

# BRIEFING

OCTOBER 2024

## Funding the fight against poverty: how do we pay for the Minimum Income Guarantee?



### A roadmap to the Minimum Income Guarantee

- The costs associated with the MIG are high, but viewed as essential and justified by seminar attendees. The Scottish Government must put forward a positive case for these costs, including clarity as to how they will be met.
- Attendees were supportive of greater use of Scotland's taxation powers to fund the MIG. They were encouraged by polling by Diffley Partners which found that almost three-quarters of respondents supported 'the introduction of a guarantee (in general) to make sure nobody falls below a minimum acceptable standard of living' even if their own taxes increased to fund this policy.
- While attendees welcomed the action the Scottish Government had taken to build a more progressive taxation system, there were questions about what further reform of income tax would be 'reasonable' or 'fair' given the low numbers of Higher and Top Rate taxpayers in Scotland. Attendees believed it was time to broaden our focus beyond income tax to include consideration of wealth taxes and Council Tax reform.
- Civil society and the Scottish Government also have a role to play in advocating for progressive use of tax by the next UK Government, including the introduction of wealth taxes.
- To put the costs associated with the MIG into context, there is a need for greater evidence on the cost of poverty, both in terms of day-to-day costs (e.g., additional health spending) and the longer-term financial implications of the restrictions poverty places on people's lives. This should include work to define and quantify the benefits of preventative spend.
- The potential implications of behavioural change has been a strong barrier to making further changes to taxation policy, raised by elected members, parliamentary committees and the Scottish Fiscal Commission. The Scottish Government must seek greater clarity on the implications of behavioural change on pre-existing and future taxation reform.



# Introduction

A common response to advocacy on the Minimum Income Guarantee (MIG) is “how will we pay for it?” The policy requires investment in decency and dignity across social security, the labour market, and our critical public services. At the Poverty Alliance’s annual conference in November 2023, a key emerging theme was around the need for clarity on the costs of the MIG. Attendees expected that public and political support for the policy will be impacted by persistent negative attitudes towards social security, and the backdrop of tight public spending. There were questions as to how we advocate for bold, and potentially costly, policy changes within this context. It was seen as critical that those advocating for the MIG are clear about the costs of the policy, and the options for meeting these costs. Without clarity on these key questions, attendees expected challenges around public support and the potential of a negative backlash.

In February 2024, the Poverty Alliance held a seminar focused on the costs of the MIG, and how to fund this critical policy. This was an opportunity to discuss the practicalities of the Scottish Government’s budget, and the impact of the current fiscal environment; the tax levers available to the

Scottish Government; the costs and benefits associated with the MIG; and how we build a positive narrative around this investment. The seminar included inputs from Philip Whyte, Director at IPPR Scotland and Emma Congreve, Senior Knowledge Exchange Fellow and Deputy Director at the Fraser of Allander Institute. Focusing on the “route map” to MIG and the necessary interim steps, this session also included interactive activities to identify civil society’s priorities for implementation.

For many individuals at this session this was the first opportunity to learn more about the costs associated with the MIG. Attendees were clear that these costs were necessary, and actions to raise this revenue were critical to turning Scotland’s shared values of justice and compassion into action. They were also keen to emphasise that the cost of the MIG must be put into the broader context of the huge economic and social costs associated with poverty in Scotland. There was consensus that these costs can, and should, be justified and prioritised. The conversation was therefore focused on raising the revenue for the MIG and building a positive narrative for this investment.

