



# Poverty in Scotland 2019

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by Emma Congreve

This research looks at the impact that governments have had on poverty in Scotland over the past 20 years and how this evidence can be used to inform policy development for the future. It underlines the importance of housing costs, alongside social security and work, in solving poverty in Scotland.

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## **What you need to know**

- Poverty in Scotland is rising, from an already unacceptably high level. More people are facing situations where they cannot afford the basics nor play a full role in society. Almost one in five people in Scotland live in poverty, and for children the situation is worse, with one in four in poverty.
- We need to open up routes out of poverty and try to prevent more people from being trapped in this situation. History over the past 20 years tells us that this can be done. If there are the foundations that allow people to build a stable financial future, then poverty will fall.
- This report shows the range of tools government has for solving poverty. New analysis shows the key role of housing in people's lives, and how types of housing, and the lower cost of housing in particular in the social rented sector, mean that poverty is significantly lower in Scotland than in the rest of the UK overall.
- The announcement of the Scottish Child Payment earlier this summer shows how seriously the Scottish Government is taking its obligations on reducing child poverty. But to reach the child poverty targets, and to make a Scotland without poverty for all a reality, we need a number of ambitious solutions across work, housing and social security.

## **We can solve UK poverty**

JRF is working with governments, businesses, communities, charities and individuals to solve UK poverty. *Poverty in Scotland 2019* looks in particular at the role of housing, work and social security and what government can do to tackle poverty – a key focus of our [strategy to solve UK poverty](#).

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# Executive summary

This report provides insights into the important tools the Scottish Government has at its disposal to reduce and ultimately solve poverty in Scotland. By looking back at how these tools have been used over the past 20 years, we can plan for the future and use evidence to build solutions for tackling poverty.

Overall, poverty in Scotland was lower in 2015–18 (the most recent period for which we have data) than it was in 1999–2002 at the start of devolution, but since 2009–12, poverty rates have started to shift upwards. Many of the changes in people's income from earnings and social security over the past 20 years have echoed changes in the rest of the UK. This partly reflects the devolution settlement, which has meant that for most of this period, social security policy and many powers related to work have been reserved to the Westminster Parliament.

However, devolution has evolved over the years, and the Scottish Parliament now has a wider range of powers, including on social security, as well as a greater ability to raise revenue to spend on its priorities. The Scottish Government plans to introduce a new social security benefit called the Scottish Child Payment, phased in from late 2020, which will go some way to helping Scotland meet its challenging child poverty targets.

But this is not the only tool the Scottish Government can use to help people break free from poverty. Another crucial story from the past 20 years is the role that housing policy has played in different parts of the UK. This is in terms of both the type of housing available and the relative cost of this housing. Scotland has a relative advantage in both and, as a result, poverty rates measured after housing costs are much lower in Scotland than in the rest of the UK overall. To maintain and build on this, the Scottish Government must pay attention to both housing supply and rents, particularly in the social rented sector.

Looking ahead, Scotland must accelerate progress towards meeting the child poverty targets and address the factors that are threatening to lock more families in poverty and push poverty rates up to historic highs.

Action is needed on all fronts and must be enough to rewrite the rules of the game for people living in poverty in Scotland. Poverty is at the root of many of society's deepest-set issues, from the attainment gap in schools to severe health inequalities and even declining life expectancy. This is simply unacceptable. As a society we can choose to make different decisions that will change people's lives unequivocally.

Social security can and must do more, particularly for people who cannot work due to illness or disability. Work must enable people to have a decent standard of living and should be a way of escaping poverty rather than a tether that keeps people trapped in

low pay and low living standards. Housing policy must be designed to make more of an impact and ensure that everyone can access housing that is secure and affordable.

With a Scottish election on the horizon, in May 2021, now is a perfect opportunity to agree solutions. Scotland has statutory child poverty targets, which must be reached by 2030, and there is currently much attention on how Scotland will achieve these. This provides the momentum for new breakthroughs, as seen by the introduction of the Scottish Child Payment, announced earlier this year, and progress towards the targets will show that society can help people break free from poverty. However, we cannot stand still, as if we do, the chance of meeting the child poverty targets, and showing that a Scotland free from poverty for all is possible, may move out of reach for another generation.

# 1 How has poverty changed over time in Scotland?

## Key points

- Overall, poverty was lower in 2015–18 than it was in 1999–2002, but since 2009–12, poverty rates have started to shift upwards.
- Pensioners have seen the greatest fall in poverty rates since 1999, followed by children, but poverty rates for both now appear to be rising.
- Working-age people without children have not seen much change in their poverty rate over time. The poverty rate for this group tends to be lower than for other sections of the population, but there are notable exceptions – demonstrated by the high rates of destitution for single men under the age of 25.

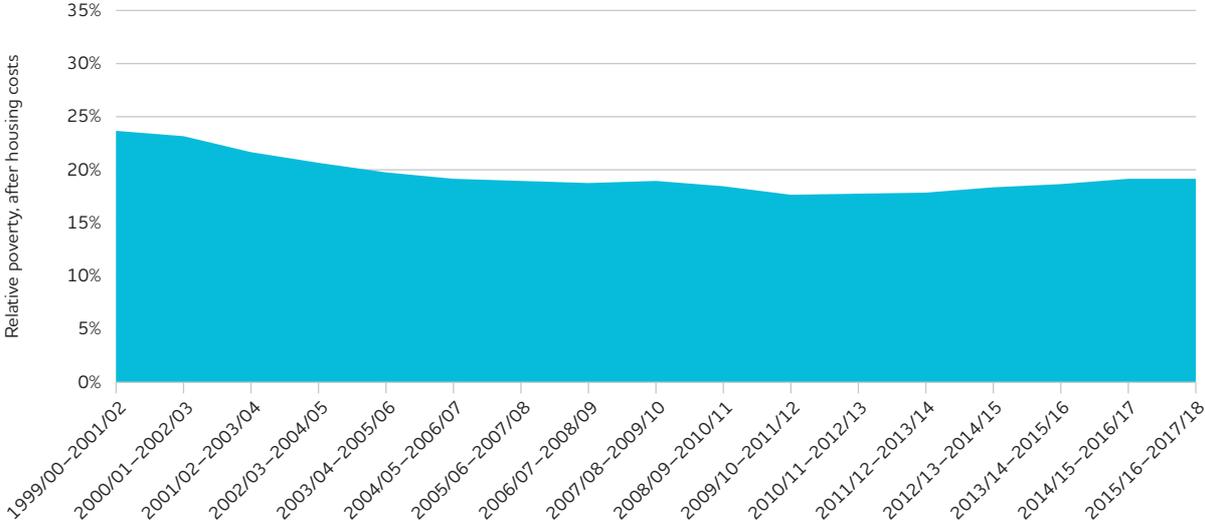
In this chapter, we present the overall poverty trends in Scotland and a breakdown of trends for different sections of the population to provide an overview of where we are now and how we got here. (See Appendix A for an explanation of how poverty is defined and measured.)

We show poverty trends from 1999 to 2018, which covers the period from devolution and the re-establishment of the Scottish Parliament, to the most recent period for which we have data.

## Overall poverty

In recent history, poverty has fallen in Scotland. In 2015–18, poverty measured after housing costs was close to 4 percentage points lower than it was in 1999–2002. But the reduction in poverty over this period was not a continual downward trend (see Figure 1). There are two discernible periods: first when we saw poverty fall (up until 2009–12) and since then a gradual rise.

