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Meeting Scotland's child poverty targets: Modelling and policy packages

Executive summary

When governments set targets, policy makers need to draw on modelling tools to ensure they are putting in place the right policy interventions at the scale required to meet the challenge at hand.

In 2017, the Child Poverty (Scotland) Act set statutory interim targets for child poverty, due in 2023/24, final targets due in 2030/31. There are four measures that have targets: relative poverty, absolute poverty, low income and material deprivation, and persistent poverty. For instance, the statutory target for relative poverty is less than 18% by 2023/24 and less than 10% by 2030/31.

In the 2022 child poverty delivery plan, the Scottish Government used microsimulation modelling to show how their policies would contribute to meeting the targets up to 2025/26. In February 2024, the Scottish Government provided an update for the years up to 2026/27.

This report provides an updated set of modelled estimates that take the time horizon out to 2030/31, the year by which the statutory targets must be met. We explore how Scottish Government announcements since February 2024 have helped with progress towards the targets and what else might be required.

Our modelling shows that meeting the targets is still feasible but will require sizeable additional investment beyond what is currently proposed. While the policy packages we model are far from the only path to reaching the targets, they demonstrate the scale of the challenge to be met.

We estimate that, based on policy currently in place and no other policy changes, the gap between current poverty levels and the statutory target for relative poverty is around 11 percentage points.

The recently announced decision to mitigate the two-child limit in Scotland will reduce the gap to 10 percentage points.

If the Scottish Government is able to maximize levers to support parents into work and to increase their hours of work and pay, this will reduce child poverty by a further 2.8 percentage points. Of this, 1.2 percentage points come from improving rates of pay for working parents, while the remainder comes from an increase to parental employment. Increasing hours worked for parents who are already in work makes very little difference, mainly because working parents already have quite high hours.

Given the levers available to the Scottish Government, additional social security interventions will likely be required to close the remaining gap of 7.2 percentage points.

These social security interventions could be a combination of changes to better cover housing costs through existing benefits, premia applied to other means tested benefits for certain groups, or an increase in an existing payment such as the Scottish Child Payment (SCP). Other potential levers, like rent controls or an increase in the stock of social housing, are left for further research.

We explore options and conclude that increases to SCP are the most effective tool available to the Scottish Government. We find that, in addition to the other policies modelled, increasing SCP to £150 for everyone, or to £115 for all children plus a per-household premium of £50 for some priority households, would be the size of investment needed to meet the 2030/31 targets. We also model an intermediate amount of £40 per week, per child for SCP, as well as the £50 premium on its own. Our analysis highlights that a more targeted approach to SCP where some priority households receive premia may make progress towards the child poverty targets at a lower cost.

