Addressing child poverty through parental employment National call for views submission by Institute for Public Policy Research Scotland – 5 April 2023

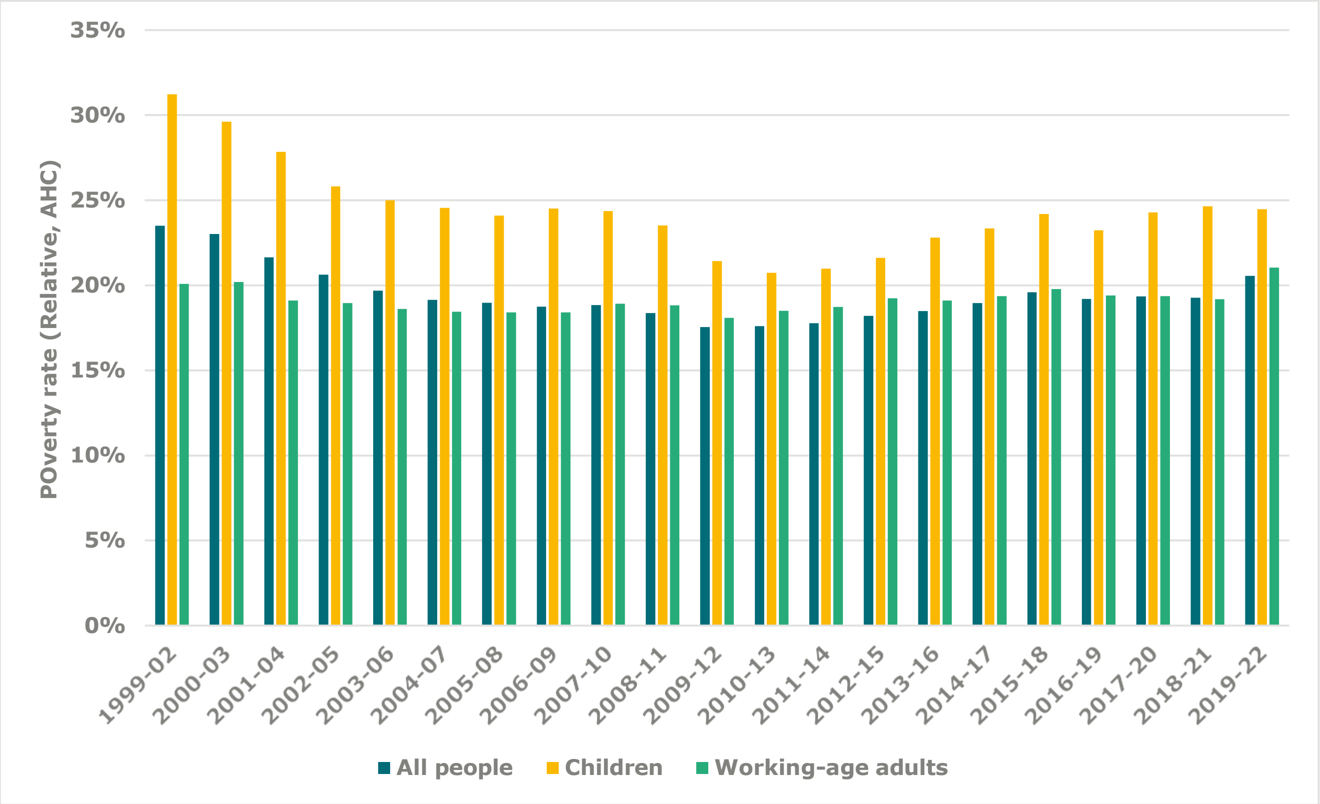
Introduction

IPPR Scotland welcomes this inquiry and the focus of the committee on the role of parental employment in tackling child poverty.

The Scottish Government has made a number of significant commitments around child poverty – not least setting legislative targets to significantly reduce the numbers of children living in poverty through the Child Poverty (Scotland) Act 2017 and establishing child poverty as a national mission.