**Figure 1: Poverty is lower than it was 20 years ago, but since 2009–12 it has slowly started to rise**



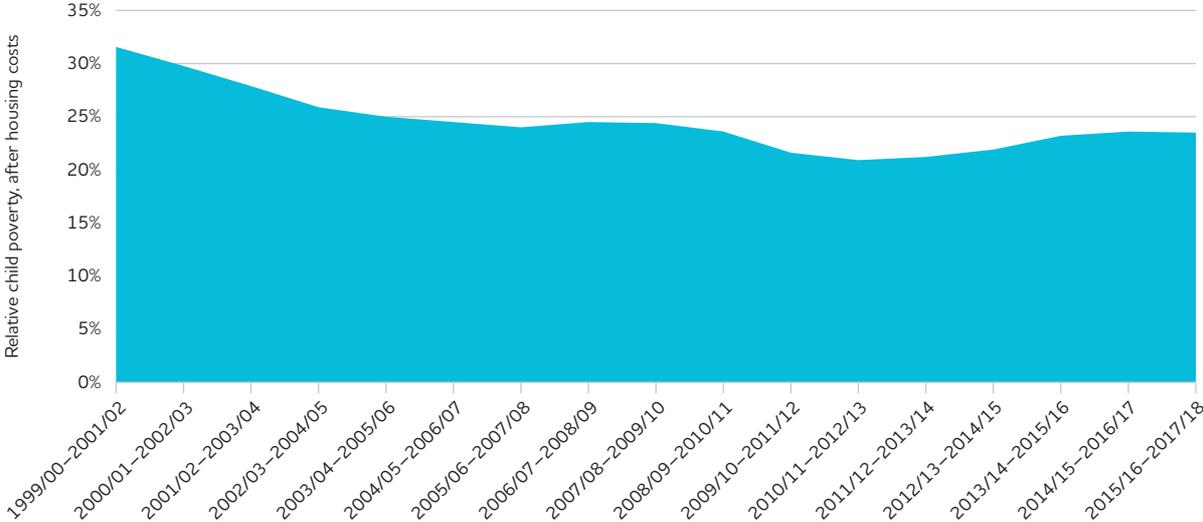
Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

The period over which poverty fell reflects a period of time when successive UK Governments chose to redesign the social security system to help boost income for some groups in society. This support was sustained during the Great Recession but has since started to unravel. The past 20 years have taught us that governments can choose to help people escape poverty, but that without this help, many will be trapped, with the labour market currently unable to provide the earnings that all people need to break free from poverty.

**Child poverty**

The chances of being a child in poverty in Scotland reduced markedly in the first part of the 20-year period under study here (see Figure 2), reflecting changes made to the UK-wide social security system. The flattening of progress in the mid-2000s reflects a period of time when there was little new policy development targeted at children in poverty, but the social security protection given to these children earlier in the decade meant that their incomes were relatively well protected during the recession. Since 2010–13, children have seen an increase in poverty risk.

**Figure 2: Child poverty fell markedly in the early 2000s and during the recession, but it has risen since 2010–13**

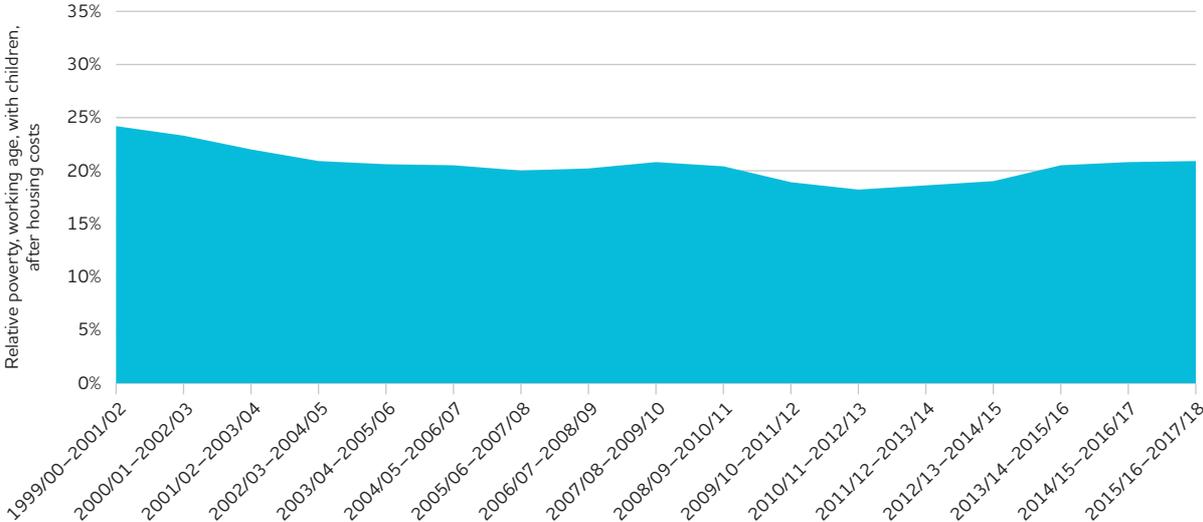


Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

## Working-age poverty

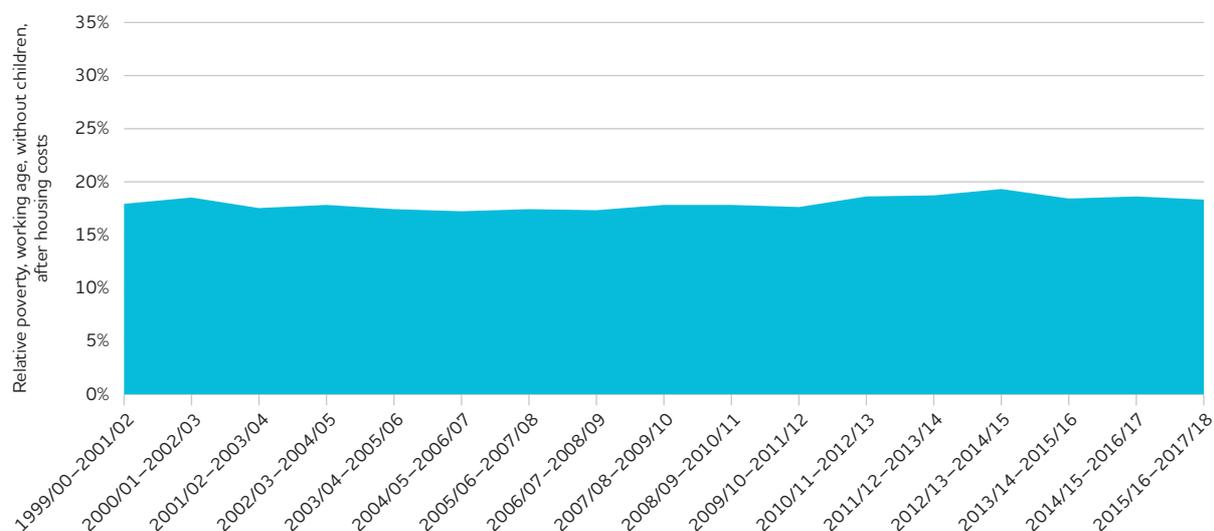
Working-age adults can be split into those who are parents and live with their children (who benefit from policies aimed at families with children) and those who do not have children. For working-age parents, the poverty rate over the past 20 years has mirrored that for children: it fell in the early 2000s but it has risen since 2010–13 (see Figure 3a). For working-age adults without children, the poverty rate has barely moved in 20 years (see Figure 3b).

**Figure 3a: Working-age poverty among parents echoes the trends seen for children in poverty**



Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

**Figure 3b: Working-age poverty among adults without children is marginally higher now than in 1999–2002**



Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

However, although the poverty risk for working-age adults without children is relatively low overall, the risk of destitution is highest among single men aged under 25 (Fitzpatrick et al, 2016). People are defined as destitute if they have lacked two or more of six essential items over the past month because they cannot afford them:

- shelter (they have slept rough for one or more nights)
- food (they have had fewer than two meals a day for two or more days)
- heating their home (they have been unable to heat their home for five or more days)
- lighting their home (they have been unable to light their home for five or more days)
- clothing and footwear (appropriate for the weather)
- basic toiletries (soap, shampoo, toothpaste, toothbrush).