# Funding the social security sphere of the MIG

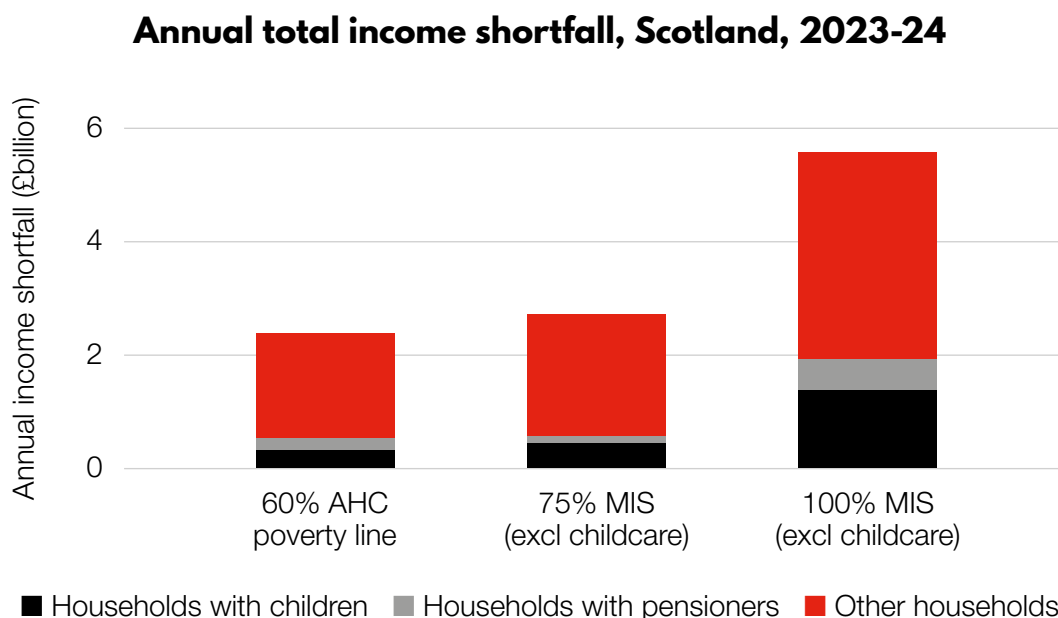


Enabling more people to reach the MIG level through paid work could reduce the cost of the policy to the Scottish Government, minimising the need for cash transfers from the state to the individual through social security. However, within current powers and for the purpose of this presentation, Philip Whyte, Director of IPPR Scotland’s remarks focused on social security spend and the MIG.

As highlighted in figure 1 below, for everyone to come up to the current poverty line in

Scotland, the associated costs to the state would be just over £2 billion. The costs are broadly similar (£2.6 billion) for bringing people to 75% of the Minimum Income Standard, while enabling households to reach the 100% of this standard (excluding childcare costs<sup>1</sup>) would cost around £6 billion. A key question for our policy-making in this space is whether it is sufficient to just merely get people out of poverty, so lifting households above the poverty line, or whether we wish to be more ambitious in our desired outcomes.

**Figure 1: How big is the income gap in Scotland?<sup>2</sup>**



Source: IPPR Tax and Benefit Model, Whyte et al (2023)

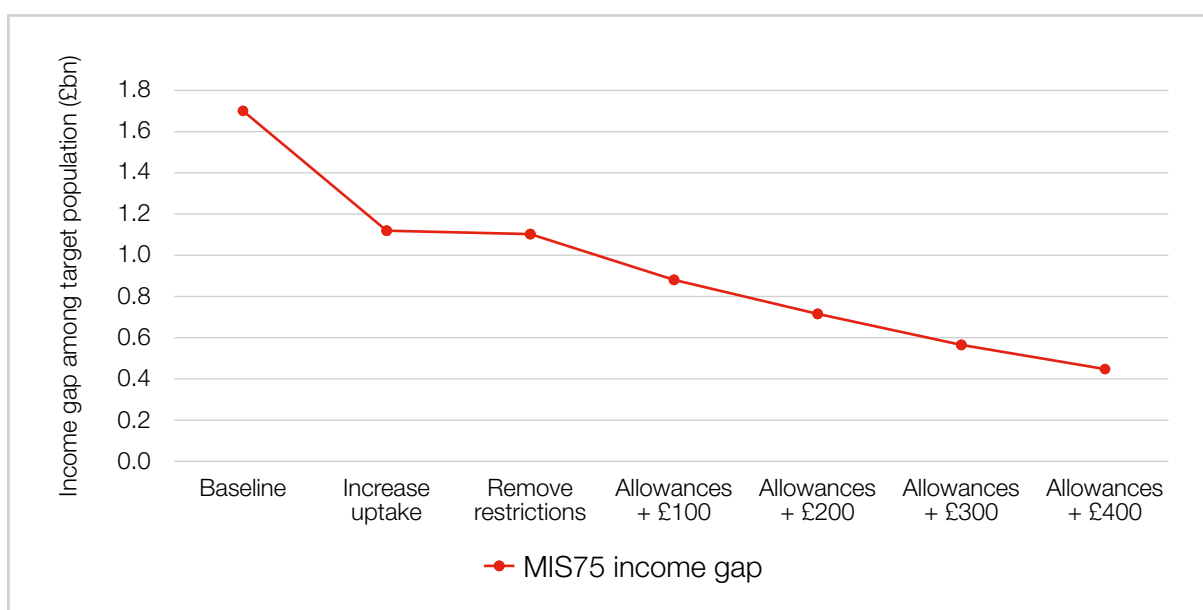
<sup>1</sup> Childcare costs are excluded because this is not a cost incurred by every household.

