University of Strathclyde Glasgow

Fraser of Allander Institute

Increasing social security for families in Scotland

Modelling and impacts

Introduction

As part of the Scottish Government's stated priority of reducing child poverty, the 2021-22 Programme for Government committed the Scottish Government to beginning work on a Minimum Income Guarantee by the end of the parliament. An independent Expert Group was convened in 2021 to inform and design a Minimum Income Guarantee.

The Fraser of Allander Institute was commissioned by the independent Expert Group to undertake modelling for some of the Expert Group's recommendations ahead of their final report being published.

The Expert Group's Interim Report outlined that the goal of a Minimum Income Guarantee is to ensure that all households in Scotland receive an agreed minimum disposable income. They suggest that the level of the guarantee should be set based on the Minimum Income Standard developed and maintained by Loughborough University (Davis et al. 2024). Households would achieve the guaranteed minimum income through a combination of:

- Income from fair and accessible work,
- Affordable household costs and universal basic services, and
- Social security payments.

The Expert Group's final report maps out a pathway to delivering a Minimum Income Guarantee for Scotland. The first stage of their recommendations relies on current devolved powers and cooperation with the UK Government to strengthen the social security system.

This report provides modelling of the costs and impacts of two of the recommendations from the first stage of the Expert Group's plan for delivering a Minimum Income Guarantee. The recommendations modelled here are:

1. An increase in the rate of Scottish Child Payment to £55 per week, per child, and
2. Removal of the two-child limit.

The impact of removing the two-child limit and increasing the Scottish Child Payment is significant. Combined, we estimate that they would reduce relative child poverty by about 6 percentage points after housing costs. This decrease represents about half of the distance between our baseline rate of 22% and the 2030 relative child poverty target of 10%.

Combined, we estimate that the two policies would cost about £724 million in 2030/31 (£626 million in 2024/25 prices). This amount is roughly 10% of the devolved social security budget in Scotland in 2024/25.

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Background

This section provides some context for the two policies modelled in this report: the two-child limit and the Scottish Child Payment.

Scottish Child Payment

The Scottish Child Payment (SCP) is the Scottish Government's flagship policy for reducing child poverty.

SCP was introduced in February 2021 for children under 6 in households receiving qualifying benefits like Universal Credit. It was later expanded to £20, then £25 per week, per child for children under 16.

Modelling done by the Scottish Government estimates that in 2025/26, the Scottish Child Payment will keep 40,000 children out of poverty, representing a reduction in relative child poverty of 4 percentage points relative to what it would have been without SCP (Scottish Government 2025).

Two-child limit

The two-child limit is a policy introduced in 2017 that affects UK households in receipt of Universal Credit or Child Tax Credit with more than two children. These households do not receive additional benefit amounts for the third or further children.

The two-child limit applies only to children born after 2017. 27,000 households in Scotland were subject to the limit as of April 2024 (Department for Work and Pensions 2024). More families will be subject to the policy as time goes on.

In the December 2024 budget statement, the Scottish Government announced that they would mitigate the two-child limit from 2026/27. The way that the mitigation is implement may differ slightly from the cost and impact if the policy were removed at the UK level; this report focuses on mitigation. More detail on this approach is included in the methods section.

Modelling by the Scottish Government estimates that mitigating the two-child limit will keep 20,000 children out of poverty in 2026/27, a reduction in relative child poverty of 2 percentage point relative to what it would have been with the limit still in place (Scottish Government 2025).

Methods

We use microsimulation modelling to estimate the impact and cost of the two measures discussed above. More detail on the modelling is provided in the appendix.

Microsimulation modelling overview

Microsimulation modelling takes existing survey data and applies a system of taxes and benefits. Comparing a baseline model representing the current tax and benefit system to a policy scenario in which one or more policies have been changed allows us to isolate the estimated impact and additional cost of a policy or set of policies.

In this case, our baseline model includes the two-child limit as it currently stands and the current rate of SCP. The latter is assumed to be uprated each year in line with inflation.

We then model three policy scenarios: one each for each of the Minimum Income Guarantee steering group's recommendations in isolation, plus one where both are implemented together.