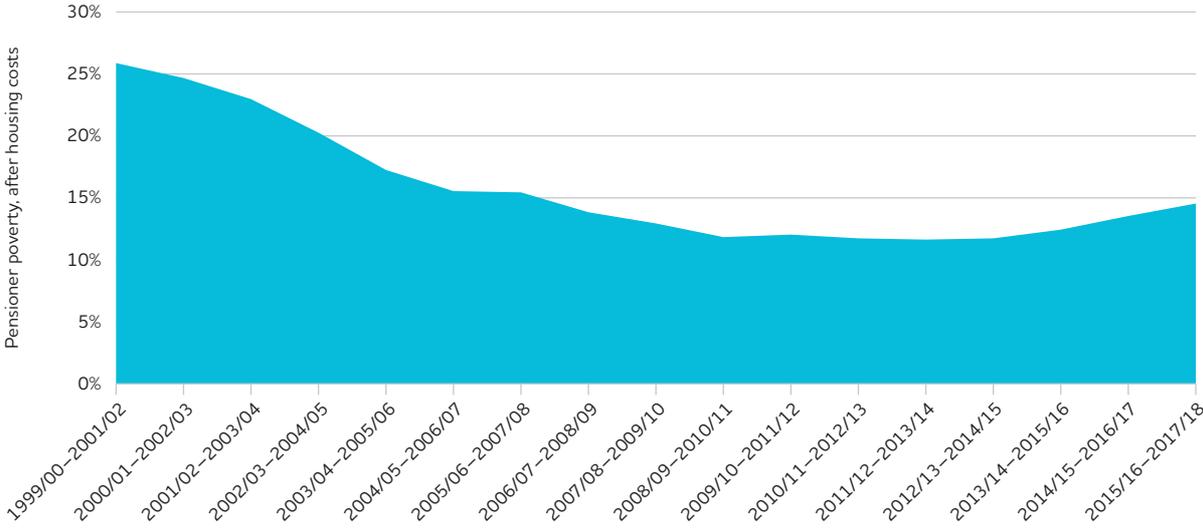
People are also defined as destitute if they have an income that is so low, and no savings, that they will be likely to lack these essential items in the immediate future.

## Pensioner poverty

Pensioners on a low income saw a large boost in their income in the early 2000s and a sustained period of rising relative income due to the ‘triple lock’ for the state pension, which ensures that the pension rises by the highest of the following: inflation (for the September before the start of the financial year), the increase in average earnings or 2.5%. This led to a significant and sustained drop in poverty among pensioners (see Figure 4).

However, in the past few years, pensioner poverty has begun to rise. At the UK level, this has been partly attributed to increases in pensioner incomes (especially benefit income and private pension income) not being enough to keep up with average incomes, as well as rising rents in the private rented sector (Barnard, 2018).

**Figure 4: Pensioner poverty fell steeply after 1999–2002 but is now beginning to rise**



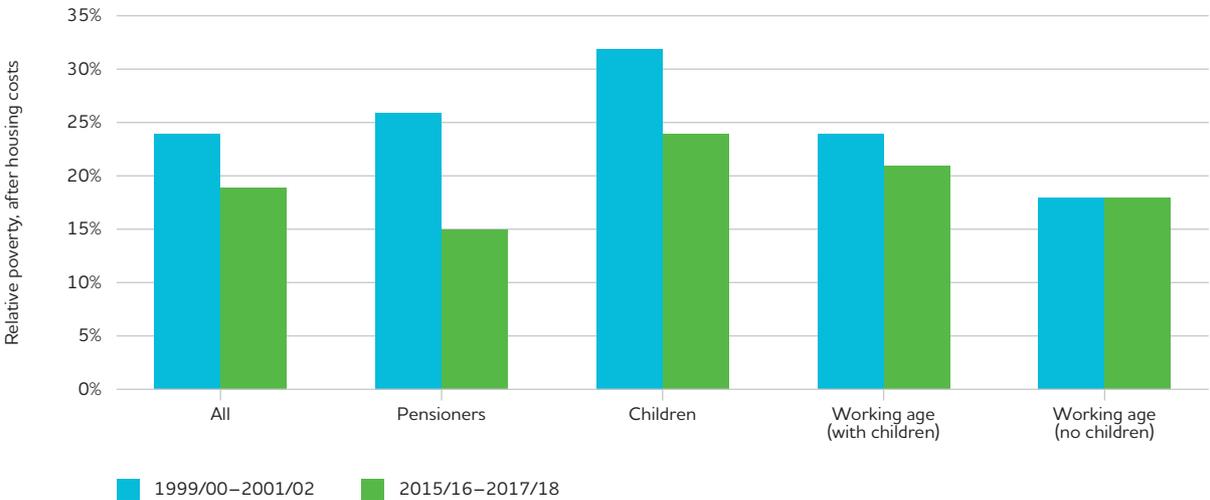
Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

### Which groups have been the main beneficiaries of reductions in poverty?

The largest falls in poverty rates seen in the past 20 years have been among pensioners and children. But despite improvements over time, children remain the most at-risk group in terms of poverty, with rates far above average, followed by working-age adults with children (see Figure 5).

Pensioners are now the least likely to be in poverty, which is a vast turnaround compared with 20 years ago. Even though we have seen rates starting to rise, pensioner poverty is 15% compared with 26% in 1999–2002.

**Figure 5: The largest falls in poverty levels seen in the past 20 years have been among pensioners and children, but children remain the highest-risk group**



Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

A key point to mention is that the contribution of the pensioner population to the fall in overall poverty is not due to changes in the number of pensioners relative to the rest of the population. In fact their numbers have risen slightly. Their contribution to falling poverty has clearly been driven by the risk of poverty decreasing due to their incomes improving.

The same is true of all population groups, with the exception of working-age households with no children, who have not contributed to the fall in overall poverty. All other groups have benefited from dedicated policy to increase low incomes over the past 20 years and their relative risk of poverty has fallen as a result.

## 2 Why is poverty lower in Scotland compared with the rest of the UK?

### **Key points**

- Poverty measured before housing costs is very similar between Scotland and the rest of the UK. However, measured after housing costs there are statistically significant differences in poverty levels, with lower levels in Scotland.
- The divergence between Scotland and the rest of the UK in terms of poverty after housing costs has occurred over the past 20 years.
- Lower housing costs in Scotland, particularly in the social rented sector, are a key cause of the divergence.
- The fact that a higher proportion of people in Scotland live in the social rented sector and fewer people live in the private rented sector has also had an effect.
- The relatively weaker emergence of the private rented sector, plus stronger growth in the number of owner-occupiers who own their home outright, have also been partly responsible for the divergence.

As shown in Chapter 1, the past 20 years have witnessed significant change in poverty levels. The impacts of this have been felt both in Scotland and across the rest of the UK. Up until the Scotland Act 2016, most of the policy areas that have a direct impact on people's incomes before housing costs (from benefits and earnings) remained reserved to the UK Parliament. Scotland has had powers over some of the longer-term determinants of poverty, for example education and skills, and Box 1 shows how powers have evolved since devolution. Nevertheless, it appears that UK Government policy has driven much of the history of poverty over the past 20 years.

### **Box 1: Timeline on the devolution of powers**

The Scottish Parliament was re-established in 1999, as a result of the Scotland Act 1998, which set out the range of issues that remained reserved to the UK Parliament. But a range of policies were devolved from Westminster to the Holyrood Parliament. Housing was devolved but most social security and employment law remained reserved. Other devolved areas included from the start of the Scottish Parliament include education, training and skills, local government, economic development, transport and childcare, which are many of the areas that government needs to focus on to alter longer-term prospects for people in Scotland.

The constitutional debate has not stood still since then, and more powers have been devolved over the years.

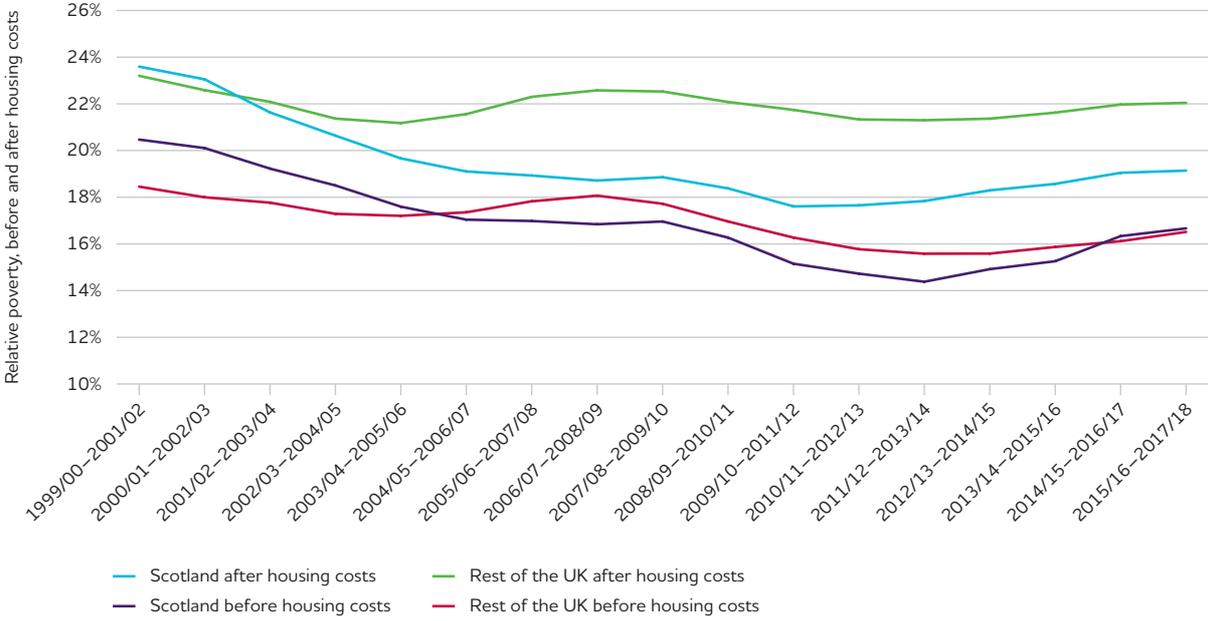
The Scotland Act 2012 gave more powers to Scottish ministers but little extra to tackle poverty. However, around this time, the UK Government abolished Council Tax Benefit and this was followed by the transfer of 90% of the forecasted amount that would have been spent on Council Tax Benefit to Scotland to allow a new support scheme. As social security was a reserved power, the support could not be classified as a benefit and instead was created as a reduction in Council Tax liability called 'Council Tax Reduction'.