<sup>2</sup> AHC refers to the poverty rate after housing costs. People on lower incomes spend substantially more on housing costs as a fraction of their income. Measures of income poverty that take housing costs into account provide a more reliable picture of poverty than those that disregard housing costs.

There are questions about how we could close these income gaps using social security in a way that matches the tailoring and targeting inherent within the MIG. Figure 2 highlights the impact of various interventions in the current income gap, relative to 75% of the Minimum Income

Standard.<sup>3</sup> For example, maximising uptake to ensure everyone who had an entitlement to social security actually received this, would put around £1bn into people’s pockets; closing restrictions in Universal Credit would further increase the money reaching individuals by approximately £200m.

**Figure 2: Impact on Minimum Income Standard 75 income gap**



Source: IPPR Tax and Benefit Model, Whyte et al (2023)

However, it is important to recognise that each increase in the standard allowance of Universal Credit provides diminishing returns in terms of the proportion of people being lifted above the income standard and, in turn, this means more cash being transferred to people who are already above the threshold. Increasing allowances by £400 means you would be putting around £2 billion into

people’s pockets who live below the poverty line, but also £5 billion into people’s pockets who are above that line. In the context of the current fiscal environment, gaining public and political support for this approach may be challenging. This raises questions about how best to target resources and interventions, as well as returning to the question of scope and ambition.

<sup>3</sup> The Minimum Income Standard (MIS) produces budgets for different household types, based on what members of the public think you need for a minimum acceptable standard of living in the UK. It is carried out by Loughborough University’s Centre for Research in Social Policy.

Scotland's taxation powers are one potential option for raising the revenue for the MIG. The largest lever that the Scottish Government has is Income Tax, alongside smaller levers such as Land and Building Transactions Tax. Scottish Income Tax intake is around £45 billion, but the income that actually comes to the Scottish Government is vastly different due to the Fiscal Framework and transfers between the UK and Scottish Government.

Just over half of Scottish Income Tax revenue is raised by the bottom three bands. By contrast, people earning over £125,000 in Scotland represent a tiny portion of taxpayers. A distributional analysis by the Scottish Government found that 11% of Scottish adults would pay the Higher Rate and 0.7% of the

Scottish adults pay the Top Rate in 2023-24.<sup>4</sup> A salary of £50,000-£70,000 in Scotland puts you in a bracket where you are approaching the top 10% of earners. While taxation is viewed as a useful lever to cover the additional costs of the MIG, we need to consider who we would target with taxation changes due to the small proportion of higher earners.

Overall, it is clear that the costs of MIG are large. However, we should be clear that this is about the costs people require to live a decent and dignified life. As we move towards the period of implementation, there is a need for clarity regarding how we will target our policies and interventions to maximise spend, and realise the policy ambition of the MIG.