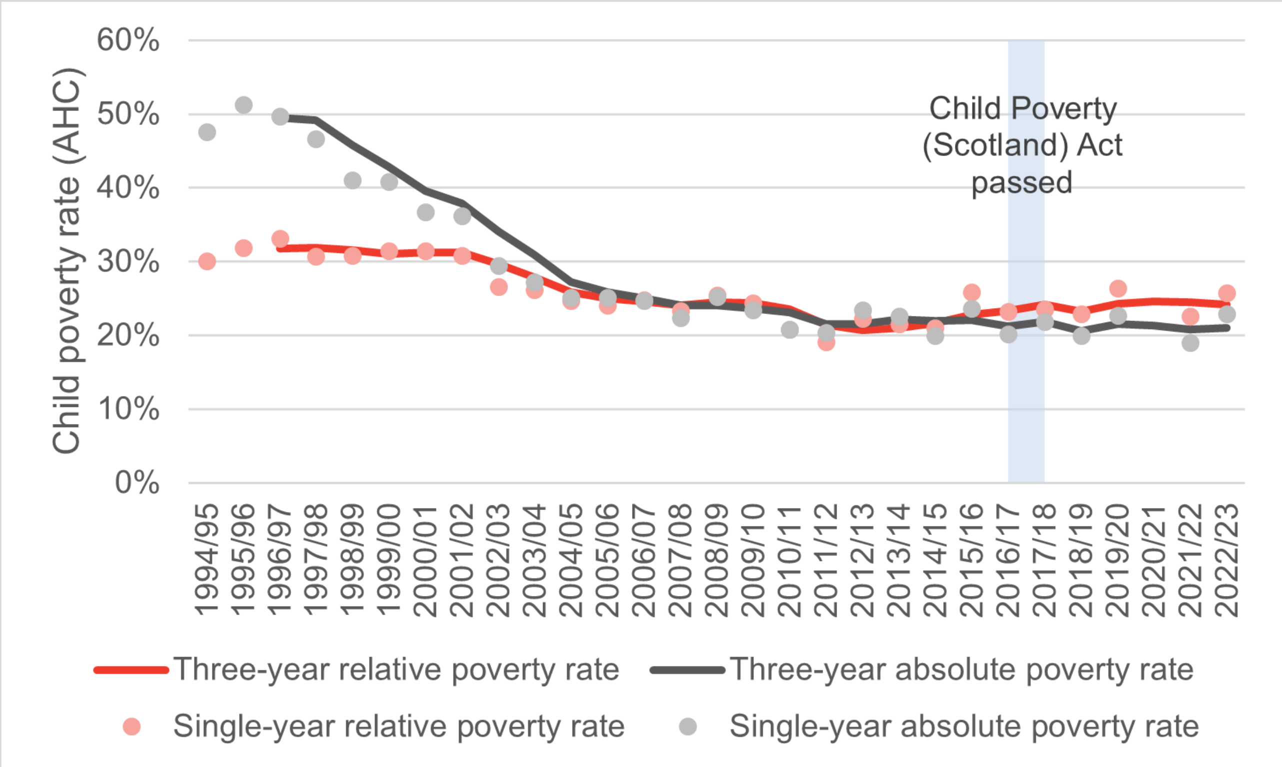
The cumulative cost of the policies we have modelled is between £4.6 and 4.9 billion in current prices. This is a substantial investment, equivalent to about 75-80% of the budget for devolved benefits in Scotland in 2024/25. About 60% of the cost comes from the childcare and afterschool care expansions that would be required to support greater parental employment. We highlight that increasing spending on the Scottish Child Payment is more cost-effective, achieving a greater impact on child poverty at a lower cost.

Introduction

In 2017, the [Child Poverty (Scotland) Act](#) instituted statutory targets for child poverty to be met by 2030-31. The targets focus on four key measures of poverty: relative poverty, absolute poverty, low income and material deprivation, and persistent poverty. Among these other measures of poverty, the Act set a relative child poverty target of 18% after housing costs by 2023/24 and 10% by 2030/31.

Relative poverty is defined against median UK income and is often the focus for poverty analysis because of the quantity of data available for modelling purposes. Absolute poverty is defined based on the 2010/11 distribution of income in the UK. Both types of poverty rates are charted below.

***Chart 1**: Relative and absolute child poverty rates, Scotland, 1994-2023*



***Source**: [Scottish Government 2023](#)*
***Notes**: Rates are calculated after housing costs (AHC). Three-year averages are plotted in the last year covered (e.g., in 2016-17 for 2014-17). The single-year estimate for 2020-21 is excluded because the Covid-19 pandemic significantly reduced the size of the Family Resources Survey (FRS) sample. Three-year averages for the last three periods are actually two-year averages that exclude the 2020-21 data.*

As Chart 1 shows, there has been clear progress over the last thirty years. However, relative poverty rates have remained at a relatively steady level, around 23-25%, since the child poverty targets were set in 2017.[1] For context, rates of child poverty in the UK are generally higher – around 30% in the last few years.

[1] Single-year estimates of child poverty rates are more variable because they are based on a relatively small sample of households, but three-year averaged rates are slower to respond to recent policies like the Scottish Child Payment.