However, as the most recent child poverty figures attest to, while targets are important and can help focus minds and action, significant work needs to be done to meet them – as shown in the chart below.

Relative poverty rate, after housing, 1999/02 – 2019/22

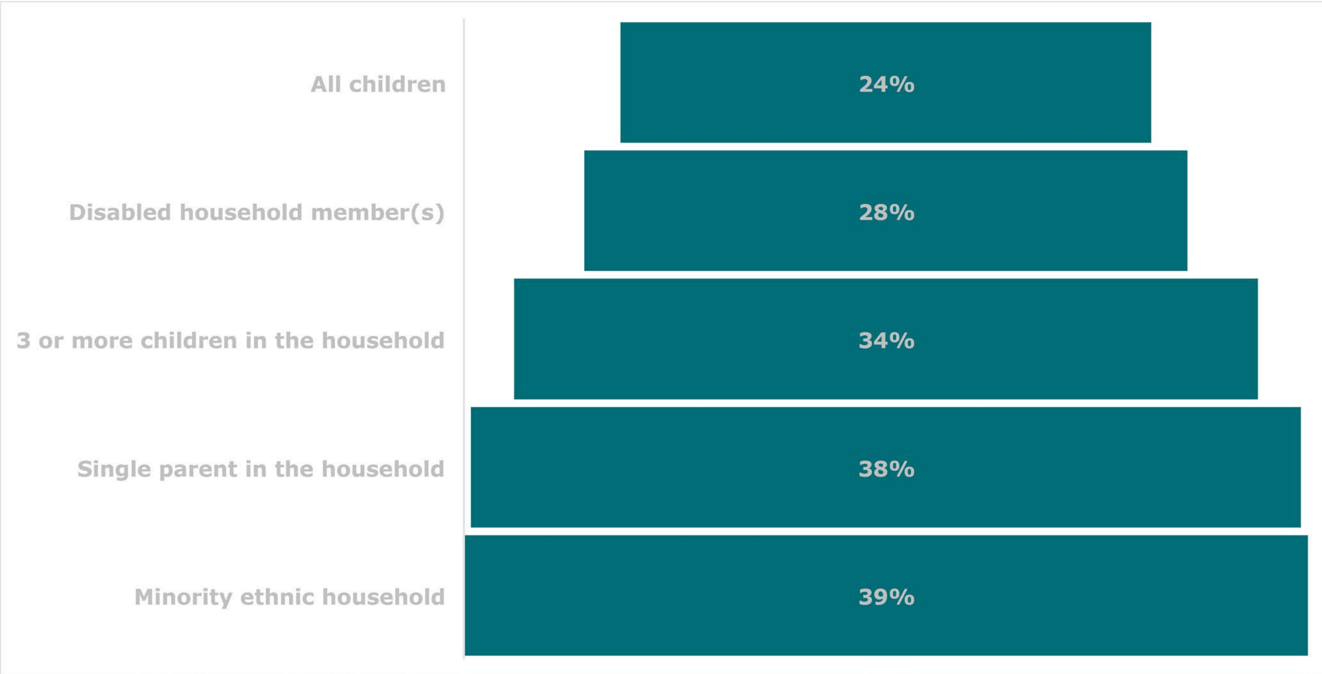


Source: Scottish Government, Poverty and Income Inequality in Scotland 2019-22

Since devolution, Scotland witnessed consecutive years of declining child poverty through the 2000s but that has since stagnated – and even gone in the wrong direction – with a quarter of a million children living in poverty (one in four).

The real impact on children and families is starker when you consider the ‘priority groups’ the Scottish Government made a focal point of their child poverty strategy who are even more acutely at-risk of poverty – as shown in the chart below.

Relative child poverty rate (AHC) by household characteristic, 2019-22



Source: Scottish Government, Poverty and Income Inequality in Scotland 2019-22

While some of this stagnation in child poverty reductions can be assigned to the actions of the UK Government that does not excuse it in Scotland.