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<sup>4</sup> Scottish Government (2022) *Scottish Income Tax: Distributional Analysis 2023-24* available at <https://www.gov.scot/publications/scottish-income-tax-distributional-analysis-2023-24/>

# Challenges and Opportunities in financing the MIG



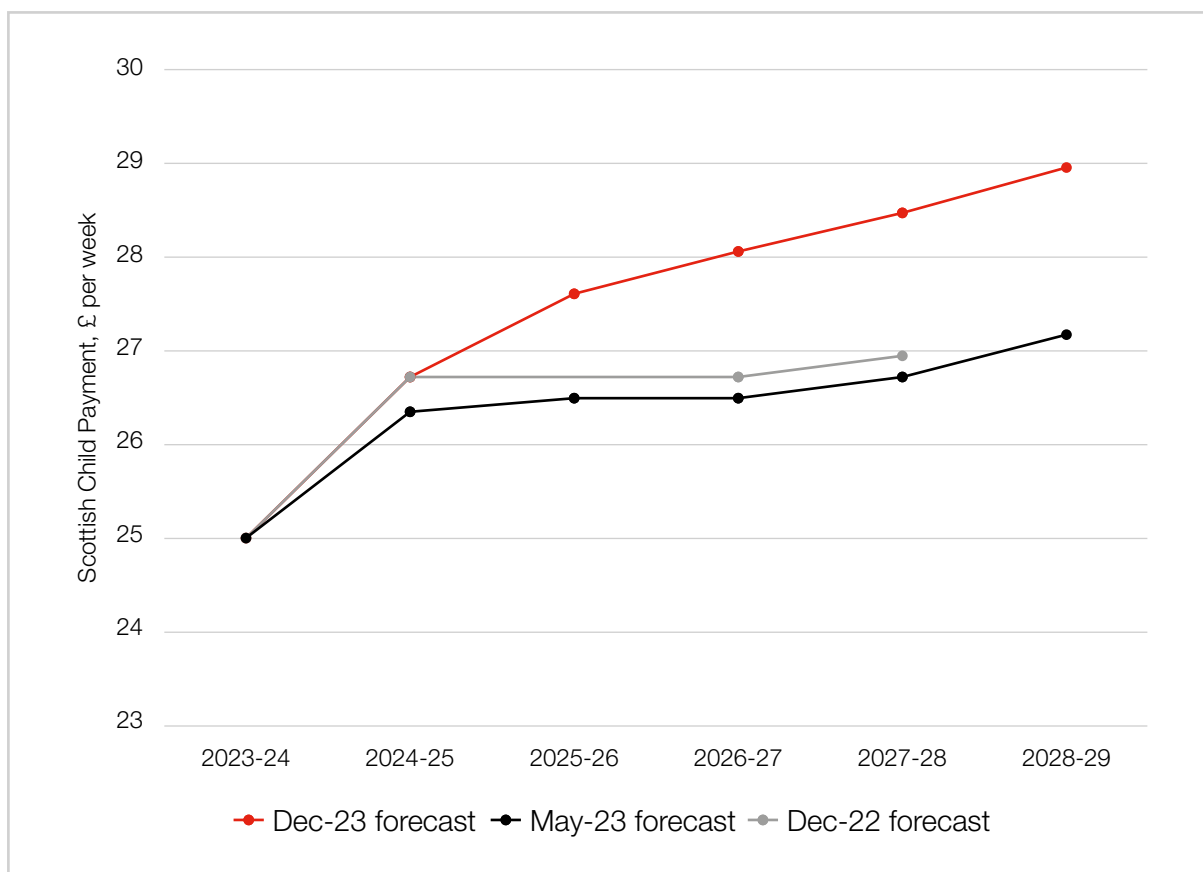
Emma Congreve, Senior Knowledge Exchange Fellow and Deputy Director at The Fraser of Allander Institute outlined that the organisation does not have a position on the MIG, as it is not an advocacy organisation. However, The Fraser of Allander Institute's analysis on the Scottish budget and fiscal environment provides insight as to the challenges of financing the MIG, including the fact that budget is largely fixed in-year. To fund the MIG, there is a need to raise additional revenue via taxation levers, but also move money around portfolios. This means we need to consider priorities for existing spend, as well as the need to move towards an approach that emphasises prevention. The third sector is increasingly being asked "what would you spend less on?" which is a very difficult question to answer.

