOD

Table 1: Estimated child poverty rate and impact of policy package, relative poverty

	Baseline – February 2024	**Counter-factual** – February 2024	**Impact of policy package** – February 2024	**Baseline** – March 2025	**Counter-factual** – March 2025	**Impact of policy package** – March 2025
2021-22	23%	26%	4 ppts	-	-	-
2022-23	-	-	-	26%	-	-
2023-24	16%	26%	10 ppts	-	-	-
2024-25	18%	28%	10 ppts	-	-	-
2025-26	-	-	-	24%	31%	7 ppts
2026-27	17%	27%	10 ppts	23%	31%	8 ppts
2027-28	-	-	-	23%	32%	9 ppts
2028-29	-	-	-	22%	32%	10 ppts
2029-30	-	-	-	22%	32%	10 ppts

Notes: Dash indicates that year was not modelled. Figures may not sum due to rounding. Counterfactual scenario represents a hypothetical world in which a package of Scottish Government policies does not exist. Impact of policy package represents difference between baseline and counterfactual scenarios and is therefore affected by exogenous changes that affect these scenarios differentially. See Section 5.1 for further details.

Source: SG analysis using UKMOD

Table 2: Estimated child poverty rate and impact of policy package, absolute poverty

	Baseline – February 2024	**Counter-factual –** February 2024	**Impact of policy package –** February 2024	**Baseline –** March 2025	**Counter-factual –** March 2025	**Impact of policy package –** March 2025
2021-22	19%	22%	2 ppts	-	-	-
2022-23	-	-	-	23%	-	-
2023-24	13%	22%	8 ppts	-	-	-
2024-25	15%	23%	7 ppts	-	-	-
2025-26	-	-	-	21%	27%	6 ppts
2026-27	14%	23%	8 ppts	18%	29%	11 ppts
2027-28	-	-	-	18%	29%	11 ppts
2028-29	-	-	-	18%	29%	11 ppts
2029-30	-	-	-	18%	29%	11 ppts

Notes: Dash indicates that year was not modelled. Figures may not sum due to rounding. Counterfactual scenario represents a hypothetical world in which a package of Scottish Government policies does not exist. Impact of policy package represents difference between baseline and counterfactual scenarios and is therefore affected by exogenous changes that affect these scenarios differentially. See Section 5.1 for further details.
Source: SG analysis using UKMOD

3.2 Distributional impacts

To gain a more complete understanding of the impacts of the policy package, Table 3 compares the impacts on relative poverty with those on deep poverty and low income. Whereas the relative poverty line is set at 60% of UK median household income, deep poverty is set at 50% of the median, and low income at 70%. Deep poverty is therefore a more stringent definition of poverty, while low income captures households that are above the relative poverty line but still at risk of poverty.

The impact of the policy package on deep poverty is estimated to be seven percentage points in 2025-26, representing some 70,000 children who would otherwise be in deep poverty, rising to 10 percentage points or 100,000 children over the forecast horizon. This is consistent with our last update, which estimated the impact to be seven percentage points in 2024-25. The fact that this impact has remained stable further demonstrates how the reduction in impact on the relative measure is particularly sensitive to shifts in the poverty line driven by macroeconomic factors and UK Government policies.

The table shows that the policy package disproportionately benefits children further down the income distribution, with equal or greater impacts on deep poverty than on relative poverty. This demonstrates that the policy package is not just pushing households over the relative poverty line, but is also reducing the depth of poverty for tens of thousands of children. The lower impacts on the low-income measure reflect the fact that the policy package is mainly comprised of means-tested benefits, but still show that Scottish Government policies are significantly reducing the risk of child poverty for many households.

Table 3: Estimated percentage-point impacts of policy package on child poverty rate, various poverty definitions

	Deep poverty (50% median)	**Relative poverty** (60% median)	**Low income** (70% median)
2025-26	7	7	5
2026-27	9	8	7
2027-28	10	9	7
2028-29	10	10	8
2029-30	10	10	8

Notes: Deep poverty defined as having household income below 50% of UK median; relative poverty defined as having household income below 60% of UK median; low income defined as having household income below 70% of UK median. Household income defined as net equivalised household income after housing costs.
Source: SG analysis using UKMOD

There are by definition fewer children living in deep poverty than in relative poverty, and fewer living in relative poverty than in low income. In this sense, an impact of one percentage point is proportionately larger for deep poverty than it is for relative poverty – and proportionately larger for relative poverty than for low income – because it represents a higher percentage of children who would meet that definition of poverty if the policy package was not in place.

An alternative way to compare impacts across the three measures is to calculate this percentage for each measure – that is, the percentage of children in poverty in the counterfactual scenario who are not in poverty in the baseline scenario.[8] This is shown in Table 4. The table demonstrates that, when expressed as a proportion of the counterfactual poverty rate, the impacts of the policy package are even more targeted at children on the lowest incomes. In 2025-26, an estimated 41% of children who would have been in deep poverty if the policy package was not in place will not be in deep poverty, compared to 26% and 14% for relative poverty and low income respectively. By 2026-27, this proportion rises to 55%.

[8] Even this method does not take into account the unevenness of the income distribution, since the poverty lines are set as fixed percentages of the median rather than on a quantile basis. All else equal, larger impacts will tend to be observed if children are clustered around the poverty line in question, which tends to be the case for the relative poverty.