The Scottish Government introduced, and the Scottish Parliament unanimously passed, the 2017 Act not only in response to the UK Government scrapping its own targets but also in full knowledge of the interdependencies created by devolution– not least in areas of reserved social security reform, including regressive policies such as the two-child limit. It was always clear that actions of the UK Government would create pressures and risk progress on child poverty in Scotland – but the Act was still passed and so the targets must still be met. Ultimately, the Scottish Government’s response will need to compensate for any countervailing pressures.

Clearly meeting those targets will be difficult – on current figures, we will need to see 60,000 children lifted out of relative poverty by 2023-24 and 140,000 by 2030-31 – but it can be done: it requires political will and investment.

While most of the ‘heavy lifting’ to reach the interim targets has, to date, been done through social security, not least the positive impact of the Scottish Child Payment, that alone will not be sustainable in meeting the final targets – or at least not without likely billions of pounds additional investment.

As this inquiry rightly targets, more work will need to be done to help parents access, and proposer from, employment – with childcare playing a key role in enabling that – alongside a suite of other cost-side measures.

However, the key point for this inquiry and IPPR Scotland’s response is that while there are a number of positive commitments around employment set out in Best Start, Bright Futures, and wider government strategies/action plans/etc., on the basis of available evidence it is not clear that these are yet operating at scale required – and in turn having the impact needed.

Indeed, while the Scottish Government provided an assessment of the cumulative impact of Best Start, Bright Futures policies on the child poverty – estimating a 9-percentage point reduction in poverty – the Scottish Child Payment is the only individual policy with any impact assigned to it.

In particular, it is not clear what, if any, impact the employability offer will have – and as analysis by the Fraser of Allander Institute for Joseph Rowntree Foundation (JRF) and Save the Children (Save the Children and JRF 2022) has shown, many of the assumptions underpinning the analysis may be overly optimistic.

While not everyone in poverty will be able to work, or circumstances mean it is not a viable route out of poverty, ultimately a stronger employability offer will be required to ensure it is able to offer a lifeline for those who can take it.

That comes down to three key issues:

Delivery, and investment, at the right scale

Our research finds that, while current employability provision clearly provides meaningful results for some individuals, its impact is still not at the scale required to genuinely shift the curve. In particular, there is a significant gap between current rates of take-up and positive outcomes among parents compared to the goals the Scottish Government has set itself through Best Start, Bright Futures.

An offer which provides meaningful opportunities and genuine impact

Again, while the current offer might provide a positive response to those at the margins of unemployment it is not clear it is having significant impact beyond this – and certainly not on securing positive long-term outcomes.

Wider infrastructure – particularly childcare – which plays a complementary role

Helping parents into work can only come about by ensuring they have a wider offer of services and support which ensures they can take up those opportunities. However, currently many parents still face a gap in provision – whether that is the age childcare is offered from (with a long gap to plug between the end of maternity/shared parental leave and the kicking-in of free hours), the income test they face in accessing free hours for 2-year-olds, or the absence of meaningful provision once children are in school.

Childcare

High quality and affordable childcare is vital not just to both the immediate and long-term wellbeing and development of children, but also inextricably tied with parental employment and in turn household incomes.

There is clear evidence that the first five years of a child's life serves as a foundation for their futures, and yet support on offer to children and families is patchy and unreliable. Despite evidence that early childhood offers a critical window to narrow inequalities in later life, policy has almost entirely ignored the gap between the end of paid maternity or parental leave and the point at which free hours kick in for children turning two or three (depending on their circumstances). This is also when childcare costs are most expensive, as younger children require lower staff to child ratios.