Following the referendum on Scottish independence in 2014, a further transfer of powers was agreed in the Scotland Act 2016, including crucially the devolution of some social security powers. A set of benefits related to disability and carers, and some payments for low-income households, is in the process of being transferred and the Scottish Parliament now has the power to top up UK benefits and create new ones. Employment support powers were also transferred. Employment law remains reserved as does responsibility for the main means-tested benefits (including Universal Credit, with some flexibility over payment options known as 'Scottish Choices').

The Scottish economy has also been affected by the same issues facing the UK economy – most notably the Great Recession in the late 2000s. Since the recession, Scotland has witnessed similar trends in the labour market as the rest of the UK, with strong employment but weak growth in earnings.

These factors help to explain why poverty measured before housing costs is close to identical between Scotland and the rest of the UK. However, measured after housing costs we see a statistically significant difference in poverty levels, with lower levels seen in Scotland than in the rest of the UK (see Figure 6). The difference is even larger for children. The reason for this is that there are differences in housing costs between Scotland and the rest of the UK that are acting as a protective factor against poverty in Scotland.

**Figure 6: Trends in poverty after housing costs between Scotland and the rest of the UK have diverged for a sustained period; the same is not true of poverty before housing costs**

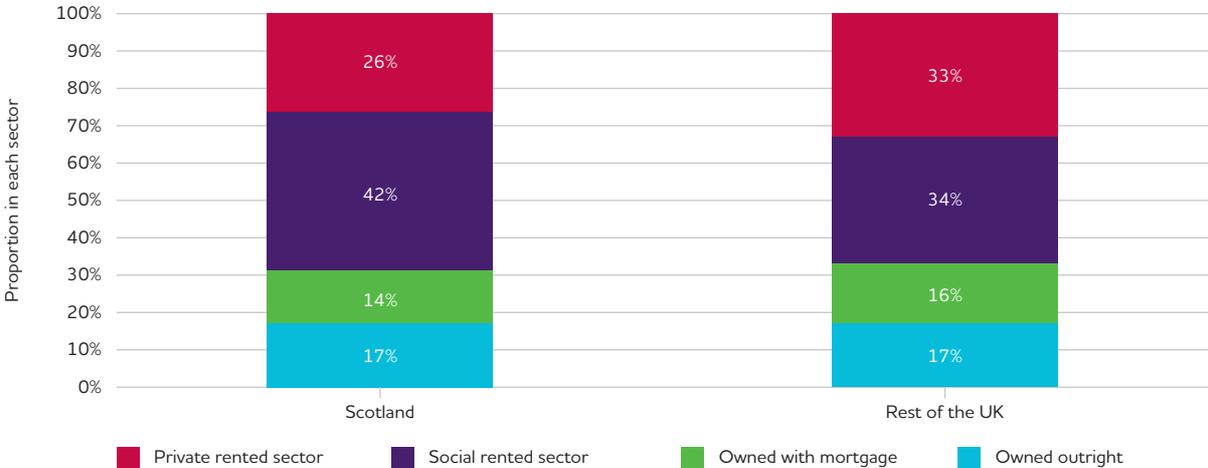


Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

There are two key factors at play with regards to housing. First, more people in poverty in Scotland live in the social rented sector than in the private rented sector (see Figure 7). The larger social rented sector has long been considered a key reason why poverty after housing costs is lower in Scotland than in the rest of the UK (Barnard, 2017, p. 10). Second, housing costs differ in each housing tenure (owned outright, owned with a mortgage, social rented sector, private rented sector), with Scotland generally a cheaper place to live than the rest of the UK (see Figure 8).

By looking at the impact of the numbers in each sector and the risk of poverty in each in turn, we have found that relative differences in housing costs within each tenure between Scotland and the rest of the UK average are an important reason for the difference in poverty levels after housing costs. Full results from this analysis are given in Appendix B and are summarised here.

**Figure 7: Scotland has a higher proportion of people in poverty in the social rented sector and a lower proportion of people in the private rented sector compared with the rest of the UK, 2015–18**

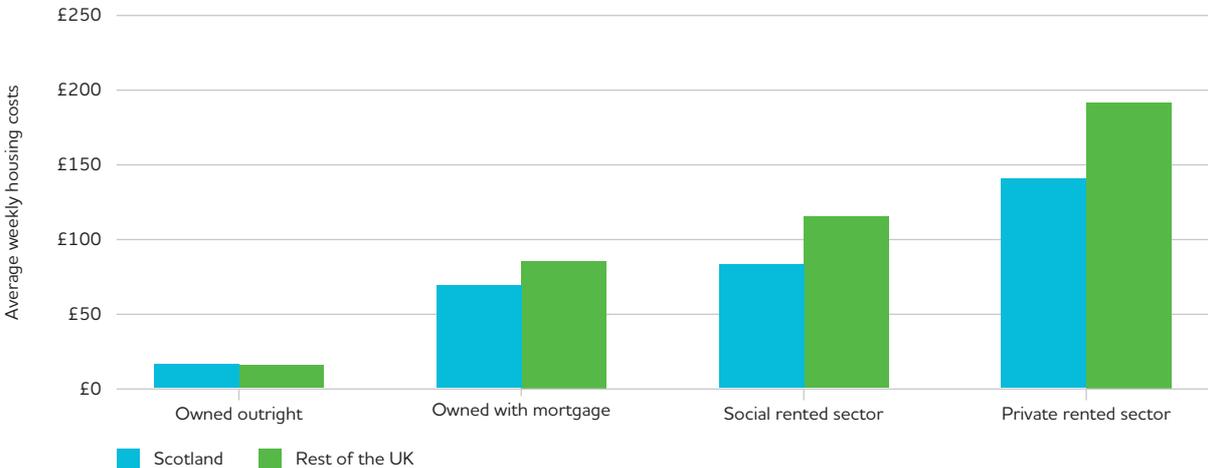


Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

House and rent prices are cheaper in Scotland than the rest of the UK average across all tenures but the differences are particularly striking in the social rented sector (see Figure 8). In 2017, social rents were 14% lower for tenants of registered social landlords and 18% lower for tenants of local authority landlords in Scotland compared with England (Scottish Government, 2017).

While there is some benefit from having a higher proportion of people living in the social rented sector in Scotland, this is not the only reason for lower poverty after housing costs in Scotland. (The impact of lower rents on poverty in Scotland relative to the rest of the UK is not just driven by London and the South East – we see a similar impact when we take these two regions out of the figures for the rest of the UK.)