Table 4: Estimated percentage of children otherwise in poverty who are not in poverty, various poverty definitions (%)

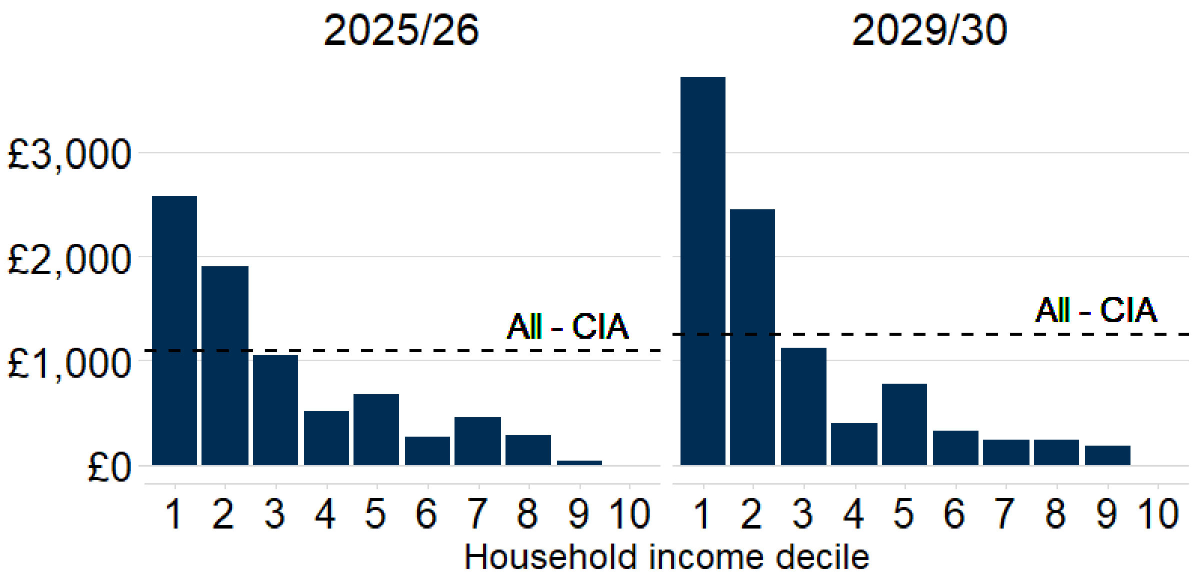
	Deep poverty (50% median)	**Relative poverty** (60% median)	**Low income** (70% median)
2025-26	41	26	14
2026-27	55	32	19
2027-28	55	33	21
2028-29	55	36	22
2029-30	55	37	21

Notes: Deep poverty defined as having household income below 50% of UK median; relative poverty defined as having household income below 60% of UK median; low income defined as having household income below 70% of UK median. Household income defined as net equivalised household income after housing costs.
Source: SG analysis using UKMOD

We see a similar picture if we examine the impacts of the policy package across the income distribution. The following figures divide the population into ten equally sized groups, or deciles, in order of household income. Figure 3 presents the impacts of the package on average income in each decile in absolute terms, while Figure 4 shows the impact in percentage terms.

The figures show that the policy package is worth an average of £2,600 per year to households with children in the bottom decile in 2025-26, representing 21% of their income. By 2029-30, this value increases in nominal terms to £3,700, or 29% of average income. Overall, the figures show a highly progressive distribution of impacts, with lower-income households gaining the most.

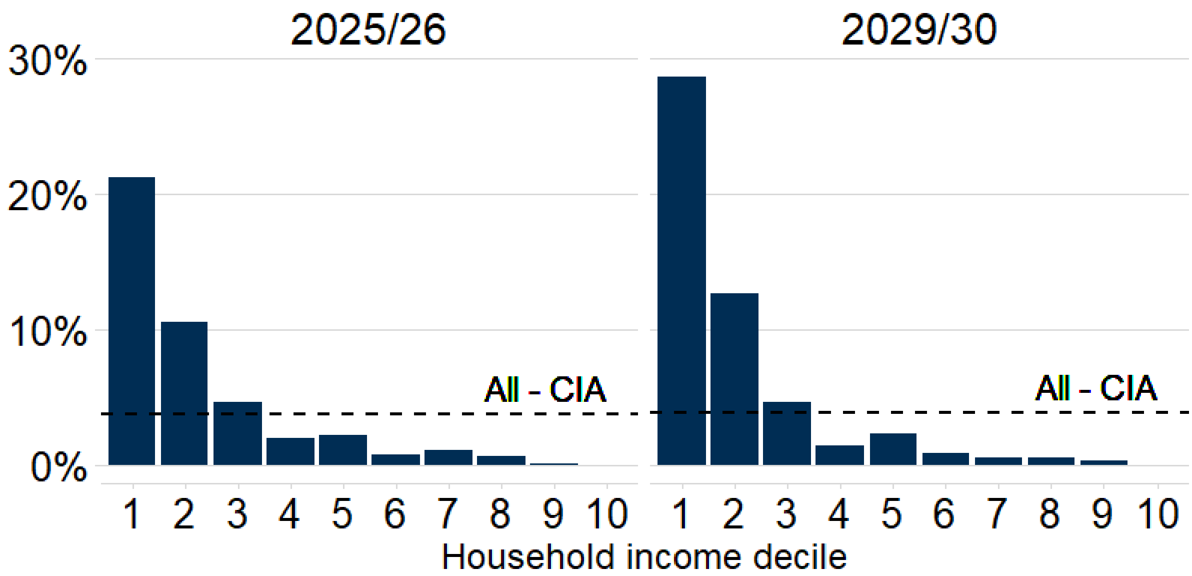
Figure 3: Impact of policy package on average income of households with children by decile (£)



Notes: Income defined as net equivalised household income after housing costs. Dotted line shows average impact across all households with children. Deciles based on counterfactual scenario. Incomes expressed in nominal terms.

Source: SG analysis using UKMOD

Figure 4: Impact of policy package on average income of households with children by decile (%)



Notes: Income defined as net equivalised household income after housing costs. Dotted line shows average impact across all households with children. Deciles based on counterfactual scenario.

Source: SG analysis using UKMOD

3.3 Individual policies

In addition to modelling the full policy package, we can use the same methodology to estimate the impacts of individual policies within the package. For each policy, a separate counterfactual is constructed in which that policy is removed while the rest of the policy package remains in place. Note that the cumulative impact of the policy package is not necessarily equal to the sum of the impacts of the individual policies when estimated by this method, as many households benefit from multiple policies within the package.[9]

In 2025-26, the impact of the Scottish Child Payment (SCP) on the relative child poverty rate is estimated to be four percentage points – representing 40,000 children – relative to a counterfactual scenario in which this policy did not exist. This estimate is validated by the latest poverty data, covering the period 2023-24, in which the relative child poverty rate was four percentage points lower than it would have been without SCP in place.[10]

Mitigating the two-child limit is estimated to have an impact of two percentage points on the relative child poverty rate in 2026-27, representing 20,000 children. The impacts can be expected to increase each year as more children are affected by the

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[9] Depending on their position relative to the poverty line, some households that benefit from multiple policies may be counted in the impacts of more than one of those policies, but would only be counted once in the cumulative impact. Meanwhile, other households that contribute to the cumulative impact may not contribute to any of the individual impacts. The policies in the package can also interact, with receipt of one policy affecting entitlement to another, but this is less relevant to the specific policies appraised in this section.