Supporting people to reach the MIG level through additional social security spending alone creates additional risks for the perception of social security within the Scottish budget. The Finance Committee in the Scottish Parliament and the Scottish Fiscal Commission have expressed concerns about the proportion of spend being allocated to social security. The Block Grant Adjustment means that it is straightforward to identify whether the Scottish Government is spending

more on social security than has been allocated by the UK Government. Social security is often, as a result, unhelpfully singled out for scrutiny in a way that other policy areas are not. Political messaging will point to Scotland being in a 'negative position' with regards to social security, or 'spending above our means' on this policy. Similar scrutiny is not afforded to policy areas such as health.

As a result of the fixed budget, and limited borrowing powers, if social security spending rises for any reason in-year, it can be very challenging for the Scottish Government to handle due to political and public scrutiny. This requires action to move money around within the budget. For example, the Scottish Child Payment is a cyclical spend that can increase, or decrease, depending on changes in economic conditions. Spending on the Scottish Child Payment has had to increase as a result of inflation, as highlighted in the chart below. As a result of their limited powers to raise additional revenue, the Scottish Government have to deal with this within their own budget. The MIG would be a similar cyclical spend, vulnerable to economic changes. Some may therefore be reluctant to support a policy with a high level of uncertainty around the current and future costs.

**Figure 3: Successive Scottish Child Payment rate forecasts**



Source: Scottish Fiscal Commission

The narrative framework, and policy rationale for MIG, will therefore need to be robust in its response to these questions around the Block Grant Adjustment. For example, spend is only one metric of value, and does not highlight the economic prosperity and public

savings a reduction in poverty will support in other portfolios, such as health or education. However, whilst these gains are hard to quantify, the impact on the Block Grant is relatively easy to demonstrate.

# Discussion points and questions for consideration



Attendees had the opportunity to discuss, in groups, the approach to funding the MIG. Key considerations included:

## **A business case for the MIG will require stronger evidence on the socioeconomic cost of poverty**

Attendees believed that there is a need for a greater understanding of the costs of poverty, both in terms of day-to-day spending and longer-term financial implications. The cost of child poverty across the UK was estimated to be over £39 billion per year in 2023.<sup>5</sup> Similarly, research from IPPR Scotland<sup>6</sup> found that the collective impacts of poverty on Scotland's prosperity include:

- around £2.3 billion of health boards' budgets is directed at responding to the impacts of poverty, with hundreds of millions more diverted through primary care and addressing health inequalities driven by financial inequality;
- around a quarter of a billion pounds may be being spent each year on addressing the consequence of poverty in our schools and working to increase educational attainment; and

- at a conservative estimate, the lost income due to historic child poverty in Scotland is between £1.6 and £2.4 billion per year – up to 1.5% of Scottish GDP.<sup>7</sup>

In this context, it makes economic sense to invest in transformative anti-poverty policies such as the MIG. The expected costs of the policy pale in comparison to the broader socioeconomic costs of poverty and inequality. However, getting political buy-in to invest in the hoped-for benefits of a more equal society has proven to be challenging. More broadly, evidence consistently shows that tackling poverty is good for economic growth, and there are benefits for our local economy when low-income families have more disposable income.

This emerging evidence base provides useful insight, but attendees agreed there is a need for greater clarity around the costs of poverty to justify increased preventative spend and investment in the policies which underpin the MIG. There is also a need for wider evidence on the benefits of people living on low-incomes having additional income to spend locally. However, even on the basis of existing evidence, and given the broad-ranging impacts of poverty for all government departments, investment in the MIG should be a priority for all budget portfolios.

<sup>5</sup> CPAG (2023) *The Cost of Child Poverty in 2023* available at <https://cpag.org.uk/news/cost-child-poverty-2023>

<sup>6</sup> IPPR Scotland (2023) *Tipping the Scales: The Economic and Social Harm of Poverty in Scotland* available at <https://www.ippr.org/articles/tipping-the-scales>

<sup>7</sup> Ibid.