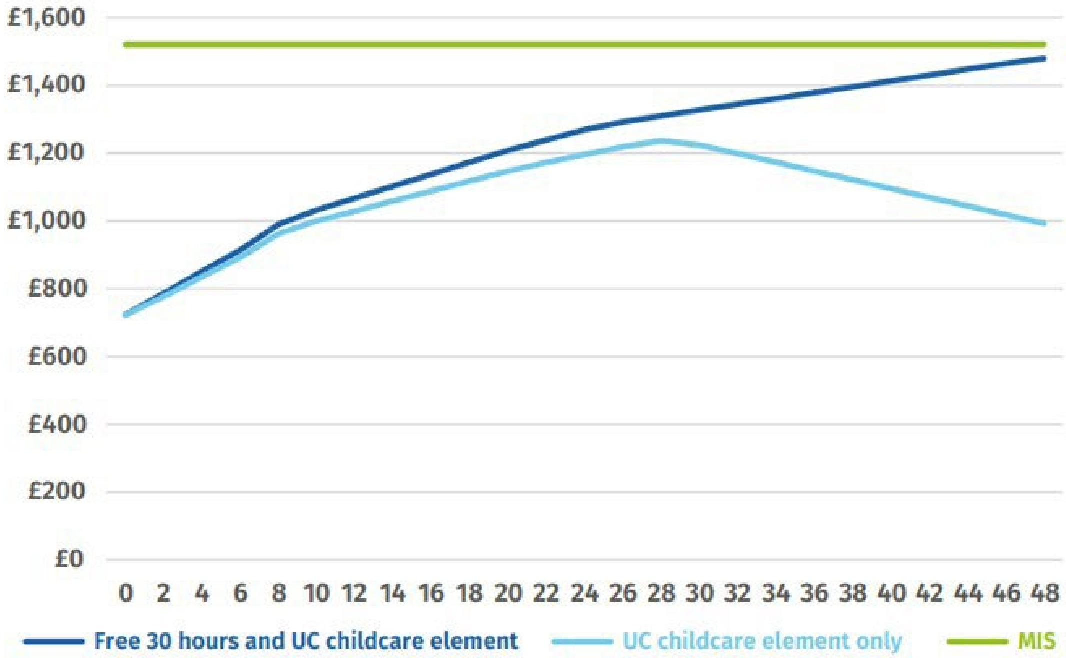
Scotland has seen the expansion of early learning and childcare provision as a major focus of the last parliament – with a particular focus on early years provision. This has taken the form of the doubling of funded hours for three and four-year-olds to 1,140 hours a year (30 hours a week of term-time provision), up from 600 hours, from August 2021. These funded hours are also available for two-year-olds in Scotland who are under local authority or kinship care, or in a low-income household (based on receipt of qualifying benefits, and a means test on earnings).

In this parliament, these commitments have been reinforced by 2021's Programme for Government, to deliver universal childcare for all one- and two-year-olds, starting with low-income households within this parliament alongside a commitment to deliver a system of wraparound childcare for school-age children.

These commitments could have a significant impact on families' financial security, and in turn help tackle child poverty, which we can assess by considering how far reducing childcare costs through enhanced provision can help to build financial security and achieve a living income for working families with pre-school-age children.

Our modelling suggests that a lone parent earning the minimum wage would see 30 free hours of weekly childcare provision start to make a substantial difference to their take-home pay and begin to close the gap between their current income and their ‘minimum income standard’ (chart below).

30 hours of free childcare provision significantly improves work incentives for lone parent families in low wage work.