[10] This figure is calculated by removing SCP from the incomes of households that are counted as receiving it and then recalculating the relative child poverty rate. No adjustment is made for the impact of SCP on the poverty line, but since this is set at the UK level we would expect any such effect to be minor. According to this same method, the impact that was realised in 2022-23, during which the benefit was still transitioning in terms of its eligibility and value, was two percentage points on the relative child poverty rate.

limit and become eligible for mitigation.[11] The two-child limit is explained in Section 4.1.1 and the policy to mitigate it is explained in Section 5.1.

[11] This does not necessarily mean that the measured impacts would increase after rounding.

4. Welfare reform

4.1 Current policies

This section presents analysis on the impacts of a selection of welfare policies that are currently in place, namely the two-child limit, the benefit cap, and cuts to Local Housing Allowances. These policies all reduce UC income directly, including for many households with children.

4.1.1 The two-child limit

The two-child limit restricts support through UC to the first two children in a family. Before April 2025, when the tax credit system was due to end, Child Tax Credit (CTC) was also subject to the limit. The policy was introduced on 6 April 2017 and applies to all third and subsequent children born from that date onwards, though there are exemptions in specific circumstances.[12] A key result of this age threshold is that an increasing proportion of children are affected over time. The Scottish Government has committed to mitigate the two-child limit from 2026, or earlier if feasible to do so safely and securely.

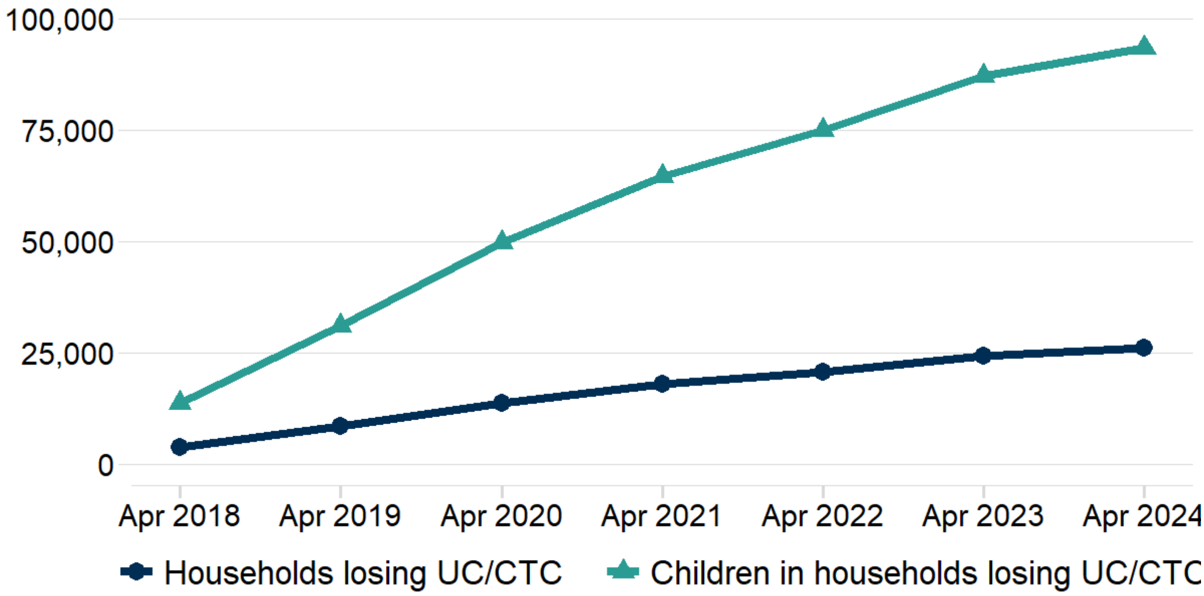
Figure 5 shows the number of households and the estimated number of children affected by the two-child limit over time. This includes all children in affected households and therefore differs from estimates produced by the Scottish Fiscal Commission (SFC) which focus on the number of children for whom entitlement is

[12] There are four categories of exception: 1) additional children in a multiple birth (e.g. twins), where an extra amount will be payable for all children in a multiple birth other than the first child; 2) children who are likely to have been born as a result of non-consensual conception, including rape or where the claimant was in a controlling or coercive relationship with the child's other biological parent at the time of conception; 3) children who are adopted when they would otherwise be in local authority care; and 4) children who are in non-parental caring arrangements when they would otherwise be at risk of entering the care system, including where a child (under 16) has a child.

removed – that is, only the third and subsequent children in the household. Note however that the figure only includes households for whom CTC or UC is withheld for at least one child; in other words, it excludes households that are fully exempt.

The number of households affected by the two-child limit has steadily risen over time to reach over 25,000 as of April 2024, representing over 90,000 children. We estimate that, by the end of 2024-25, the two-child limit will have withheld a cumulative total of £377 million from Scottish households since it was introduced, equivalent to £424 million in 2024-25 prices. Section 5.2.1 sets out the methodology underpinning these estimates.