## **There is a strong case to be made around the benefits of better tax policies for a healthier, more prosperous economy**

Changes to taxation must be accompanied by a strong narrative which outlines the benefits we all derive from social investment. There is a need for advocates of the MIG to assist in building this positive case within our respective and collective policy, campaigns and communications functions. Part of this should be an honest conversation around the negative consequences of failing to make changes to taxation. The recent council tax freeze, announced in the Scottish Government budget for 2024/25, was highlighted by attendees as a negative decision with regards to our ability to fund our critical social safety net. Clear communications around what we get in return for our taxation, for example stronger public services, was viewed as critical to building a positive case.

## **The Scottish Government's progressive use of Income Tax is welcome, but there are limitations to what we can achieve with Income Tax changes alone**

Half of Scotland's Income Tax revenue comes from the bottom three bands of taxpayers. In the context of tax policy, we must consider what additional asks it would be possible or fair to make of these earners. While Income Tax is the biggest devolved tax lever the Scottish Government have, there is a need to look beyond Income Tax alone in order to

raise the revenue needed for the MIG. The under-taxation of wealth has been a key driver of inequality in Scotland and should be a critical consideration for raising the revenue for the fight against poverty.<sup>8</sup>

Attendees felt there are opportunities to look at land and wealth taxes to raise additional revenue. The long-awaited reform of council tax was identified as a means of progressing wealth taxation and, while there was acknowledgement that changes to property taxation are politically challenging, attendees expressed frustration that our political leaders were unwilling to overcome this damaging impasse. As we explore opportunities for taxation, our European counterparts provide lessons and examples around policy options, including on the impact of behavioural change.

## **The potential for behavioural change is a key barrier to making progressive changes to taxation policy, but we need to have clarity on how this works in practice**

Behavioural change has been consistently cited as a barrier to making progressive changes to taxation policy. However, there is limited evidence on the impact of behavioural changes and the Scottish Fiscal Commission has said such changes are challenging to quantify. There is a need to expand the evidence base with regards to the impact of behavioural responses, and to place these changes within wider context. Also, there is a need to explore whether stronger public services, and an ability to point to the

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<sup>8</sup> See IPPR (2019) 'Taxing income from wealth the same as income from work could raise £90 billion over five years report finds' available at <https://www.ippr.org/media-office/slug-1306b49118532fe333771b8f2c1b31d3> and Intergenerational Foundation *Tax Wealth to Help the Young: The intergenerational fairness case for a wealth tax* available at <https://www.if.org.uk/wp-content/uploads/2024/01/Tax-wealth-to-help-the-young-the-intergenerational-fairness-case-for-a-wealth-tax.pdf>

benefits of increased taxation, will assist in minimising these behaviours. The speakers at this seminar also highlighted that some behavioural change, such as putting more money into your pension or reducing your hours to reduce childcare costs, are not necessarily negative things. Behavioural change should be a core consideration for the narrative around better tax and better budgets, outlined above.

The potential implications of behavioural change as a barrier to making further changes to taxation policy were visible in the response from elected representatives, the Scottish Government and Scottish Parliamentary Committees to a joint briefing published by IPPR Scotland and Oxfam Scotland in 2023.<sup>9</sup> The report of the Scottish Parliament's Finance Committee into the sustainability of Scotland's finances also places strong emphasis on behaviour change, seeking clarity on how these impacts are considered within policy-making.<sup>10</sup> The Committee also pointed to the Scottish Government's work with HMRC on developing "new, and robust, data sources and evidence to help better understand potential behavioural responses, including taxpayer movements across the UK over time". This work will be of relevance to the narrative work attendees prioritised at this seminar.