The next set of statistics, due in March 2025, will measure whether the interim child poverty targets have been met. The interim targets state that fewer than 18% of children should be living in relative poverty in financial year 2023/24.[2]

Significant changes to social security have already come into effect in Scotland, such as the introduction of the Scottish Child Payment, and more are in the pipeline. However, at the time of writing, expectations are that the interim targets are unlikely to be met, and significant additional investments beyond what is currently proposed will be required to meet the 2030 targets.

The Scottish Government's last four-year child poverty delivery plan will be published in early 2026. The modelling in this report is intended to lay out possible combinations of policy levers that, if maximized, could achieve the child poverty targets by the 2030/31 deadline, along with an estimate of their costs.

We explore the cumulative effect of:

- More parents working,
- Increasing hours worked and pay rates for working parents,
- Increasing private rent support received by low-income households, and
- Increasing the rate of the Scottish Child Payment.

We also include analysis of the recent announcement to mitigate the UK Government's two-child limit on certain benefits, primarily Universal Credit.

Policy packages

We use microsimulation modelling to understand the potential impact of each of these policies and how they may interact with each other. Modelled estimates are prediction based on the best evidence available at a point in time, and when used appropriately, can provide a useful guide for policy makers and stakeholders alike to show the type and scale of interventions required.

This report focuses on results and policy implications. More detail on the methodology is available in the technical appendix published alongside this report.

Baseline

Our baseline for comparison is the tax and benefit system as it currently is, including recent forecasts and announcements.

We include the mitigation of the two-child limit from 2026-27 in the baseline. However, since relatively little analysis on the impact and cost of mitigation has been published since the policy was announced in December 2024, we highlight its impact on the child poverty rate in the baseline scenario alongside our results.

[2] A poverty rate of 18% is equivalent to approximately 180,000 children living in poverty.

Mitigation of the two-child limit

In the budget statement in December 2024, the Scottish Government announced that they would mitigate the two-child limit from 2026/27. The Scottish Fiscal Commission (SFC) published their costing for the policy in January 2025.

It is not yet clear how the policy will be implemented. We have followed the assumptions made by the SFC, namely that the mitigation payments:

- Will not interact with the benefit cap, and
- Will not affect entitlement to other benefits.

Differences between these assumptions and how the policy is actually put into place may affect the impact of the policy levers estimated in this report.

We estimate that in 2030/31, mitigation of the two-child limit will cost about £194 million and reduce the child poverty rate* by about 1 percentage point. The impact and cost of the mitigation policy are included in the results table and chart in the next section.

* Measured at 60% of median household income after housing costs.

Maximising employment potential among parents

We model several scenarios where the Scottish Government effectively uses its policy levers to support more parents into work and improve job hours and pay.

The labour market scenarios we consider could represent outcomes from a variety of policies. For example, we suggest an employability policy targeted at parents to increase parental employment, but do not suggest what policies might be needed to increase hours and pay as modelled here.

Each of the following scenarios is added to the model cumulatively. The change in child poverty after each addition is then attributed to the change made in each scenario.

Parental employment

In our first scenario, we model an increase in employment for parents of children aged 0-10.

The Scottish Government currently has policies in place, including childcare and employability support, that enable some parents into work. However, not all are able to access this support at the level they would require to be able to move into employment. For example, some may need out-of-hours childcare support for shift work or need more intensive employability support than what is currently on offer.

Our modelling assumes that childcare and employability needs are fully met, so no parent is out of work due to the absence of effective policy in these areas. For example, this assumes full wraparound care for all children is available and that all parents can self-refer to high-quality employability support.

However, we acknowledge that 100% employment is not realistic for any group. There will be reasons why parents do not work that policy may not be able to influence – for example, some parents of older children, who can be left unsupervised outside of school hours, still do not work. This could be due to health or disability, other caring responsibilities, or personal preference for parental care over paid childcare. We therefore increase employment of parents in Scotland as in Table 1.