Figure 5: Estimated number of children and households affected by the two-child limit, Scotland



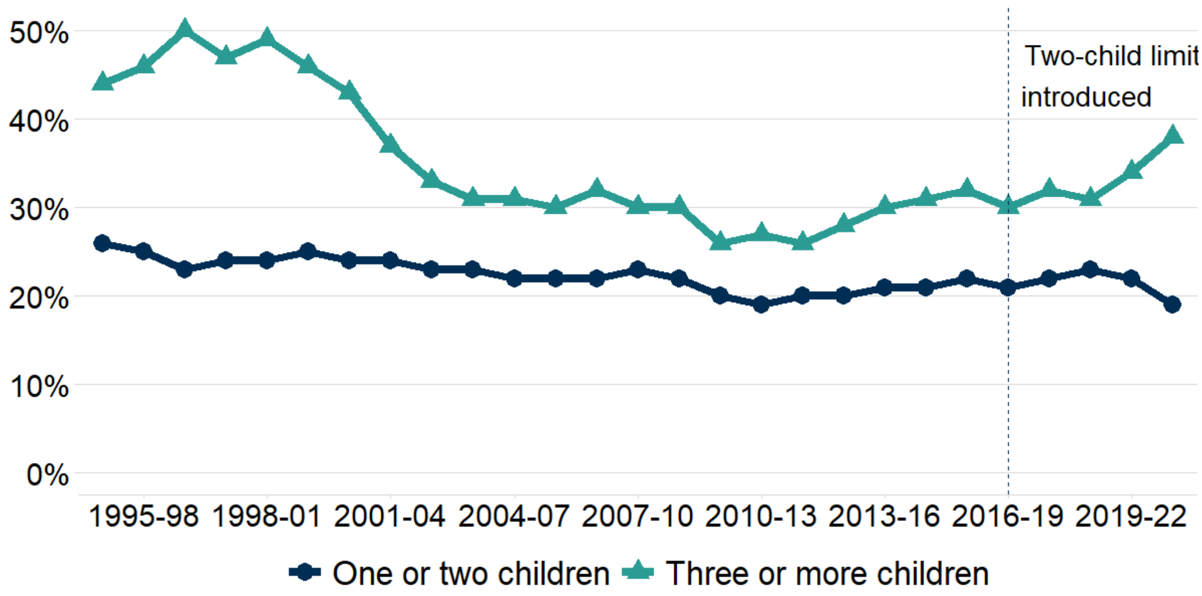
Notes: UC = Universal Credit, CTC = Child Tax Credit. For further details see Section 5.2.1.

Source: SG analysis of Universal Credit and Child Tax Credit claimants: statistics related to the policy to provide support for a maximum of 2 children - GOV.UK

As shown in Figure 6, the child poverty rate in households with three or more children has been increasing over time, after falling considerably in the late 1990s and early 2000s. By contrast, households with fewer children have seen relatively stable poverty rates over the last few decades. Children in households with three or more children are now twice as likely to be in poverty as children in households with fewer children, with a poverty rate of 38% compared to 19% in 2020-23.[13]

This turnaround began around 2011, when the wider austerity programme started to affect the social security system, but has been particularly pronounced since around 2017, when the two-child limit began to take effect. While other factors could also have contributed to the acceleration, it has not been evident in households with fewer children. In any case, it is clear that large families are already at higher risk of poverty; and without mitigation the policy would be expected to push an increasing number of children into poverty over time. The Resolution Foundation has estimated that half of children in families with three or more children will be in poverty by 2029-30 across the UK if the two-child limit is retained, with the New Economics Foundation projecting a similar trend.[14]

Figure 6: Relative child poverty rate by number of children in household, Scotland



Source: Poverty and Income Inequality in Scotland 2020-23

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[13] Poverty and Income Inequality in Scotland 2020-23. Note that these poverty rates are defined at the household level, meaning they could contain multiple families.

[14] Turning the tide • Resolution Foundation; Capping ambitions | New Economics Foundation

4.1.2 The benefit cap

The benefit cap limits the total amount of income from certain benefits that each household can receive by reducing either its UC or Housing Benefit (HB), though some households are exempt.[15] Originally introduced in 2013 at a rate equivalent to £26,000 per year (£18,200 for a single person with no children), the cap was lowered to £20,000 (£13,400) in 2016. It was then frozen until 2023, when it was uprated by inflation to £22,020 (£14,753), but has since remained frozen again. In Scotland, the policy is mitigated through Discretionary Housing Payments.

The benefit cap affects a relatively small number of households, but these are overwhelmingly families with children – usually three or more children – and are mostly lone parents. As shown in Table 5, the level of the benefit cap is below the relative poverty threshold for a large majority of affected households. These gaps will widen over time as the poverty line rises while the benefit cap remains indefinitely frozen.

[15] See Benefit cap: Benefits affected by the cap - GOV.UK for a list of benefits that are subject to the cap in addition to the conditions under which households are exempt.

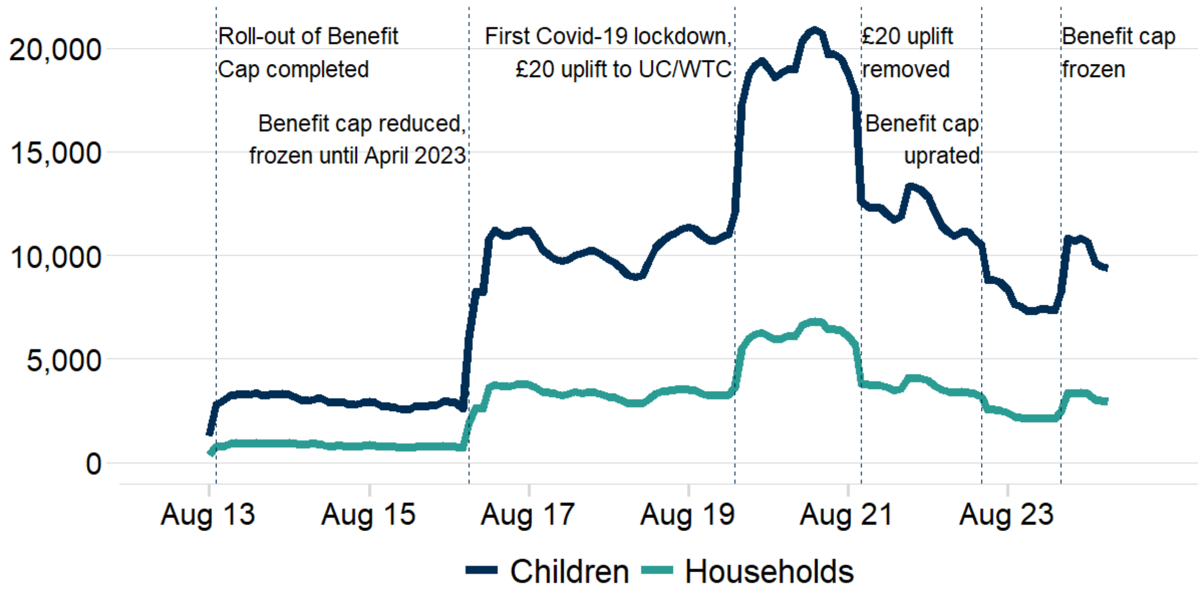
Table 5: Gap between benefit cap and projected relative poverty thresholds before housing costs, Scotland, 2024-25