Assumptions

For the Scottish Child Payment, we assume that due to annual uprating with inflation, the £55 payment proposed in 2025/26 results in a payment of £61.30 in cash terms by 2030/31.

Our modelling does not account for a behavioural response to increasing SCP. The impact of the increase to £55 per week, per child may be somewhat lower if recipients of SCP reduce their labour supply to avoid losing entitlement to qualifying benefits. However, we do not have clear evidence on the size of the potential effect.

We follow the Scottish Fiscal Commission's (SFC's) assumptions in our implementation of the two-child limit mitigation policy (2025). They assume that the mitigation payments will:

- Be paid at a flat rate per child;
- Not affect entitlement to other benefits; and
- Not interact with the benefit cap or taper rate for Universal Credit.

Unlike the SFC, we do not model a behavioural response to either policy. This is because we do not have clear evidence on how mitigating the policy will affect behaviours like take-up of Universal Credit and labour supply.

If the mitigation policy encourages higher take-up of Universal Credit, then it might have a greater impact on poverty (and be more costly); but if potential recipients reduce their labour supply to ensure they qualify for UC and the mitigation payment, the impact of the policy might be reduced.

More details on how this policy is modelled are given in the appendix.

Presentation of results

The estimated impacts and costs are obtained by subtracting outcomes in each policy scenario from the outcomes in the baseline model. We focus on the impact on relative poverty, measured both before and after housing costs and with different definitions of the poverty line.

Results represent the impact and cost in 2030/31. We include estimated costs in 2024/25 prices as well for easier comparison to current spending.

Poverty rates and changes in rates are reported rounded to the nearest tenth of a percent. Government reporting typically rounds to the nearest percentage point.

Results

The impact of the recommended policies on poverty are presented in Table 1.

Table 1: Estimated relative poverty impacts for all households

Group	Housing cost type	Poverty definition	Baseline (%)	Percentage point difference from baseline scenario		
				Mitigation of the two-child limit only	SCP=£55 only	Both policies combined
All people	BHC	40	5%	-0.4	-0.4	-0.6
		50	10%	-1.0	-1.0	-1.5
		60	18%	-0.6	-1.2	-2.2
	AHC	40	8%	-0.6	-1.0	-1.1
		50	13%	-1.0	-1.0	-1.5
		60	19%	-0.4	-0.9	-2.0
Children	BHC	40	4%	-1.4	-1.3	-2.2
		50	10%	-3.6	-3.3	-4.8
		60	20%	-2.3	-4.0	-7.6
	AHC	40	8%	-2.5	-3.3	-3.8
		50	15%	-3.6	-3.1	-5.2
		60	***22%***	***-1.3***	***-2.7***	***-6.4***

Source*: FAI calculations from FRS and the IPPR microsimulation model*
Notes*: Poverty definition refers to the percent of median UK income used to define the poverty line. BHC = before housing costs and AHC = after housing costs.*

The definition of relative child poverty used in the statutory targets is 60% of median UK income after housing costs (bold and italicised).

This measure of child poverty is reduced by 1.3 percentage points when the two-child limit is mitigated and by 2.7 percentage points when SCP is raised to £55 per week, per child.

Combined, adopting the two recommended policies reduces relative child poverty by 6.4 percentage points relative to the baseline model, when relative child poverty is 22%.

The two policies have a larger proportional effect on deep poverty (defined as income below 50% of median income after housing costs) and very deep poverty (below 40%). Combined, they reduce deep poverty by 5.2 percentage points (about a third of the baseline rate) and very deep poverty by 3.8 percentage points (about half of the baseline rate).

The recommended policies have a larger impact on poverty for some priority household groups (Table 2).

Table 2: Estimated relative poverty impacts for priority households

		Percentage point difference from baseline scenario			
Priority group	**Baseline poverty rate, 60% AHC (%)**	**Mitigation of the two-child limit only**	**SCP=£55 only**	**Both policies combined**	**FRS sample size**
Single parents	24%	-0.9	-6.2	-8.5	155
Ethnic minorities	45%	-1.1	-2.7	-3.8	154
Large families	29%	-5.0	-3.1	-13.6	99
Households w/ disabled member	23%	-0.1	-0.4	-1.0	1751
Households w/ child under 1	34%	-1.4	-7.2	-13.3	60

***Source**: FAI calculations from FRS and the IPPR microsimulation model*
***Notes**: Poverty is defined as household income below 60% of UK median income after housing costs. Results for households with young mums are omitted due to a small sample size.*

Mitigation of the two-child limit is particularly effective at reducing poverty in large families, who are the most affected by the policy. These households are also more likely to have a child under the age of one, so these priority households see a slightly greater reduction in poverty from the policy.