Table 1: *Groups and target rates for higher employment among parents*

Group	Employment rate increased to the rate for…
Mothers and single fathers of children under 1	[Excluded]
Mothers of children 1-4 and non-single fathers of children 0-4	Parents of school-age children (5-10)
Parents of school-age children (5-10)	Parents of secondary school-age children (11-16)

We also exclude parents with a disability[3] or who have a child with a disability.

Non-working parents who are chosen to move into work in the model are assigned full-time hours (35 hours per week). This is consistent with hours of work among parents with similarly-aged children who are already employed, who work 34-37 hours on average.

We assign parents moving into employment the median hourly pay among parents with a similarly-aged child. That is, a mother with a child aged 1-4 will be assigned the median hourly pay rate for parents in that age range.

Increasing hours

Our second scenario adds on an increase in hours of work for parents who are already working.

We assume that wraparound care applies to all parents, so that parents already working can potentially increase their hours of work.

Rather than assume that all parents would then work full-time, we increase hours by the difference between median hours for each parent group and parents of older children.

For example, suppose the median hours of work for parents of children aged 5-10 is 36.5 hours, while it is 35.5 hours for parents of children aged 1-4. Working parents of children aged 1-4 would therefore all have their hours increased by 1 hour, regardless of whether they were previously working 20 hours per week, 35 hours, etc. By doing this, we maintain a distribution of hours within each group, which may be driven by other factors (e.g., caring responsibilities, personal preference), rather than increasing some parents' hours by a little and some by a lot to reach full-time work.

Ensuring good pay

Our third scenario ensures that all working parents receive a fair rate of pay.

For parents who are already working, we ensure that all are paid at least the Real Living Wage (RLW) per hour. This adjustment does not affect anyone already earning more than the RLW per hour.

The Real Living Wage

The Real Living Wage is calculated annually by the Resolution Foundation for the Living Wage Foundation. It is a recommended minimum wage rate to meet an acceptable standard of living and is typically more than the National Living Wage mandated by the UK Government.

The standard of living represented is based on information from the Minimum Income Standard (MIS) about living costs.

[3] Specifically, adults who report that they have a persistent condition that limits their activities a lot.

Rent support

In our fourth scenario, we add additional support for households in the private rented sector to cover their rent costs through benefits.

Housing costs constitute a significant proportion of mandatory household spending, particularly for households living in poverty.

After increasing employment, hours and pay for parents, we increase the level of support households in Scotland can receive in benefits like Housing Benefit or Universal Credit for their housing costs. This amount is known as Local Housing Allowance (LHA). We model a case where all households in the private rented sector can receive support for up to 100% of their rent costs. It is worth noting that LHA is a part of reserved benefits, but the Scottish Government could employ a discretionary scheme or mitigation like that announced for the two-child limit to top up households renting privately in Scotland.

Topping up with Scottish Child Payment

In the last set of scenarios, we model the potential impact of higher rates for the Scottish Child Payment. In addition to the current flat rate per child structure, we also consider a flat rate per child plus a per-household premium for certain households.

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

Households are eligible for SCP if they receive qualifying benefits (primarily Universal Credit) and have at least one child under 16. Each eligible household receives a flat payment per week, per child under 16 (currently £26.70).