Household type	Composition of households on the benefit cap	Projected poverty threshold before housing costs	Minimum difference between benefit cap and poverty threshold
Single, no children	<1%	£14,867	-£114
Couple, no children	0%	£29,734	-£7,714
Single, one child	<1%	£19,305	£2,715
Couple, one child	<1%	£34,173	-£12,153
Single, two children	<1%	£23,743	-£1,723
Couple, two children	1%	£38,611	-£16,591
Single, three children	4%	£28,181	-£6,161
Couple, three children	2%	£43,049	-£21,029
Single, four children	10%	£32,619	-£10,599
Couple, four children	4%	£47,487	-£25,467
Single, five children	13%	£37,057	-£15,037
Couple, five children	7%	£51,925	-£29,905
All	100%	N/A	N/A

Notes: Percentages as of September 2024. All children are assumed to be aged fourteen or younger. As older children attract a higher weighting in calculating when equivalising incomes, the poverty thresholds shown here – and therefore the gaps between the benefit cap and those thresholds – are labelled as minimums. In addition, households with five or more children are assumed to have five children – the gaps will be larger for households with more children. The table excludes other forms of income besides benefits. Whereas poverty is measured on a household basis, the benefit cap is applied at the level of the benefit unit, so some households with multiple benefit units may have incomes above the benefit cap and above the relevant poverty thresholds.
Source: SG analysis using UKMOD; DWP Stat-Xplore

Figure 7 shows the number of households and the estimated number of children affected by the benefit cap over time. As of November 2024, nearly 3,000 households containing over 9,000 children were subject to the cap. The figure also shows how the affected population tends to grow when the benefit cap is frozen or reduced – particularly when benefit rates are uprated or increased – and tends to fall when the benefit cap is uprated. We estimate that, between its introduction in July 2013 and the end of 2024-25, the benefit cap will have withheld a cumulative total of £57 million in UC or HB from Scottish households, equivalent to £71 million in 2024-25 prices. The vast majority of this income was withheld from households with children.

Figure 7: Estimated number of households and children subject to the benefit cap, Scotland



Notes: For further details see Section 5.2.2.

Source: SG analysis of DWP, Stat-Xplore

4.1.3 Cuts to Local Housing Allowances

Local Housing Allowances (LHAs) determine the maximum amount of support that households in the private rented sector can receive through HB or the housing element of UC. Unlike the two-child limit and the benefit cap, which affect households with children either exclusively or predominantly, LHAs apply to all private sector tenants on UC and HB. LHAs vary by the number of bedrooms for which the household is eligible, based on the age, sex, disability status, and number of individuals in the household; and by the area in which the household lives, with Local Authorities grouped into Broad Rental Market Areas (BRMAs). In Scotland, shortfalls in income associated with LHAs are one of the reasons for which Local Authorities can grant Discretionary Housing Payments.

When they were introduced across the UK in 2008-09, LHAs were set at the 50th percentile (median) of rents for each property size in each BRMA and were uprated on a monthly basis. However, in 2011-12, this level was reduced to the 30th percentile, and in 2012-13 the monthly uprating regime was replaced by an annual one. This was followed by nearly a decade of caps and freezes which led to divergences between LHAs and the 30th percentile of rents.[16] LHAs were rebased at the 30th percentile in 2020-21 and 2024-25, with a freeze in the interim period, but are currently set to remain frozen at their 2024-25 levels indefinitely.[17]

Figure 8 shows the estimated number of households and children affected by LHAs diverging from the annual 30th percentile in each year since 2011. These are households on UC or HB – and children in those households – that would have received more in benefits had LHAs been annually pegged at the 30th percentile of market rents. The chart clearly shows how the affected population grew between 2011 and 2020, when LHAs were rebased, before growing again as LHAs were once again frozen. We estimate that, between 2011-12 and 2023-24, freezes and caps to

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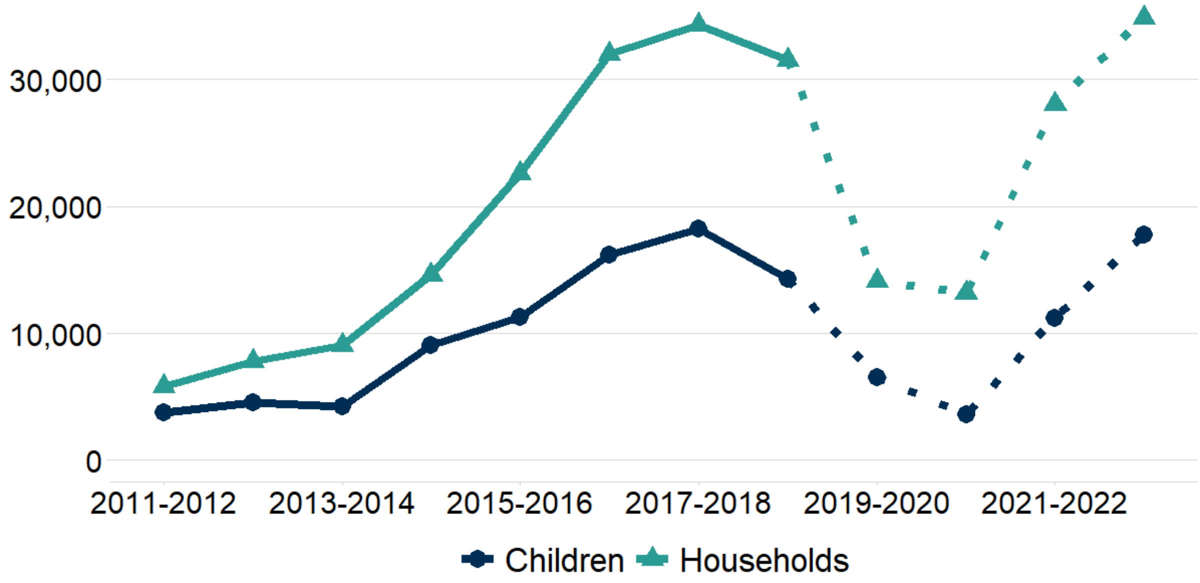
[16] Stop the freeze: permanently re-link housing benefits to private rents | Joseph Rowntree Foundation

[17] A range of other changes were also made to LHAs around the same time, including the abolition of the £15 excess rule, whereby claimants could receive up to £15 per week of the difference between their rent and their LHA if their rent was lower; the introduction of an upper limit to LHAs for each property size; and the reduction in the maximum number of eligible bedrooms – in place since 2009 – from five to four. On the other hand, additional allowances were made for non-dependents and disabled people requiring overnight care.