**Figure 8: In the social rented sector and the private rented sector in Scotland, where most people in poverty live, housing costs are lower than in the rest of the UK, 2015–18**



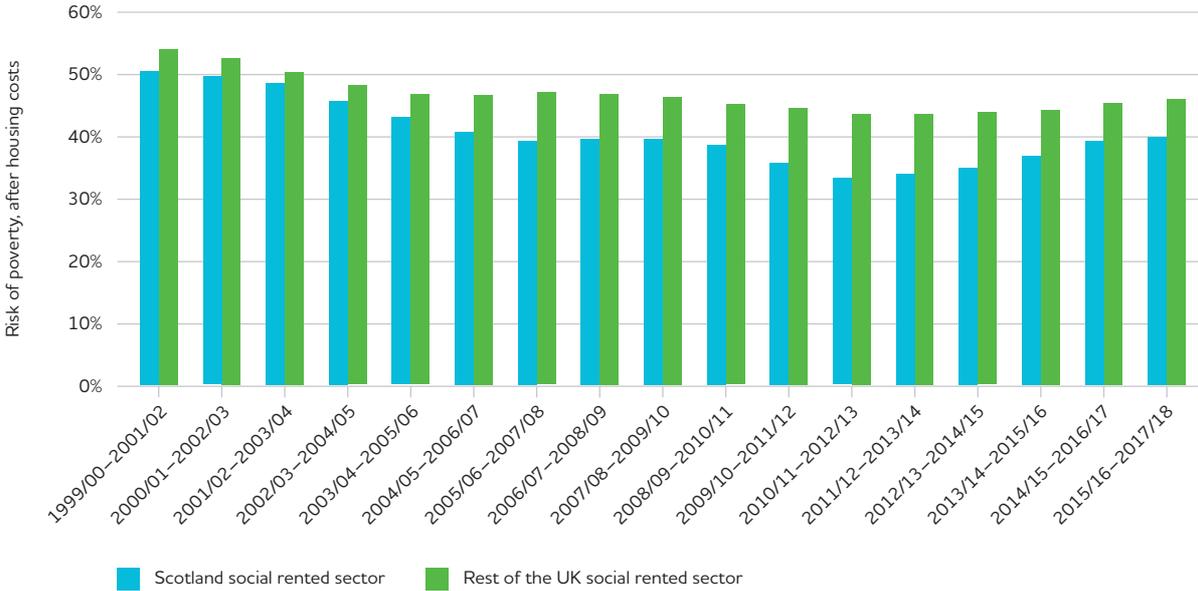
Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

Poverty after housing costs in Scotland has not always been lower than in the rest of the UK. The divergence occurred in the early to mid-2000s and has been sustained since. As shown in Figure 6, poverty before housing costs in Scotland, in contrast, has remained much more in line with that for the rest of the UK over the past 20 years.

Changing proportions of people in each tenure have had some impact. The stronger emergence of the private rented sector in the rest of the UK (which has taken share away from other, lower-cost, tenures) and a slightly higher proportion owning their property outright in Scotland account for some of the divergence.

However, again, a key reason for divergence over the past 20 years is changes in poverty risk in the social rented sector. Housing costs and subsequently poverty risk in this sector have diverged over time between Scotland and the rest of the UK average, although there are some signs that this trend is starting to reverse (see Figure 9).

**Figure 9: Over the past 20 years, the risk of poverty in the social rented sector has fallen across the UK but there are signs that it is starting to increase, particularly in Scotland**



Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

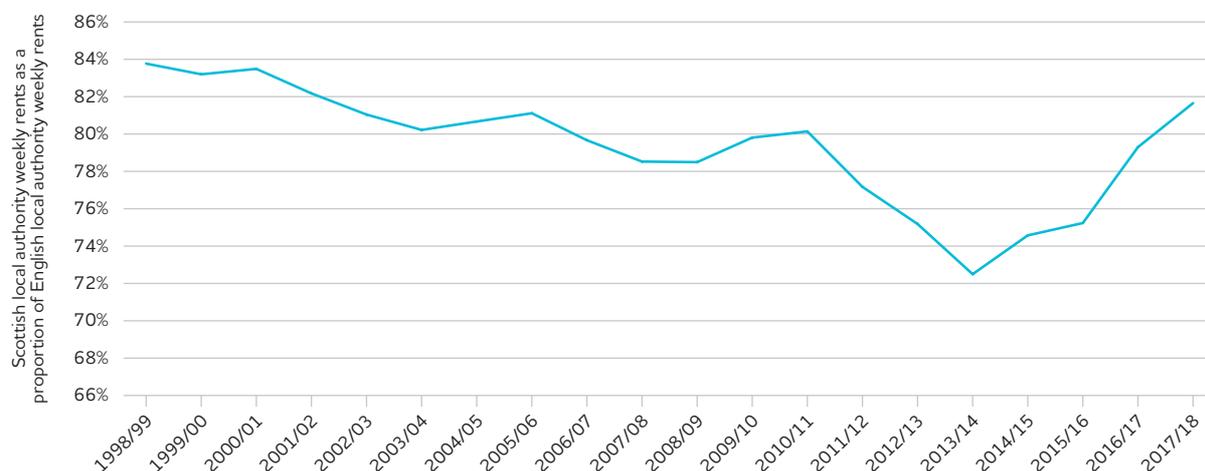
Professor Nick Bailey discussed the divergence in the incidence of poverty in the social rented sector in a working paper for the Joseph Rowntree Foundation in 2014 (Bailey, 2014). He rightly pointed out that English housing policy was the cause of this trend:

In Scotland, social landlords have considerable latitude to set rents as they see fit, subject to the need to maintain financial viability. Rents may vary considerably depending on when stock was constructed and under what kind of financial regime. In England, by contrast, there have been concerted attempts by central Government to bring convergence in rents across the sector in recent years, by requiring that rents reflect variations in housing size and quality, and in local housing market conditions. The effect has been to push rents up at the same time.

Bailey, 2014, p. 20

This period of convergence in England (which resulted in housing costs in the social rented sector in Scotland falling relative to England – see Figure 10) eased in 2013/14 and then ended in 2016/17 with the introduction of an annual 1% reduction in social rents, which was set out for a period of four years. Because of its relatively recent introduction, it is too soon to see this showing up in the three-year average poverty data, but it is clear to see that there has been a turning point in the trend identified in Bailey’s (2014) work, driven by faster increases in social rents in Scotland than in the rest of the UK (see Figure 10). See Box 2 for more information on social rents policy in England.

**Figure 10: For most of the past 20 years, there has been a sustained, accelerating downwards trend in Scottish local authority rents as a proportion of English local authority rents, but this trend has reversed over the past five years**



Note: An equivalent time series for the full period was not found for the registered social landlord sector, but where data does exist, the pattern is like local authority rents, particularly over the past few years.

Source: 1998/99 to 2015/16: Department for Communities and Local Government, Table 701: Local Authority Average Weekly Rents, by country, United Kingdom, from 1998 (final version); 2016/17 to 2017/18: Social tenants in Scotland (Scottish Government, 2017)

## **Box 2: Social rents policy in England**

Housing providers set social rents in Scotland independently of the Scottish Government but in England, social rents have been subject to central government involvement. Starting from 2002, the UK Labour Government introduced a rent convergence policy in England to end 'arbitrary' rent setting and to bring values into line with market values. Actual rents moved towards a national rent formula, which took account of the value of properties in relation to local earnings. The rent formula was increased each year by the Retail Prices Index (RPI) + 1%.

The Coalition Government continued this rent-setting process with a revised target convergence date of 2015/16. In 2011, the Retail Prices Index reached its peak of 5.6%, meaning that some council tenants faced a rent rise of around 8%. This goes some way to explaining the sharp fall in Scottish social rents as a proportion of English rents in the period between 2010/11 and 2013/14 (see Figure 10).

As part of the 2013 Spending Round, the Coalition Government ended the policy of convergence, announcing that social rents would rise by the Consumer Price Index (CPI) + 1% for the next 10 years. The switch to the Consumer Price Index, being generally lower than the Retail Prices Index, explains the turning point in the data in 2014/15 (see Figure 10).

The certainty of a 10-year settlement was cut short, however, and in the 2015 Summer Budget, it was announced that rents in social housing would be reduced by 1% a year for four years. This started in April 2017.

Overall, it is clear that most of the unfolding differences in social rents between Scotland and England are due to UK Government policy rather than the intentional decisions that the Scottish Government has made.