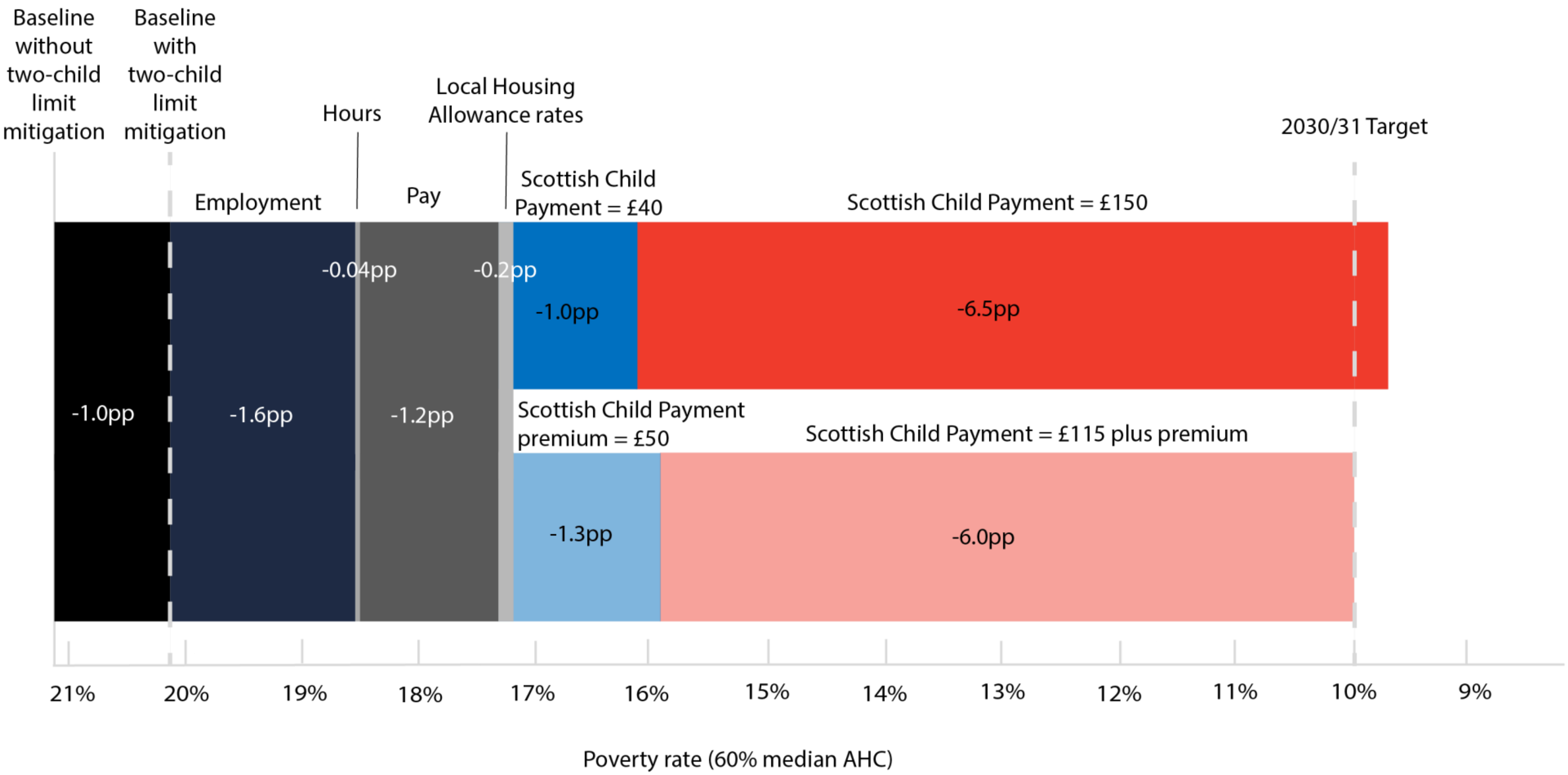
We model the cumulative effect of all the policies above plus the rate of SCP required to meet the 2030 child poverty targets. We test two scenarios: (1) a universal flat rate for SCP and (2) a combined flat rate of SCP per child plus a per-household premium for certain households. We also include an intermediate step for each policy, and show the impact of a lower flat rate of SCP and the premium for certain priority households alone in our results.

To meet the 2030/31 targets in combination with the employment and housing cost policies described above, we estimate that SCP would have to be:

- A flat rate of £150 per week, per child; or
- A flat rate of £115 per week, per child, plus a premium of £50 per week for households with a disabled member or a child under 1.

The premium supports households where adults are less likely to move into employment even with additional employability support and childcare. The main benefit of a combined approach is that it is more targeted, and therefore costs less.