Source: IPPR Scotland analysis using IPPR Scotland benefit entitlement model and University of Loughborough MIS calculator

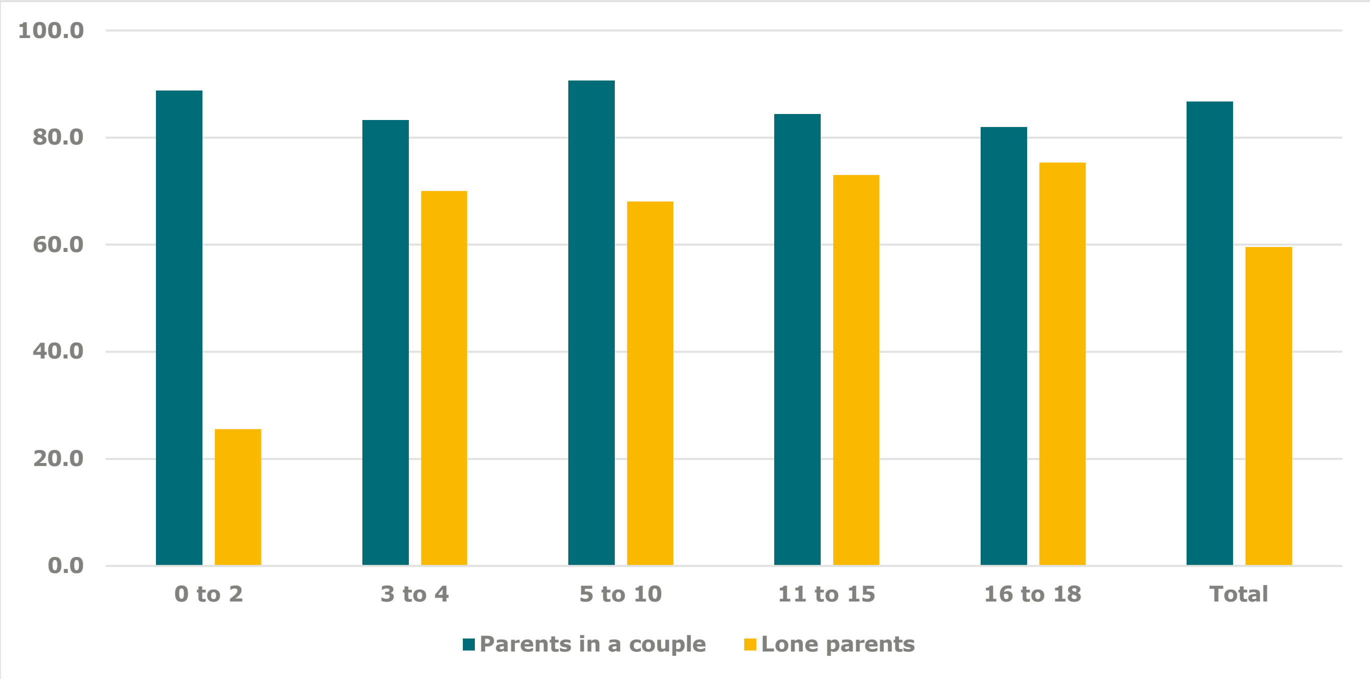
Generous free childcare provision is critical in ensuring that a lone parent in low-paid employment is always better off increasing their working hours. In the absence of free hours, the lone parent reaches the childcare cost cap at around 28 hours, and thus becomes progressively worse off as they increase their hours beyond these, as childcare costs and withdrawal of Universal Credit dwarves the gains from increasing hours further.

Childcare costs need to be managed for families with children to reach an acceptable standard of living. These costs affect work incentives for second earners in a two-parent family, but they are particularly acute for lone parents balancing paid work and caring responsibilities, and for families who are not eligible for free available hours (for example, working parents with a one-year old child). In previous research conducted by IPPR Scotland, we heard through focus groups that childcare costs were the most significant barrier to financial security that one-parent families faced. Some parents described spending more on their childcare costs than on their housing, making childcare their most significant financial outgoing. Others described how childcare costs contributed to a state of constant financial insecurity, in which they were ‘always worried’ about making ends meet.

Participants wanted to see change to put the appropriate support and incentives in place to support lone parents who want to work. The parents we spoke with felt strongly that something needs to change, and that government should provide the money up front to avoid a cycle of financial insecurity.

This disparity across household types, and how it can be potentially shaped by childcare, can be seen in labour force statistics on working patterns in Scotland – as shown in the chart below.