LHAs reduced the income of households in Scotland by a cumulative total of £66 million (or £81 million in 2024-25 prices), of which £26 million (£32 million in 2024-25 prices) was withheld from households with children.

Figure 8: Estimated number of children living in households on Universal Credit or Housing Benefit in the private rented sector in Scotland whose rents exceed their Local Housing Allowance



Notes: Dotted line indicates break in the time series resulting from remote data collection during Covid-19 lockdowns during 2020 and 2021; see Section 5.2.3 for more details.
Source: SG analysis of Scottish Household Survey

4.2 Hypothetical reforms

This section estimates the child poverty impacts of three hypothetical welfare reforms in 2025-26: abolishing the two-child limit; introducing an Essentials Guarantee; and replicating the Scottish Child Payment in UC. We also model a cumulative scenario in which all three of these reforms are introduced and the benefit cap is additionally removed.

In terms of methodology, the baseline scenario remains the same as in the CIA, but the counterfactuals now represent hypothetical worlds in which each of the welfare reforms are introduced. The impacts of these reforms are therefore additional to the impacts of the SG policy package and would represent reductions to the child poverty rates projected in the CIA baseline. As per Section 3.3, each reform is added to that baseline separately, rather than building up to the cumulative scenario in an incremental manner.

As noted in previous sections, the Scottish Government has committed to mitigate the two-child limit from 2026, or earlier if feasible to do so safely and securely. For the sake of modelling, we assume throughout this report that this mitigation will come into force in April 2026 (see Section 5.1). The results presented in this section, which pertain to 2025-26, are therefore based on a world without mitigation. In other words, for all the reforms modelled here, including the abolition of the two-child limit, there is no mitigation of the two-child limit in either the baseline or the counterfactual.

The Scottish Government has called on the UK Government to adopt an Essentials Guarantee in UC. To ensure that recipients can afford basic necessities, analysis by the Joseph Rowntree Foundation (JRF) shows that the UC standard allowance should be raised to £120 per month for a single person and £200 for a couple in 2024-25 prices.[18] Besides reducing poverty, this would address the age discrimination present in the system by allocating the same standard allowance to under-25s as older people, rather than the lowered rate that they currently receive, and would limit the amount by which UC awards can be reduced due to sanctions and debt deductions. Uprating the Guarantee by inflation implies a weekly rate of £123 for a single person and £204 for a couple in 2025-26, representing an increase of between 33% and 78% over the published rates depending on the number and age of adults in the family.[19]

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[18] Guarantee our Essentials: reforming Universal Credit to ensure we can all afford the essentials in hard times | Joseph Rowntree Foundation

[19] The 2024-25 Essentials Guarantee amounts are uprated by the Consumer Price Index (CPI) up to December 2024, in line with JRF’s method. In reality the Guarantee may not track the CPI exactly, since it would likely depend on the prices of specific goods and services rather than on the overall price level. The basket of goods and services that make up the Guarantee may also vary over time.

The Scottish Child Payment (SCP) will pay £27.15 per week for every child in the family under 16 in 2025-26, equivalent to around £118.05 per month. Replicating SCP within UC would involve adding this amount to the UC child element, which is worth £292.81 per child in 2025-26. Policies such as the two-child limit and the benefit cap would constrain this increase for some families, although any mitigation of these policies would increase concomitantly. Note that the analysis presented here assumes that all dependents as defined by UC would be eligible for the increase – meaning it would additionally include 16-year-olds as well as 17-19-year-olds who are in education or training – and that SCP itself would remain in place. This is in line with modelling undertaken by the Institute for Fiscal Studies.[20]

The cumulative scenario takes into account the interactions between these policies. For example, abolishing the two-child limit will have a greater impact if the amount that this policy would otherwise withhold from third and subsequent children increases, as it does under the option to replicate SCP in the UC child element; and conversely, replicating SCP will have a greater impact if the two-child limit is removed, as otherwise the payment will not reach third and subsequent children. As in the CIA, the policies also interact in terms of household poverty status, particularly since all households on UC receive the standard allowances that are increased under the Essentials Guarantee. The upshot is that the cumulative impact of the policies can be more or less than the sum of their respective, individual impacts.

The hypothetical reforms modelled here would to some extent be constrained by the benefit cap. Under each reform, households already subject to the cap would receive no additional income from UC, while other households would be pushed onto the cap and so receive only a partial increase. Mitigation of the benefit cap may not be able to fully offset these constraints if the income withheld through the cap exceeds a household's housing costs, which determines the maximum that can be paid out through Discretionary Housing Payments. Since this issue would be particularly

[20] Child poverty: trends and policy options | Institute for Fiscal Studies

acute if all three reforms were to be introduced together, we assume that the benefit cap is removed in the cumulative scenario.

Table 6 shows the estimated impacts of each set of reforms on child poverty. Introducing an Essentials Guarantee would be the single most impactful reform, reducing the relative child poverty rate by 4 percentage points, representing around 40,000 children. Abolishing the two-child limit and replicating the Scottish Child Payment would each have an impact of 2 percentage points, while the cumulative package would have an impact of 10 percentage points. The fact that this is greater than the sum of the individual policy impacts reflects the removal of the benefit cap as well as the other interactions highlighted above.

Table 6: Estimated percentage-point impacts of hypothetical welfare reforms on the relative child poverty in Scotland, 2025-26

Reform	**Impact on relative child poverty**
Abolish the two-child limit	2 ppts
Replicate the Scottish Child Payment	2 ppts
Introduce an Essentials Guarantee	4 ppts
All of the above, plus remove the benefit cap	10 ppts

Notes: As each set of reforms is modelled separately, impacts are not incremental.