***Chart 2**: Policy packages to meet the 2030/31 child poverty targets*



***Source:** FAI calculations using the IPPR tax-benefit model*
***Notes:** All poverty rates are based on a poverty line set at 60% of median income after housing costs.*

Results

A summary of the impact these policies have on child poverty rates is shown in Chart 2.

We include the impact of the two-child limit mitigation policy because it is a relatively new policy. We are not aware of published estimates of its impact on child poverty rates for 2030-31.

Mitigation of the two-child limit in 2030-31 reduces child poverty by about one percentage point, putting child poverty at around 20% in the baseline scenario.

Raising the employment rate for parents of children under 10 reduces the child poverty rate by an additional 1.6 percentage points. Increasing hours has barely any effect, but improving pay for parents who are already employed has an effect of about 1.2 percentage points.

We then model changes to the social security system. Increasing the rate of Local Housing Allowance (LHA) to cover all rent costs for households in the private rented sector decreases child poverty by about 0.2 percentage points.

The final policy added to the cumulative scenarios is the Scottish Child Payment. To meet the 2030/31 child poverty targets in addition to the other policies modelled, the increases to SCP would need to achieve an additional 7 percentage point decrease in child poverty.

A flat rate of £150 per week, per child would achieve the necessary decrease. We have also shown the impact of increasing SCP to £40,[4] since organisations like JRF and the Poverty Alliance have campaigned for this increase in the last few years.

Alternatively, we consider a combined approach where certain households (those with a disabled member or a child under 1) receive a per-household premium on top of the base SCP rate. To meet the targets, a premium of £50 would have to be combined with a base SCP rate of £115.

The costs of this combined policy package are given in Table 2, split out into different components.[5]

[4] Since this is a current policy ask, we model SCP at £40 per week, per child in current prices for 2024/25; this would be uprated to about £45 by 2030/31.

[5] The costs of individual policies would differ if they were implemented singly. For instance, Scottish Child Payment costs less when combined with the employment policies in this analysis than it likely would otherwise. This is because greater employment and higher hours and pay mean that some households no longer receive benefits that would qualify their children for SCP.

***Table 2**: Costs of a policy package to meet the 2030-31 child poverty targets*

Additional cost compared to baseline (2030/31 £m)	**Universal SCP rate scenario (flat rate per child only; SCP=£150)**	**Combined SCP rate scenario (flat rate per child of £115 + per-household premium of £50)**
Tax revenues	-834	-834
Public sector pay[6]	722	722
Additional public sector employer NICs contributions	97	97
Employability support[7]	620	620
Expansion of 50 hours childcare to all 1-4-year-olds + wraparound care for primary school children[8]	3316	3316
Local Housing Allowance (LHA)	323	323
Scottish Child Payment	1,794 (229 if SCP=£40)	1,536 (294 with premium alone)
Other social security (including mitigation of the two-child limit[9])	-407	-401
Total (£m, 2030/31 prices)	5631	5379
Equivalent in 2024/25 prices (£m)	4866	4649

***Source**: FAI calculations using the IPPR tax-benefit model*
***Notes**: Amounts are expressed in 2030/31 prices based on OBR inflation forecasts. Negative numbers indicate a reduction in costs. Changes in tax revenues include both devolved and reserved taxes.*

Our cost estimates do not include what it might cost to implement these policies, above-inflation increases to the public sector pay deal, or other costs beyond what is listed in the table.

These estimated costs are indicative; the actual costs would depend on a number of factors. For example, the cost to the Scottish Budget could increase if increased levels of social security changed parents work incentives. Alternatively, it could decrease if reducing poverty lowers demand for public services, for example due to improved health. Both impacts are likely, but current evidence does not provide us with the known extent.

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[6] We assume that public sector pay rises in line with CPI inflation. However, public sector pay policies in recent years have set pay rises above inflation. If this trend continues, the cost of the employment and pay policies modelled here would increase.

[7] This cost is less precisely calculated than others in the table and is consequently rounded to the nearest £10 million.