Source: Wilson, 2019

# 3 What will change poverty in Scotland in the future?

## Key points

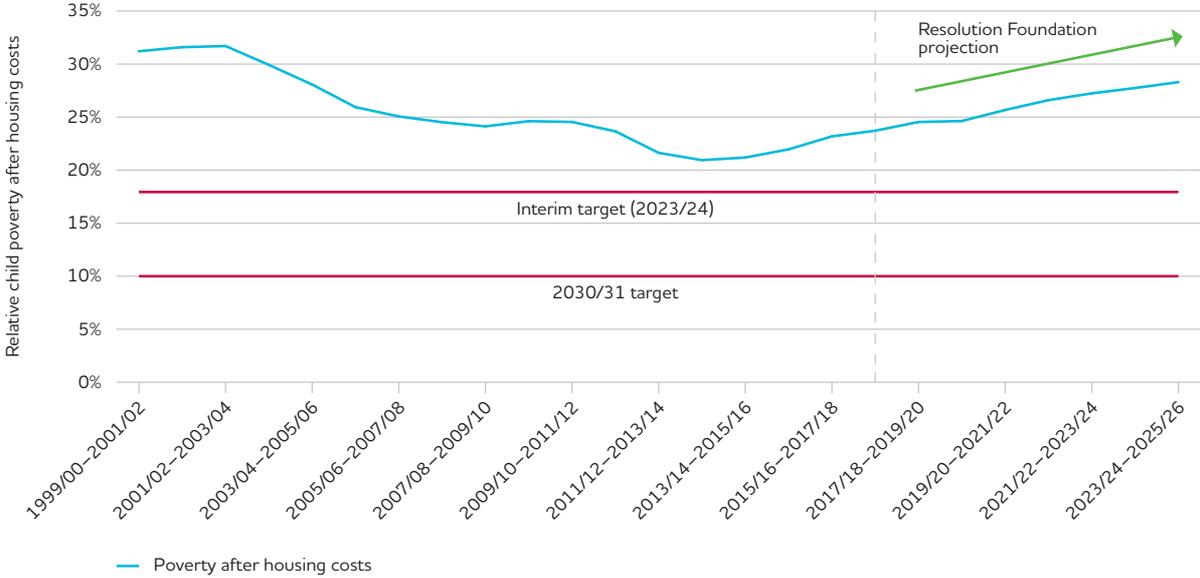
- Policy development in Scotland is likely to focus on child poverty over the medium term due to the statutory 2030/31 10% relative child poverty target set in the Child Poverty (Scotland) Act 2017.
- In the near term, poverty is expected to rise and the chances of missing the interim target also set out in the Act – for child poverty to be at 18% by 2023/24 – are high.
- The introduction of the Scottish Child Payment shows that the Scottish Government can introduce game-changing policies to solve poverty.
- We need to see the same and more across housing, work and the rest of social security policy and to build consensus on how to tackle poverty across all age groups.

This chapter focuses mainly on child poverty given that this is where the bulk of public policy attention is currently focused, but there will be many spillovers and lessons that can be applied to help people in poverty who are not children or parents.

In 2017, the Scottish Parliament enacted the Child Poverty (Scotland) Act. Its aim is to all but solve child poverty in Scotland, with a target to bring relative child poverty after housing costs down to 10% by 2030/31, with an interim target of 18% by 2023/24, and to reduce absolute poverty, persistent poverty and material deprivation at the same time.

We are already some way from meeting the statutory child poverty targets, and projections are in fact for child poverty to increase further in the next few years. A forecast from the Resolution Foundation is shown in Figure 11 and its analysis indicates that the impact of UK Government benefit reform is the key cause of the projected rise in child poverty (Corlett, 2019b).

**Figure 11: Poverty projections suggest that child poverty will rise between now and the 2023/24 interim target date if no action is taken**



Note: Although these forecasts were produced before 2015–18 data was published, the projected rate shown on this graph for 2015–18 is close to accurate.

Source: Corlett, 2019b

So what does the Scottish Government need to do to meet its child poverty targets and make sure that child poverty rates are moving in the same downward direction and not rising as projections suggest?

It will need to do everything it can to improve incomes and reduce costs for families with children and as progress is made towards tackling child poverty, we want to see this learning extended to build solutions for people of all ages so that they can break free from poverty.

## Housing

We know from recent history how important housing can be in tackling poverty. Housing policy is devolved to the Scottish Government, with the major exception of Housing Benefit or the housing component of Universal Credit, and hence there is a lot that can be done here. The Scottish Government’s current programme of building 50,000 affordable homes with 35,000 for social rents is a positive response. Having more people living in social housing rather than in the private rented sector will be a good thing for poverty reduction because average rents are lower in the social rented sector. However, this programme does not appear to be having a measurable extra impact on the poverty statistics as yet, and with the programme due to end in 2021, the next round of housing policy will need to be at least as ambitious, and likely more so, in its efforts to tackle poverty if it is to play its required role.

Ensuring that rents do not increase significantly is also a key factor to consider. The UK Government has implemented an annual 1% reduction in social rents, meaning that the relatively lower level of social rents in Scotland compared with the rest of the UK could be narrowing. The Scottish Government does not need to follow the UK Government with mandated reductions in social rents, but it does have other mechanisms at its disposal – for example varying its grant to social rent providers.

## **Work**

In our 2018 report on poverty in Scotland (Congreve and McCormick, 2018), we looked at the impact that improvements in the workplace for women and disabled adults could have for child poverty. The Scottish Government has since brought out two strategies on these issues, both of which show an understanding of the clear links between work and poverty for these groups.

In terms of concrete actions linked to child poverty, the Scottish Government has committed to introduce a new programme of intensive employment support for disabled parents, backed by £6 million by 2022. Within the Gender Pay Gap Action Plan, the Scottish Government reports an expected boost to child incomes via the Women Returners Programme and a new Centre for Flexible Work as a specific child poverty commitment (Scottish Government, 2019).

In 2018, the Scottish Government published *Every child, every chance* (the Tackling Child Poverty Delivery Plan) (Scottish Government, 2018). In its first annual progress report on the plan, the Scottish Government (2019) acknowledged that it is still early days but most of the actions set out in the plan have been carried out or are in progress. Other key policies that may start to have an impact in the coming years are the expansion of free childcare hours from 2020 and a programme on out-of-school care, which is currently in development.

The Scottish Government (2019) has not given its overall assessment of the impact of policies in the Tackling Child Poverty Delivery Plan, making it difficult to understand how far the actions announced will take Scotland towards its goal of ending child poverty. However, the announcement of proposals to evaluate some of the biggest programmes within the Delivery Plan is a welcome step forward.

Many policies related to work regulation remain reserved, so there are areas that the Scottish Government cannot legislate for. But there are many things that the Scottish Government can and should do. It must continue to take seriously its commitments on inclusive growth, in every policy intervention, to ensure that the labour market and the economy enable people on a low income to see adequate financial return from their employment. Employers in key sectors will drive many of the changes needed, but the Scottish Government knows that it can take forward measures to create a supportive environment to promote fair work.

## **Social security**

One policy that the Scottish Government has assessed for likely impact is the Scottish Child Payment – a new benefit for low-income families with children under the age of six – which will be phased in from late 2020. Its analysis shows that this benefit has the potential to have a direct and sizeable impact on child poverty: the Scottish Government (2019) estimates that it will reduce relative poverty after housing costs by 3 percentage points.

The ambition of this policy has been widely welcomed, but on its own it will not enable everyone to break free from poverty. The Resolution Foundation has shown that, because of expected baseline increases in child poverty rates, even a 3 percentage-point reduction in relative child poverty in 2023/24 still leaves relative poverty in Scotland at 26%, far away from the interim child poverty target of 18% set out in legislation (Corlett, 2019a).

Scotland now has responsibility for a range of new social security payments. Some changes have been announced and implemented (the Carer's Allowance Supplement and the Best Start Grant for example) but previous analysis has shown that these are unlikely to have a demonstrable impact on child poverty because of limited reach and relatively low amounts paid (Reed and Stark, 2018). Once safe and secure delivery of the remaining devolved benefits has been achieved, future Scottish governments should consider other changes that could play a decisive role in solving poverty.

## 4 Conclusion

Scotland faces many of the same poverty trends and many of the same challenges for tackling poverty as seen in the rest of the UK. But Scotland has a growing set of powers, set in train by the re-establishment of the Scottish Parliament in 1999 and extended by the Scotland Act in 2016.

Since devolution, we have seen how different approaches to setting social sector rents have benefited low-income families in Scotland relative to the rest of the UK. But this has largely been the result of policy divergence driven by the UK Government rather than deliberate Scottish Government policy change.

However, increasing affordable housing supply has been a key priority of the Scottish Government in the past few years in particular. Up until now, this policy has not had a demonstrable impact on the poverty statistics, and we need to now consider how housing can play a decisive role in reducing poverty in future.