Source: SG analysis using UKMOD

5. Methodology

5.1 Cumulative impact assessment

The policy package modelled in the CIA includes the following policies: Free School Meals; School Clothing Grant; Council Tax Reduction (including water and sewerage discount); Discretionary Housing Payments (bedroom tax and benefit cap mitigation); Carers Allowance Supplement; Best Start Grant; Best Start Foods; Scottish Child Payment; employability services; and mitigation of the two-child limit. The methodology underpinning the CIA, which is based on the microsimulation model UKMOD, has been detailed in the original publication and subsequent updates. This section focuses on two changes that have been made since the previous update, namely the introduction of the policy to mitigate the two-child limit and improvements to our modelling of FSM.

Our modelling of two-child limit mitigation is consistent with the assumptions set out by the SFC in their costing published in January 2025.[21] That is, we assume that mitigation will be paid from April 2026, acknowledging that Ministers have committed to making payments earlier if feasible to do safely and securely; that the payment will not be treated as income in the reserved social security system, including the benefit cap; and that it will be paid to all affected families who are in receipt of UC, but not to those who would become newly eligible for UC by means of the taper if the two-child limit had been removed at source. Unlike SFC, however, we do not incorporate behavioural effects as this is beyond the current capabilities of our model.

Our modelling of FSM has been improved in several ways. Firstly, whereas FSM were previously modelled with full take-up, UKMOD now assumes partial take-up using data from the School Healthy Living Survey.[22] This is assumed to occur through intermittency of take-up rather than categorical non-take-up, meaning the

[21] Mitigating the two-child limit and the Scottish Budget | Scottish Fiscal Commission

[22] School healthy living survey: school meal uptake statistics 2024 - gov.scot

annualised value per child is adjusted rather than the caseload. Secondly, we have revised the assumed value per meal to be consistent with the FRS. We previously based this value on the cost of providing a meal in primary and secondary schools as reported in the Local Government Finance Statistics.[23] However, the cost to local authorities is likely higher than the value obtained by families, as approximated for example by the price that is charged to families who pay for school meals. We have therefore used the same value per meal as the FRS – specifically, £2.53 in 2023-24 – projected forwards with CPI. Finally, the measure of earnings that is used to determine FSM eligibility for households receiving UC has been amended to be consistent with the definition of earned income under UC.

5.2 Welfare reform

5.2.1 The two-child limit

The estimated numbers of children affected over time are based on official UK Government statistics, which show the rounded number of households affected by the two-child limit in Scotland as of April each year.[24] The statistics also show, at the GB/UK level only, the number of affected households with three, four, and five or more children.[25] Separate statistics are provided on the number of households and children in those households that are notionally affected by the two-child limit – that is, before any exemptions are applied – and the number that have CTC or the UC child element withheld for at least one child in the household. However, the child breakdown is only available for the second category, which is our main interest, from

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[23] Local government finance statistics - gov.scot

[24] Universal Credit and Child Tax Credit claimants: statistics related to the policy to provide support for a maximum of 2 children - GOV.UK.

[25] The statistics cover all of the UK for CTC but only GB for UC. Housing Benefit (HB) is not included, though most families on HB that are affected by the two-child limit would also be expected to be receiving CTC.

2021-22. We fill in these gaps by applying GB/UK proportions to Scotland, and by applying 2021-22 proportions to previous years.

Our estimate of the cumulative amount of income withheld from Scottish households as a result of the two-child limit is based on running a set of scenarios in UKMOD in which the two-child limit was removed in every year between 2017-18 and 2024-25 and then calculating the additional income from UC and CTC that Scottish households receive in those scenarios.

In most cases, where input data from the Family Resources Survey is available for the year in question – that is from 2017-18 to 2022-23 – that year of data is used to run the simulation. The exception is the 2020-21 system: as the survey sample for this year was undermined by Covid-19 lockdowns, we use pooled data from 2017-18 to 2019-20 instead. As the sample size for 2021-22 was also reduced, pooled data from 2021-22 and 2019-20 is used to simulate this year. From 2023-24 onwards, a pooled sample of 2021-22 and 2022-23 is projected forwards to each year.

The estimate takes into account interactions within the benefit system, notably by excluding additional support from removing the two-child limit that would be withheld by the benefit cap. It also takes into account the impact on eligibility – that is, it includes additional support that would be received by households that become eligible for UC or CTC as a result of the two-child limit being removed – but does not count the increase in support that households may consequently receive through passported benefits.

The estimates for each year are calibrated by scaling the cost according to the percentage difference between the number of households affected in UKMOD and the number of households affected in the statistics, estimated as a simple mean between the April at the beginning of the year and the April immediately after. The relevant households in UKMOD are those who were already receiving UC or CTC before the two-child limit is removed – that is, not brought into eligibility as a result of the removal – regardless of whether they are affected by the benefit cap. The relevant households in the statistics are those that were not receiving a child element for at least one child, noting that some of those households may still have been receiving exceptions for other children. Since data was not yet available for April 2025 at the time of writing, the number of affected households at that point is extrapolated from the time series.

Note that UKMOD determines whether a child is subject to the two-child limit based on their age in whole years, as day and month of birth are not recorded in the input data. This leads to an imperfect alignment with the age cut-off of April 2017, particularly since different households are surveyed at different points in the financial year. As a result, we can either incorrectly exempt some children from the limit who are in fact subject to it; or we can incorrectly subject some children who are in fact exempt. The first option is preferred in UKMOD as the scale of the error is likely to be smaller.

For example, among households interviewed over the 2024-25 financial year, a child recorded as being seven years old could have been born as early as April 2016 (turning eight in April 2024, shortly after the interview) and as late as April 2018 (turning seven in April 2025, shortly before the interview). Setting the minimum age for exemption at seven therefore incorrectly exempts those younger seven-year-olds who were born between April 2017 and March 2018. However, setting the minimum age at eight in order to ensure these children were subject to the limit would, by extension, incorrectly subject those older eight-year-olds who were born before April 2017. This would be in fact be a large majority of eight-year-olds, assuming a relatively even distribution of births across the year.