Employment rate of parents living with dependent children by family type and age of the youngest child



Source: IPPR analysis of Labour Force Survey

While employment rates are broadly similar across all age groups for parents in a couple, they are markedly lower for lone parents and particularly so for lone parents with a child aged 0-2. In all instances, these overall rates will also mask at times quite significant gender and income disparities.

Given lone parent households face the second highest rate of child poverty (38% of children in single parent families are in poverty compared to 24% of all children) this should point to a need to go significantly further on the ELC offer they have available. Importantly, and for all low-income families, not just in the hours provided but also who it is offered to. That should ultimately start with the income test applied for funded hours for two-year-olds.

When the expansion of funded ELC (to 600 hours) was first introduced in 2014, one of the passporting benefits was Universal Credit with no income test applied – however, the Scottish Government at the time stated that was simply a transitional measure during the roll-out of Universal Credit. This was subsequently amended, and an income test introduced.

If a person is in receipt of Universal Credit, they will only be eligible for funded ELC for a 2-year-old if they also have earned income (either individually or as a couple) of less than £726 per month (the income test as of 1 April 2023). It should be noted that this means test is relatively tighter than in England, where the current household earnings threshold for eligible two-year-olds is set at £15,400, or £1,176 take-home pay per month for families in receipt of Universal Credit.

While this income test was ostensibly introduced to try and create parity and equity between recipients of UC and the legacy benefits it is replacing, that was not necessary. The government could have used it as an opportunity to instead increase the pool of households eligible for funded ELC by at least using a higher income test (recognising that £726 per month would put a household in the lowest income decile). As it stands, it raises a number of issues.

Firstly, it works against, and potentially even contradicts, wider government policy. For example, eligibility for the Scottish Child Payment is based purely on being in receipt of a qualifying benefit, including UC, without an attendant means test. That means one part of the public sector could be providing money to a family through the SCP while another takes from it in childcare fees.
More fundamentally, the current means test bears little resemblance to the realities low-income households might face, or the level of income it was first introduced for. The income test for funded ELC mirrors that for free school meals – however, as previous research by Professor Morag Treanor for Aberlour has found, that has been significantly eroded over time and now represents a steep real-terms cut.

Perhaps more importantly, for the purposes of this inquiry, it can also act as a significant barrier to employment: such a low earnings threshold presents a steep cliff-edge and could severely disincentivise taking on and/or increasing paid work.

Through previous research we heard from parents that high childcare costs affected how they felt about paid work, and how far it offered a route to financial security. Parents described feeling trapped in a “vicious cycle” wherein “the only incentive that you’ve got [to take on paid work] is your own respect”. They were acutely aware of how much they would need to earn to make work ‘pay’ once social security implications and childcare costs were factored in. As one lone parent explained, “you’re never in pocket on minimum wage”.

Parents also described how the limited funded childcare hours available left them feeling unable to manage the demands of paid and unpaid work. They explained that while part-time free available hours only cover the time they are at work, “there’s no time for the shopping, or doing things around the house”.

For a lone parent juggling the demands of work and care and the pressures of managing financially on a low income, the impact of limited affordable childcare often felt like “not having time to breathe". Parents we spoke with stressed that lone parents "want to work" – but that too often they face practical and financial barriers that make it seem impossible to progress in employment, or to obtain financial security. Participants wanted to see change to put the appropriate support and incentives in place to support lone parents who want to work.

The parents we spoke with felt strongly that something needs to change, and that government should provide the money up front to avoid a cycle of financial insecurity. Childcare costs vary considerably across different localities. Some parents we spoke to paid £40 per day for all-inclusive nursery provision, while others paid the same rate for half day. Parents who relied on private nursery providers also faced additional charges, including paying for children's snacks during the day, and significant late fees if they were late to attend pick up. For lone parents of school age children, even relatively small fees for things like breakfast clubs often "costs £2 I don't have".