Raising the rate of SCP has a larger impact on poverty for single parent households, large families, and households with children under one than on the general child poverty rate. These households also see a large reduction in poverty when the two recommended policies are combined.

Table 3 shows the estimated costs of the recommended policies alone and combined.

Table 3: Estimated additional cost of recommended policies in 2030/31

	Mitigation of the two-child limit only (£m)	**SCP=£55 only (£m)**	**Both policies combined (£m)**
2024/25 prices	182	444	626
2030/31 prices	210	514	724

***Source**: FAI calculations from FRS and the IPPR microsimulation model*
***Notes**: Factors used to convert between 2030/31 and 2024/25 prices are those used in the IPPR model and are based on OBR forecasts and assumptions about future inflation rates.*

We estimate that mitigation of the two-child limit alone would cost £210 million in 2030/31, a reasonable increase over the SFC's estimate of £195 million in 2029/30.

Raising SCP to £55 per week, per child in 2025/26 (£61.30 by 2030/31) is estimated to cost £514 million in 2030/31.

Combined, the two policies are estimated to cost £724 million in 2030/31 (£626 million in 2024/25 prices).

Discussion and conclusions

This report models the impact of two proposed policies on child poverty in Scotland: removing the two-child limit and raising the rate of Scottish Child Payment to £55 per week, per child. These two policies are part of the first stage of the Minimum Income Guarantee Expert Group's Roadmap to delivering a Minimum Income Guarantee.

Both of the modelled policies are possible within the Scottish Government's devolved powers. The Scottish Government has committed to mitigating the two-child limit from 2026/27. We estimate that this commitment will reduce child poverty by 1.3 percentage points relative to a baseline case with no mitigation, costing about £210 million in 2030/31.

Increasing the Scottish Child Payment (SCP) to £55 per week, per child would cost about £514 million in 2030/31 and reduce child poverty by 2.7 percentage points relative to a baseline with no increase.

Combined, we estimate a reduction in relative child poverty of 6 percentage points from the two policies together, with a greater impact on single-parent households, large families, and households with infants.

We estimate the cost of these policies together to be £724 million in 2030/31 (£626 million in 2024/25 prices). This is equivalent to about 10% of devolved social security spending in 2024/25 (Scottish Fiscal Commission 2024, 122).

The methods used to estimate these impacts and costs have limitations. In particular, they do not account for changes in behaviour in response to these policies. There has been much discussion of the "cliff-edge" created by SCP, which is a top-up benefit, where households lose their entire entitlement when they stop receiving a qualifying benefit like Universal Credit. A similar cliff-edge may be created by the two-child limit mitigation payment if the payment is a flat rate for each child.

These cliff-edges can create distortions in recipient households' labour supply if they reduce work to avoid losing SCP. While current evidence does not indicate a significant decrease in work associated with receiving SCP (Scottish Government 2024), a large increase might induce a behavioural response, reducing the impact of the policy on poverty. The same may be true of the mitigation payments, but could be countered if significant mitigation payments or a higher SCP amount increase take-up of Universal Credit. More evidence on behavioural responses to the cliff-edge created by SCP, and potentially by the mitigation payments, is needed to fully inform decisions about these benefits.

This report is intended to support the Minimum Income Guarantee Expert Group's final report. It provides evidence on the potential costs and impact of some of the measures in the first stage of the Expert Group's Roadmap to a Minimum Income Guarantee, and we hope it is useful to policymakers and advocacy groups in weighing their options.