A side-effect of this approach is that it implies that no children were subject to the two-child limit in 2017-18, since children from age 0 upwards are modelled as being exempt. We do not attempt to compensate for this omission, since the number of affected over 2017-18 is unknown and likely small: the official statistics begin in April 2018, at which point 3,870 households in Scotland were denied a child element for at least one child as a result of the policy. In addition, the sample in the output data that represents the affected group in our model would likely to be too small to derive meaningful results.

Note that UKMOD does not model other exceptions to the two-child limit, which can be applied in the event of multiple births, non-parental care, adoption, or non-consensual conception. Nor does it distinguish between new and existing claims. Only the former are technically subject to the limit, but will comprise an increasingly large proportion of the caseload over time. A final caveat is that the model does not incorporate demographic change, meaning that a static population is assumed for years that are projected forwards from the input data. These caveats are to some extent addressed by the calibration method outlined above.

5.2.2 The benefit cap

Our analysis of the benefit cap is based on official DWP data, available from the Stat-Xplore platform, and includes all affected households whether they are capped through UC or HB. Note that negligible figures are suppressed in the data and therefore assumed to be zero in this analysis.

For purposes of estimating the amount of income withheld by the benefit cap – estimated by multiplying the mean amount withheld by the number of households affected – the latest month of data (November 2024) is assumed to be representative of the remainder of 2024-25. HB amounts, which are given in weekly terms, are converted to monthly terms to ensure comparability with UC.

Families on UC with five or more children are assumed to have five children, while families on HB with more than five children are assumed to have six children. Prior to April 2019, the number of children in capped households is not available; we estimate this by applying the proportions in April 2019 to the total number of capped households in each previous month.

5.2.3 Cuts to Local Housing Allowances

This analysis compares the reported rent of each household in the Scottish Household Survey (SHS) who reports receiving UC or HB with the relevant LHA for that household and with the relevant 30th percentile as calculated in the previous

September from Rent Service Scotland data. This allows us to count the number of households – and children within those households – whose notional housing-related benefit would have been higher if LHAs had been linked to the 30th percentile, as well as to quantify the difference. In the few cases where the 30th percentile is lower than the LHA, the analysis assumes that LHAs would not be reduced.

To correct for underreporting of benefits as well as any underrepresentation of the private rented sector, the weighted results are proportionally scaled up to match administrative data on the average number of private sector tenants on UC or HB in each year, split into households with and without children. DWP data on UC recipients whose rents exceed their LHAs are used to validate this method. The validation exercise indicates that our analysis may still be somewhat underestimating the number of children who are affected, although this comparison is not definitive since the DWP data only starts in 2019 and will include some cases where the 30th percentile is not higher than the LHA. The data also excludes HB and does not quantify the degree to which rents exceed LHAs.

The SHS is collected in calendar years. Our analysis allocates LHAs based on the financial year in which each respondent's interview took place, but the results are presented as simple averages of two calendar years. Data collection for the years 2020 and 2021 was carried out remotely due to Covid-19 lockdown restrictions; as there may consequently be concerns around consistency of the data over time, averages that include either of these years are highlighted in the chart. The figure presented for 2011-2012 assumes that no households were negatively affected by LHAs diverging from the 30th percentile in 2011, since LHAs tracked the 50th percentile in 2010-11 and the 30th percentile in 2011-12.

Service charges also count towards eligible rent, but are not included in this analysis due to a lack of data. The analysis does not capture households who earned too much to be eligible for UC, but would have been brought into UC eligibility had LHAs been higher; nor does it take into account the effects of the benefit cap, which for some households would limit any gains from increasing LHAs.

6. Calibration

The child poverty rates implied by our model can differ from the official poverty statistics, which are used to measure the child poverty targets. These differences can occur for a number of reasons, including the well-known problem of survey respondents underreporting their benefit income. We therefore adjust (or ‘calibrate’) the outputs of the model so that they are consistent with the official statistics.[26]

Our calibration method is based on the latest year of FRS data that is available in the model, in this case 2022-23. As noted in the previous update, which sets out the method in more detail, the rationale for this approach is that the latest data could be expected to provide the most reliable guide to any future discrepancies between the model and the survey. However, the disadvantage of using a single year is that it introduces a degree of volatility in the projections.[27]

This volatility works both ways: in the previous update it acted to lower our projections of child poverty, because the difference between the model outputs and the official statistics narrowed, whereas in this update it acts to raise our projections because the difference widened. This is demonstrated in Tables 7 and 8, which set out the results of an alternative, multi-year calibration method. The particular method used here is based on comparing the simple mean of the official statistics in the last two years of data that are available in the model – that is, 2021-22 and 2022-23 – with the simple mean of child poverty rates outputted by the model for those years.

[26] Poverty and Income Inequality in Scotland 2020-23

[27] 4. Results - Child poverty cumulative impact assessment: update - gov.scot.

Table 7: Estimated child poverty rate, single- and multi-year calibration methods, relative child poverty (%)

	Single-year method (2022-23)	Multi-year method (2021-22 / 2022-23)
2021-22 / 2022-23	-	24
2022-23	26	-
2025-26	24	22
2026-27	23	20
2027-28	23	21
2028-29	22	20
2029-30	22	20

Source: SG analysis using UKMOD

Table 8: Estimated child poverty rate, single- and multi-year calibration methods, absolute child poverty (%)

	Single-year method (2022-23)	Multi-year method (2021-22 / 2022-23)
2021-22 / 2022-23	-	21
2022-23	23	-
2025-26	21	18
2026-27	18	16
2027-28	18	16
2028-29	18	15
2029-30	18	15

Source: SG analysis using UKMOD

Neither our single-year calibration method nor the multi-year method shown here affect the estimated impacts of policies in percentage-point terms, because the baseline and counterfactual scenarios are adjusted by the same increments in each year. This is by design, since we can generally be more confident when isolating the impacts of policies than when projecting outcomes such as child poverty rates.[28] However, other calibration methods could produce different results, both in terms of the projections and in terms of the estimated impacts.

[28] Goedeme, T et al., 2013, Testing the Statistical Significance of Microsimulation Results: A Plea, International Journal of Microsimulation 6(3), 50-77.

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