[8] This estimate is based on Scottish Government statistics on spending and number of children of different ages receiving funded early learning and childcare services (ELC) in 2023-24. More detail can be found in the technical appendix.

[9] The total cost of mitigating the two-child limit prior to implementing any of the other policies is estimated to be £194 million.

Cost-effectiveness of policies

In terms of cost-effectiveness, the two-child limit mitigation policy that has already been announced reduces child poverty by 1 percentage point and comes at a cost of an estimated £194 million. The changes to Scottish Child Payment have some variation in cost, but fall between £210 and £240 million per percentage point reduction in child poverty on average when implemented in combination with the other policies in this analysis. The cost could be somewhat higher if not combined with increased parental employment, parental pay, and rent support, as more households would receive SCP in the absence of these changes.

On the other hand, the LHA policy we model costs an additional £323 million but reduces child poverty by only 0.2 percentage points. The adjustments to parental employment, hours, and pay cost the most – they reduce child poverty by 2.8 percentage points combined, but each percentage point reduction costs £1.4 billion on average. This is largely because the cost of a universal expansion to childcare and wraparound care would be very high.

Conclusion

The child poverty targets require that the relative child poverty rate in Scotland be 10% or less by 2030-31; in 2022-23, it was 26%. Our baseline estimates suggest that, with the current set of tax and benefit policies (including mitigation of the two-child limit), relative poverty in 2030-31 would be around 20%, short of the target of 10%. This baseline includes the effects of the two-child mitigation from 2026/27 announced in December 2024, which we estimate will reduce poverty by around one percentage point.

While our modelling shows that the newly announced mitigation of the two-child limit takes a significant step, it is apparent that substantial additional measures are needed to meet the targets.

Our results highlight the relative contributions of different policy levers as well as their costs. Greater parental employment and pay combined are cost-effective, but cumulatively reduce child poverty by only around 3 percentage points.

These employment policies increase tax revenues and reduce the social security bill, but will also be costly in terms of employability support and childcare provision.

Given the levers available to the Scottish Government, the likelihood is that the social security system will need to provide a further large boost to efforts to reduce poverty. The effect of greater support for housing costs is limited, leaving much of the work to be done through other avenues.

We estimate that the flat rate of Scottish Child Payment would need to be raised to £150 in 2030-31 to reach the child poverty targets in combination with these other policies. Alternatively, a rate of £115 per week, per child plus a per-household premium of £50 for households with a disabled member and or a child under 1 would also achieve the targets at a reduced cost. The per-household premium for specific priority households alone reduces child poverty by 1.3 percentage points at a cost of about £294 million in 2030/31, potentially making this policy a good starting point.

Our analysis illustrates a set of potential options within existing policy levers for reducing child poverty. These options include greater targeting of benefits like the Scottish Child Payment, which has been universal to date to those on certain benefits.

The options we have modelled are of course not the only path to meeting the targets, nor are they necessarily the optimal path. There are potentially many other options that could cumulatively make a big difference – for instance, a Minimum Income Guarantee, rent and housing policies, or further policies to increase benefit take-up. However, the timeframe for interventions to take effect is relatively short, which limits the range of options now available to the Scottish Government if they are to meet the targets. Given fiscal limitations, an investment of this size in child poverty would likely mean cuts in other areas of spending. Additionally, we have largely omitted reserved policy options, which could also make a large difference in combination with devolved policies.

The final Scottish Government child poverty delivery plan is due before the end of March 2026. Within this, the Scottish Government will have to set out the measures that they will take in the period up to 2030/31 and the contribution they will make to meeting the targets. We look forward to the delivery plan, and would urge the Scottish Government to do their own modelling of proposed measures to demonstrate how the targets will be reached.

This final delivery plan will come a few months before the Scottish election. Given the cross-party support for the Child Poverty (Scotland) Act, it will be critical that all parties are able to say how they will meet the targets. Microsimulation modelling like this will be crucial for the credibility of any manifesto policies.

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).

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