This report is also published at a key point for policies targeted at reducing child poverty. Recent statistics show that Scotland has missed the interim child poverty targets for 2023/24. Our analysis complements our report on policy packages that could meet the 2030/31 child poverty targets (Randolph, McFadyen, and Congreve 2025) as well as recent modelling by the Scottish Government (Scottish Government 2025), the Joseph Rowntree Foundation (Birt, Cebula, and Evans 2025), and the Institute for Public Policy Research (IPPR) Scotland (Hawkey 2025). We hope that this analysis, taken alongside this body of work, supports a broader discussion in Scotland on how best to meet the final child poverty targets by 2030/31.

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Appendix: Methodological details

Data and software

Modelling is done in v2.7.8 of the IPPR model (Kumar 2022). The modelling is conducted using combined two-year datasets the Family Resources Survey (FRS) and Households Below Average Income (HBAI) datasets for 2021-22 and 2022-23 (Department for Work and Pensions 2025a; 2025b).

The model works by reading in a set of parameters describing the tax and benefit system and using them to apply relevant taxes and benefits to households in the FRS. It then calculates household income, poverty rates, and distributional statistics.

Modelling details for the SCP analysis

We simulate the model data three times compared to a baseline scenario with no changes. Random variation can arise in the model from applying benefit take-up rates by randomly choosing eligible households to receive benefits. Simulating the data multiple times reduces the impact of this random variation on the results.

The baseline scenario is calculated from the parameter sheet v02_78_Base.xlsx. The statistics calculated are for Scotland only. Household income and poverty statistics are calibrated to the underlying FRS data (2021/22-2022/23).

The primary results are changes in outcomes like the costs or revenues from different taxes and benefit or poverty rates. The changes are the outcomes under each policy scenario minus the outcomes under the baseline scenario (the current UK and Scottish tax-benefit system). These are interpreted as the estimated impact that would be made by a particular policy.

Modelling details for the mitigation of the two-child limit

We follow the Scottish Fiscal Commission's (SFC's) assumptions in our implementation of the mitigation policy (Scottish Fiscal Commission 2025). They assume that the mitigation payments will:

- Be paid at a flat rate per child;
- Not affect entitlement to other benefits; and
- Not interact with the benefit cap or taper rate for Universal Credit.

These assumptions mean that mitigation payments can be calculated outside the model and added to household income for a re-calculation of poverty rates. We then estimate a total cost of mitigation across all relevant households in Scotland.

We first run the IPPR baseline model. We then modify the output data in the following way, assuming that the transition to Universal Credit (UC) has been completed by 2030/31.

1. For each benefit unit receiving UC, calculate the total number of children eligible for UC if there were no two-child limit;
2. Subtract the number of children included in the UC claim to get the number affected by the two-child limit;[1]

[1] This accounts for benefit units that have received an exemption from the two-child limit policy.

3. Calculate a flat rate of £75.18[2] per week for each affected child and the total mitigation payment per benefit unit;
4. Aggregate to the household level and apply equivalisation factors from the HBAI data (before and after housing costs);
5. Add the equivalised mitigation payment to each household's calibrated,[3] equivalised disposable income (before and after housing costs);
6. Compare each household's new income to the calculated poverty line from the model[4] to get poverty indicators and new poverty rates;
7. Aggregate the grossed (using *gross4* from the FRS), unequivalised mitigation payments across all households to estimate the cost of the policy.

We apply this method to the output data for both the baseline model (to obtain the cost and impact of mitigation alone) and the SCP policy scenario (to obtain the cost and impact of both policies combined).

Our estimated cost of £210 million for mitigation of the two-child limit in 2030/31 is consistent with a slight rise over the SFC's estimate of £195 million in 2029/30. The difference is likely a combination both of very different methods of estimating the cost.

[2] The SFC estimates assume a monthly payment per child of £320.28 in 2029/30. We then multiply by $\frac{12}{365} \times 7$ to get a weekly payment of 73.71, plus 2% inflation to obtain an estimated value of £75.18 per week.

[3] The IPPR model applies a calibration factor to the incomes used to calculate poverty rates. The calibration essentially calculates incomes in the data year from the FRS data and the baseline parameter sheet, then compares each household's modelled income to their reported income in the HBAI data. The factor difference between the two is then applied to estimated household income in the target year.

[4] We assume that mitigation payments to a relatively small number of households in Scotland only will not significantly shift median UK household income, which is typically the basis for different definitions of poverty.

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