## **Borrowing powers may be a critical means of financing the MIG**

While the updated Fiscal Framework increased capital borrowing limits in line with inflation from 2023-24, the Scottish Government's borrowing powers remain fairly limited in scope. This, of course, limits the potential of borrowing to finance the MIG. However, attendees felt that there was potential for additional borrowing to contribute to this policy and that the Scottish Government should work with the UK Government to pilot additional borrowing powers within the context of the MIG. This could look like a limited borrowing pilot over multiple years, to support a MIG pilot for a particular population group (e.g., disabled people) and/or borrowing to support the development of specific services which would enhance the ability to deliver a MIG.

## **There is a need to build a movement around a strong framework and narrative for the MIG**

In addition to the positive narrative around better tax outlined above, attendees were enthusiastic about the importance of developing a positive narrative framework around the MIG. This is a vital aspect of securing political, media and public buy-in for the policy. Attendees noted the opportunities of building on pre-existing framing, including

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<sup>9</sup> IPPR Scotland, Oxfam Scotland, Poverty Alliance et al (2023) *The Case for Fair Tax Reform in Scotland* available at [https://oxfamapps.org/scotland/wp-content/uploads/2023/09/The-case-for-fair-tax-reform-in-Scotland-Joint-briefing-FINAL\\_September-2023-1-2.pdf](https://oxfamapps.org/scotland/wp-content/uploads/2023/09/The-case-for-fair-tax-reform-in-Scotland-Joint-briefing-FINAL_September-2023-1-2.pdf)

<sup>10</sup> Finance and Public Administration Committee (2023) *Pre-Budget Scrutiny: The Sustainability of Scotland's Finances* available at <https://bprcdn.parliament.scot/published/FPA/2023/11/6/015834f7-3db3-4c16-abaa-5e1fbfad73bc/FPA062023R8.pdf>

Talking about Poverty from Frameworks and Joseph Rowntree Foundation, which is utilised by the Poverty Alliance throughout our work.<sup>11</sup>

Within our narrative framework, it must be clear that the MIG is for everyone and that it will tackle poverty in the round. The MIG cannot be about pitting groups against each other, or be singularly focused on child poverty, but a universal guarantee for all people living in Scotland. It is expected that the MIG will have benefits for health; wellbeing; and attainment. Similarly, consumption will rise as people have a guaranteed adequate income, with the potential for job creation. In the longer-term, this would also increase tax revenue as individuals have the freedom to enter or progress within paid work. Increased investment in our social safety net as part of the implementation of the MIG should be viewed as investment in people, while also reducing future costs and increasing Scotland's shared prosperity.

### **The MIG should not be viewed as a 'radical' proposal as it is about meeting people's fundamental human rights**

Attendees showed enthusiasm for the MIG and welcomed the idea of transformational policy changes. However, some attendees were keen to push back on the idea that the policy was 'radical'. Our governments and wider duty-bearers have legal responsibilities to meet minimum core obligations – a baseline of social, economic and cultural rights.<sup>12</sup>

The MIG is a means of progressing these legal obligations. In this context, it is not a radical proposal but would merely progress the rights and freedoms that people should expect. Welfare reform, austerity and changes to social security have created lowered expectations around what is possible, making something that is based upon adequacy and having 'enough' appear undeliverable or unattainable by comparison.

### **The Scottish Government have the opportunity to set the MIG level, which will have implications for costs**

While attendees were supportive of a MIG level that ensured access to a decent and dignified life, some noted opportunities for the Scottish Government to increase the MIG level over time, in order to minimise initial costs and promote early support. This would involve setting an initial income floor, alongside a more aspirational MIG level which may require the devolution of further powers. Indeed, a tiering approach has been considered by the Scottish Government's Expert Group with modelling relating to 75% and 100% of the Minimum Income Standard.

Within consideration of the MIG level, there is a need to account for variable social sector costs and household fuel costs over time. There will also be variation between households in terms of energy type and usage, which adds to the complexity of setting the MIG level and thus accounting for associated costs. In the realm of equalities considerations, modelling will need

<sup>11</sup> Joseph Rowntree Foundation (2019) *A Framing Toolkit: Talking about Poverty* available at <https://www.jrf.org.uk/political-mindsets/framing-toolkit-talking-about-poverty>

<sup>12</sup> Scottish Human Rights Commission (2023) *Minimum Core Obligations – The Practice of the UN Committee on Economic, Social and Cultural Rights* available at <https://www.scottishhumanrights.com/media/2402/mcos-and-the-practice-of-the-un-committee-on-economic-social-and-cultural-rights-final.pdf>

to account for the additional costs of disability; intrahousehold resource allocation and how this relates to women's financial security; and the additional risk of poverty for Black and minority ethnic households. Equalities considerations must be included within the narrative framework mentioned above in order to build trust and promote buy-in to the policy.