Many actions to boost employment for people living in poverty who are at risk are in the Tackling Child Poverty Delivery Plan (Scottish Government, 2018) and over the next few years these may start to make a difference. But the Scottish Government has not yet estimated their potential impact on poverty, making it difficult to judge whether the commitments in the plan are of a scale to make a real dent in poverty and put us on the right track to meeting the poverty targets. Our view is that more needs to be done.

The announcement of the Scottish Child Payment has been widely recognised as having the potential to make a sizeable difference to children's lives. But even an investment on this scale, which is expected to reduce child poverty by 3 percentage points, will not bring Scotland close to its interim child poverty target based on current projections, nor should we expect social security to do all the heavy lifting.

Scotland's existing and recently devolved powers on social security do have the potential to boost incomes for people on a low income but clearly more ambition and actions are needed for Scotland to achieve its goals across all areas of government and with key partners. This will require focused commitment from employers, housing providers and public services – both national and local. Actions will need to be bold to make the difference required.

Encouragingly, the ambition that the Scottish Government has shown in developing the Scottish Child Payment demonstrates that there is appetite to make change happen. If the same appetite is shown in other areas of devolved policy, then the child poverty targets will be within reach and Scotland will have demonstrated that it can choose to solve poverty through relevant solutions applied across all age groups.

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# Appendix A: How is poverty defined and measured?

To understand poverty, we first need to know how to accurately define and measure it. Being in poverty is when your resources are not enough to meet the cost of your minimum needs, including taking part in society. However, several different methods of measuring poverty based on this broad definition exist, all of which produce a slightly different picture of poverty in the UK. Some of the key measures are outlined in Table A1.

**Table A1: Key measures of poverty and low income**

<b>Poverty measure</b>	<b>Description</b>
Relative poverty (after housing costs)	A household's income is less than 60% of the average (or median) household income after housing costs are deducted, where income is adjusted for different family sizes through a process called 'equivalisation'.
Relative poverty (before housing costs)	A household's equivalised income is less than 60% of the average household income before housing costs are deducted.
Absolute poverty (before/after housing costs)	A household's equivalised income is less than 60% of the average household income in a base year (currently 2010/11) before/after housing costs, which is increased (uprated) annually from the base year by the rate of inflation.
Material deprivation	When people say they are unable to access or afford a range of particular goods and activities that are typical in society at a given point in time.
The Social Metrics Commission's Measurement Framework	This aims to adjust the relative poverty (after housing costs) measure to create a measure of a household's available resources that includes assets and savings, and takes away inescapable costs, such as debt repayments and childcare costs. This measure is still being refined and the Department for Work and Pensions is due to produce an experimental statistics publication on it in 2020.*

Minimum Income Standard (MIS)	Defines the income that the public think people need in order to afford what is necessary for an 'acceptable standard of living' based on household type.
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\* For more details on the proposed measure, see Department for Work and Pensions (2019); and for more information on experimental statistics, see Office for National Statistics (undated).

To best understand poverty, it is important to use relative measures of poverty. While absolute measures of poverty are helpful for understanding how the incomes of poorer households are changing in relation to general prices, they do not consider societal changes in what constitutes a decent standard of living. In addition, any threshold tends to become obsolete over time and so every now and then a different base year for the threshold needs to be chosen. As a result, absolute measures tend to underestimate relative poverty and suggest that any increase in incomes equates to lower poverty, when in fact people may be falling way behind the living standards of society as a whole.

We use relative poverty after housing costs in this report because it is closest to our definition of poverty. Official figures often use poverty rates before housing costs, but as everybody needs housing regardless of their income and the money spent on it is generally not available for a person to spend elsewhere, we feel that the cost incurred should therefore not be considered as available income.

Measures of poverty before housing costs tend to underestimate poverty rates for two reasons:

- Housing costs in expensive areas mean that many people in those areas struggle to make ends meet, even when their income before deducting housing costs is higher than in other areas, but this is hidden in measures of poverty before housing costs. For example, London has lower poverty rates before housing costs than the UK overall, but the very highest percentage of poverty after housing costs.
- Households on a lower income tend to spend more of their income on housing than richer households. In 2017/18 at the UK level, households with an income in the lowest fifth of the population spent approximately 33% of their income on housing. In comparison, households in the highest fifth spent just 8% on housing (JRF analysis of the Households Below Average Income – HBAI – dataset). So, housing costs – rent or mortgages mostly – tend to disproportionately eat up the cash of low-income households, pulling those who may be just about managing into poverty.

Measuring poverty after housing costs gives a more accurate representation of the income that households have available and gives us a better understanding of which households are struggling and why. Poverty after housing costs is one of the statutory child poverty targets in Scotland and a measure that allows us to track changes consistently over time and to see whether the Scottish Government is on track to achieving the targets.

It is important to note that relative poverty measures represent the total net income after tax deductions for each family type. This includes employment earnings, state financial support through benefits and tax credits, and any other income sources, minus income tax, national insurance and Council Tax payments, contributions to pension schemes and student loan deductions. However, the Social Metrics Commission takes this further, suggesting that the actual resources available to a household must include not just income but also available assets and savings, and deduct a range of inescapable costs including housing costs, debt repayments, disability costs, childcare costs and social care costs. This measure shows a lot of promise, but is still being refined. As noted in Table A1, the Department for Work and Pensions is due to produce an experimental statistics publication based on it in 2020. We will consider its use in subsequent *Poverty in Scotland* reports once it is published.

Note: for this report, although we used the same data source for analysis as both the Scottish Government and the Department for Work and Pensions, some records are removed from data that is released to non-governmental organisations where there is a disclosure concern (that is, the characteristics of the household could make them identifiable to the public). In this case, it appears that some of these records include children. This means that there may be some discrepancies between our results and those produced using data that government departments hold.

The statistical significance testing referred to in Chapter 2 was done using a 'bootstrapping' methodology (see Department for Work and Pensions, 2017/18, Annex 4) and carried out, on request, by analysts at the Department for Work and Pensions.

## **What are the 'poverty lines' for different households?**

A 'poverty line' is a level of income a household must exceed in order to avoid or escape poverty. However, the actual poverty line a household faces is dependent on its composition. This is because the cost of living is higher for households with larger family types compared with smaller family types. For example, in 2017/18, a household in Scotland with two adults and two children (under 14 years old) would have needed an income of £366 a week to leave poverty behind, while a household with a single adult and no children would have needed an income of £152 a week. Table A2 shows the poverty lines for households with different family types. Estimates of the number of people in relative poverty in Scotland use the UK poverty line rather than a separate Scottish poverty line.

**Table A2: Poverty line for households in Scotland and the rest of the UK, equivalised, net disposable income (2017/18), after housing costs**

<b>Family type</b>	<b>£ per week</b>
Single with no children	152
Single with one child (under 14 years old)	204
Couple with no children	262
Couple with two children (under 14 years old)	366
Couple with three children (two under 14 years old, one aged 14 or over)	476
Couple with four children (two under 14 years old, two aged 14 or over)	586

Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

# Appendix B: Decomposing changes in poverty by tenure between Scotland and the rest of the UK and over time

This report uses ‘decomposition analysis’ to isolate the factors that are leading to differences in poverty between Scotland and the rest of the UK and over time.

Decomposition has two stages. The first holds the risk of poverty for each factor steady and looks at changes in **composition** (how has the distribution between each factor changed?). The second holds composition constant and looks at changes in the **risk** of poverty for each factor (how has the incidence of poverty changed?).

The main decomposition analysis in this report looks at housing tenure. Because we observe a divergence in poverty after housing costs between Scotland and the rest of the UK, but not poverty before housing costs, we know that differences in housing must be playing a role.

## **Between Scotland and the rest of the UK – current levels of poverty**

### **Composition effect**

Composition effects look at (a) the composition of the population by tenure and (b) the average risk of poverty for people living in different tenures. The poverty risk in each tenure represents a combination of the characteristics of people in that tenure (on average they are poorer) and the average housing cost (on average cheaper). If you have more people living in a higher-risk tenure, then this will mean the composition effect is positive.

More people live in the social rented sector in Scotland than in the rest of the UK. Because poverty risk is high, on average, in this sector, decomposition analysis denotes this as having a statistically positive composition effect on poverty (that is, it raises poverty) in Scotland (see Table B1). But this is almost entirely cancelled out by the lower proportion of people in the private rented sector – also a high-risk tenure.

The composition effect figure can be difficult to interpret because, on the surface, this seems to imply that having more people living in the social rented sector is a bad thing for poverty because the risk of poverty is higher. However, this is not the case. Much of the housing in the social rented sector is specifically for poorer households, and

housing costs tend to be lower than those in the private rented sector. This makes social housing a protective factor against high housing costs, which are a key cause of poverty after housing costs. This protective factor cannot be easily discerned from this decomposition analysis but thinking through the counterfactual can be helpful: If fewer people in Scotland lived in the social rented sector, they would most likely be instead living in the private rented sector. If the number of people in the social rented and the number of people in the private rented sector were the same, this would also wipe out the compositional advantage Scotland has at present due to the smaller private rented sector and leave the overall compositional effect unchanged. But the higher cost of housing in the private rented sector would increase the risk of poverty overall in Scotland.

## Incidence effect

Table B1 shows a strong incidence effect in favour of Scotland. This demonstrates the impact of lower housing costs in every sector when compared with housing costs in the rest of the UK. The strongest impact is in the social rented sector.

**Table B1: Decomposition analysis: rest of the UK and Scotland (2015/16–2017/18)**

Tenure	Composition of the whole population		Risk of poverty		Composition effect	Incidence effect
	Rest of the UK	Scotland	Rest of the UK	Scotland		
<b>Owned outright</b>	28%	29%	13%	11%	-0.1%	-0.6%
<b>Owned with a mortgage</b>	35%	36%	10%	8%	0.0%	-0.8%
<b>Social rented sector</b>	16%	20%	46%	40%	0.9%	-1.1%
<b>Private rented sector</b>	20%	15%	36%	34%	-0.8%	-0.4%
<b>All</b>	100%	100%	22%	19%	0.0%	-2.9%

Notes: Some figures may not sum due to rounding. 'Risk of poverty' denotes the proportion of people in each tenure living in poverty and the 'all' figure represents overall poverty risk for the whole population.

Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

## **Explaining changes over time**

Compositional changes have increased poverty in the rest of the UK but less so in Scotland.

There has been a net change in poverty due to compositional changes in the rest of the UK (see Table B2) that has not been seen in Scotland (see Table B3). This is due to a greater increase in the number of people who own their home outright (and have a low poverty risk) in Scotland, and a greater rise in the number of people in the private rented sector in the rest of the UK.

Again, changes in composition should be looked at overall and in context. For example, we know that social housing supply is not enough to meet demand yet we have witnessed a fall in the size of the social rented sector (the fall has been proportionally biggest in Scotland although starting from a much higher base, so there remains a higher proportion of people in Scotland in the social rented sector). This fall in the supply of social rent has simply led to a transfer of poverty to other tenures (particularly the private rented sector), rather than leading to a change in poverty overall.

There has been no noticeable difference in changes (more than 0.5 percentage points) in the incidence of poverty in each tenure in Scotland compared with the rest of the UK, with the exception of the social rented sector. Here, we have seen the largest single contribution to lower poverty in Scotland compared with the rest of the UK (as seen in Figure B1).

**Table B2: Decomposition of changes in poverty over time: rest of the UK**

<b>Tenure</b>	<b>Composition of the whole population</b>		<b>Risk of poverty</b>		<b>Composition effect</b>	<b>Incidence effect</b>
	1999/01–2001/02	2015/16–2017/18	1999/01–2001/02	2015/16–2017/18		
<b>Owned outright</b>	23%	28%	17%	13%	-0.4%	-0.9%
<b>Owned with a mortgage</b>	49%	35%	12%	10%	1.6%	-0.7%
<b>Social rented sector</b>	18%	16%	54%	46%	-0.5%	-1.4%
<b>Private rented sector</b>	10%	20%	39%	36%	1.6%	-0.4%
<b>All</b>	100%	100%	23%	22%	2.2%	-3.4%

Notes: Some figures may not sum due to rounding. 'Risk of poverty' denotes the proportion of people in each tenure living in poverty and the 'all' figure represents overall poverty risk for the whole population.

Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

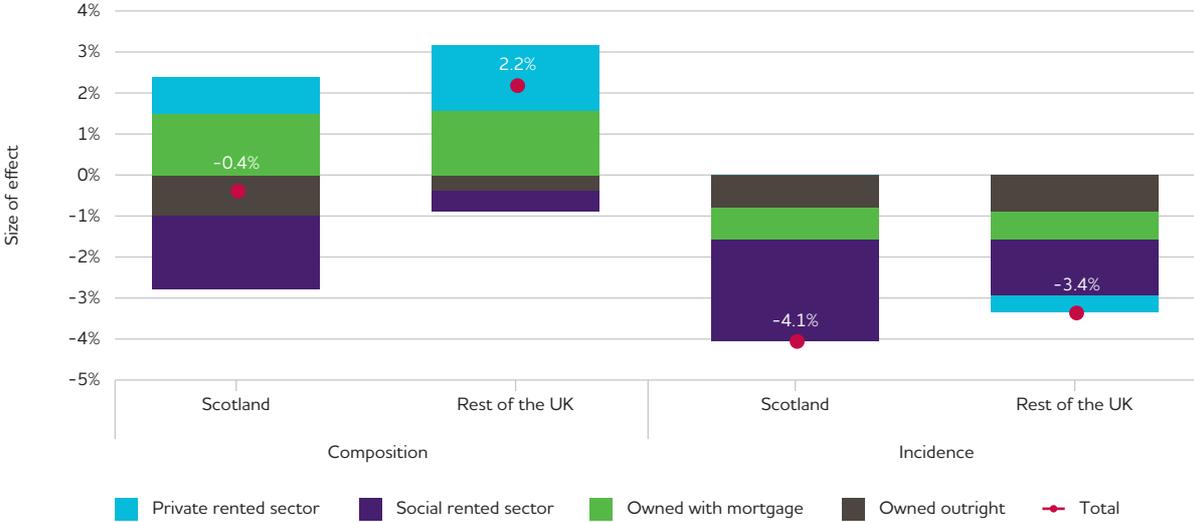
**Table B3: Decomposition of changes in poverty over time: Scotland**

<b>Tenure</b>	<b>Composition of the whole population</b>		<b>Risk of poverty</b>		<b>Composition effect</b>	<b>Incidence effect</b>
	1999/01–2001/02	2015/16–2017/18	1999/01–2001/02	2015/16–2017/18		
<b>Owned outright</b>	18%	29%	14%	11%	-1.0%	-0.8%
<b>Owned with a mortgage</b>	47%	36%	10%	8%	1.5%	-0.8%
<b>Social rented sector</b>	28%	20%	51%	40%	-1.8%	-2.5%
<b>Private rented sector</b>	7%	15%	34%	34%	0.9%	0.0%
<b>All</b>	100%	100%	24%	19%	-0.4%	-4.1%

Notes: Some figures may not sum due to rounding. 'Risk of poverty' denotes the proportion of people in each tenure living in poverty and the 'all' figure represents overall poverty risk for the whole population.

Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

**Figure B1: Decomposition of changes in poverty over the past 20 years: the fall in poverty risk in the social rented sector is the dominant change**



Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

The other decomposition analysis included in the report looked at different population groups (see Table B4). From this we concluded that the reasons for changes in the overall poverty rate came from changes in the risk of poverty within these groups, rather than changing proportions of different groups in the population.

**Table B4: Composition of population groups and risk of poverty: Scotland**

Tenure	Composition of population groups		Risk of poverty		Composition effect	Incidence effect
	1999–2002	2015–2018	1999–2002	2015–2018		
<b>Children</b>	21%	19%	32%	24%	-0.2%	-1.6%
<b>Working age, with children</b>	21%	20%	24%	21%	0.0%	-0.7%
<b>Working age, no children</b>	40%	42%	18%	18%	-0.1%	0.2%
<b>Pensioners</b>	18%	20%	26%	15%	0.0%	-2.1%
<b>All</b>	100%	100%	24%	19%	-0.3%	-4.2%

Notes: Some figures may not sum due to rounding. 'Risk of poverty' denotes the proportion of people in each tenure living in poverty and the 'all' figure represents overall poverty risk for the whole population.

Source: JRF analysis of the Households Below Average Income (HBAI) dataset. These figures may differ marginally from those that the Scottish Government publishes due to differences in the end-user licence data that is provided for public use through the UK Data Archive.

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**To speak to us about this research, contact our subject experts.**

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