The fair work sphere of the MIG provides opportunities to ensure that more people reach the MIG level through paid work, with the benefit of reducing the costs of the MIG for the Scottish Government. Initial modelling has been limited to additional income and has not accounted for investment in services (which could reduce the costs relating to social security) or increased access to fair work (which would reduce overall costs, outside of any additional costs related to the public sector workforce). An industrial strategy that focuses on more people being able to access good quality, secure jobs with fair wages will not only reduce the public costs of the MIG, but would have positive benefits for our collective wellbeing and prosperity.

### **There is a need for the continuation of current support while MIG is introduced**

We cannot frame MIG-associated costs as being replacement spend, or being prioritised 'instead of' pre-existing support. It will take time for the full impacts of the policy to be realised across Scotland, which will necessitate the continuation of pre-existing support, including crisis grants, for some households. This is particularly important in the context of the ongoing cost of living crisis which is having far-reaching negative implications for the ability of people living on low incomes to stay afloat. While the policy is developed and implemented, we must maintain focus on meeting people's immediate and basic needs.

# Our collective priority areas of action



Attendees identified the following policy changes and activities in the realm of funding that they felt were most critical to the development and implementation of the MIG, in order of priority:

- The Scottish Government, alongside supportive academics and think tanks, should develop strong evidence on the cost of poverty, both in terms of day-to-day costs (e.g., additional health spending) and the longer-term financial implications the restrictions poverty places on people's lives. This should include more work to define and quantify the benefits of preventative spend.
- The Scottish and UK Governments should explore opportunities for changes to the Scottish Parliament's borrowing powers to facilitate financing the MIG, including working together on a potential pilot.
- The Scottish Government should build on positive changes to Income Tax to identify opportunities for the introduction of wealth taxes under the current devolution settlement. This should include the reform of our council tax system and the exploration of land taxes.
- Develop a strong framework for the communication of the MIG, including the wider socioeconomic benefits of the policy and language to encourage buy-in. Any framing of the MIG must respond to negative perceptions of social security, and potential pushback on the costs of the policy. This framework should be used to mobilise a movement around the MIG and build momentum for implementation. This must be a priority for the Scottish Government, the MIG Expert Group and civil society.
- In the aftermath of the UK General Election, consideration should be afforded to the balance of powers between UK Government and Scottish Government, including the implications of any changes to taxation at the UK level. Civil society has a clear role in advocating for progressive use of tax by the next UK Government.
- In addition to the strong economic case for MIG, civil society must not be afraid to make a moral case for the policy based on our shared values of justice and compassion.
- The Scottish Government and civil society advocates of the MIG must face the hard arguments head on, listening to sceptics to build a broader consensus. Within this, there is a need to be upfront about the costs and benefits of the MIG.
- More research and robust evidence is required to build greater understanding of the impact of behavioural change within taxation policy. Without clarity on the potential implications, the buy-in for these policy changes is likely to be limited.



The Poverty Alliance is Scotland's anti-poverty network. Together with our members, we influence policy and practice, support communities to challenge poverty, provide evidence through research and build public support for the solutions to tackle poverty. Our members include grassroots community groups, academics, large national NGOs, voluntary organisations, statutory organisations, trade unions, and faith groups



abrdn Financial Fairness Trust has supported this project as part of its mission to contribute towards strategic change which improves financial well-being in the UK. The Trust funds research, policy work and campaigning activities to tackle financial problems and improve living standards for people on low-to-middle incomes in the UK. It is an independent charitable foundation registered in Scotland (SC040877).