Childcare costs need to be managed for families with children to reach an acceptable standard of living. These costs affect work incentives for second earners in a two-parent family, but they are particularly acute for lone parents balancing paid work and caring responsibilities, and for families who are not eligible for free available hours (for example, working parents with a one-year-old child). One key tool for reducing childcare costs for low-income families is the childcare reimbursement mechanism offered to households in receipt of Universal Credit. As above, however, we know that barriers to take up persist – families might struggle to finance the upfront costs they are required to take on in order to access the reimbursement, and some will not be aware of the offer.

Parents and carers in receipt of Universal Credit are able to apply to recoup up to 85 per cent of their childcare expenses, but this fails to help with the significant upfront costs associated with paying for the first month of childcare provision. For working parents with pre-school-age children, this policy design can force them into a spiral of debt.

IPPR Scotland has previously recommended that the Scottish Government should explore all available routes that might enable them to mitigate the up-front costs associated with claiming childcare costs under universal credit. This could follow the approach taken by the Northern Ireland Executive, who offer a nonrepayable grant of up to £1,500 to parents and carers in receipt of Universal Credit. This grant could either be delivered as an additional element of the Scottish Welfare Fund, or by Social Security Scotland through existing Best Start Grant and/or Scottish Child Payment mechanisms – and indeed, a similar commitment (to a Parental Transition Fund, to help families with the costs associated with entering work – but particularly childcare) was given in Best Start, Bright Futures but with no signs of progress to date.

Since then, the new First Minister stated his intention to introduce a new £25 million childcare fund for parents returning to work, and the UK Government's spring budget confirmed funding to move to upfront payment of childcare costs through UC. At this time, however, it is not clear how these two policies may operate in tandem.

Should the UK Government's policy not go wide enough then the Scottish Government should look to intervene to make up any shortfall. If it does, then the Scottish Government should quickly set out how it will instead deploy earmarked funds for its Parental Transition Fund – first announced in March 2022.

Funding further expansion

While bringing significant benefits for families, funded early learning and childcare can also bring significant costs – following the expansion of free hours, the Scottish Government now expects to invest around £1 billion annually. That should, however, be seen as an investment in children and families, and – when targeted – tackling child poverty.

One positive area of the UK Government's spring budget – and particularly its focus on childcare – was in the Barnett consequentials Scotland will receive, primarily as a result of expansions in funded early years childcare in England.

While only a total Barnett figure of £320 million over 2023-24 and 2024-25, across the whole spring budget provided by the UK Government, we can estimate the total value of these consequentials for the Scottish Government over the remainder of this parliament – shown in the table below.

Assumed childcare-related Barnett consequentials flowing from UK Spring Budget

Spring Budget decision	**Policy cost (£m)**		
	2023-24	**2024-25**	**2025-26**
Extension of free hours	240	2,410	4,240
Wraparound care	5	230	110
Incentives for childminders	5	5	0
Total UKG decisions	*250*	*2,645*	*4,350*
Assumed Barnett consequentials	***24***	***257***	***422***

Source: IPPR Scotland analysis of Spring Budget policy costings

While this does not account for wider changes across departmental budgets as a whole, it represents a best guess estimate of the additional resources that might be available to the Scottish Government over this parliament as a result of English childcare reforms.

Given the commitments the Scottish Government has made, it becomes imperative that they set out quickly how this resource will be used, and when.

As already noted, the Scottish Government has committed to further extending free hours to children aged one, starting with low-income families in this parliament – something reaffirmed by the new First Minister during the SNP leadership contest. That must become a priority.

Ultimately, given the stagnation of child poverty rates – and in lieu of a wider universal offer – better targeting of resources at the lowest income families is of equal importance to any question of expanding ages.

Further commitments, in the Scottish Government's Programme for Government 2021-22, to "…build a system of wraparound childcare by the end of this Parliament, providing care before and after school, all year round…" – free for families on the lowest incomes.

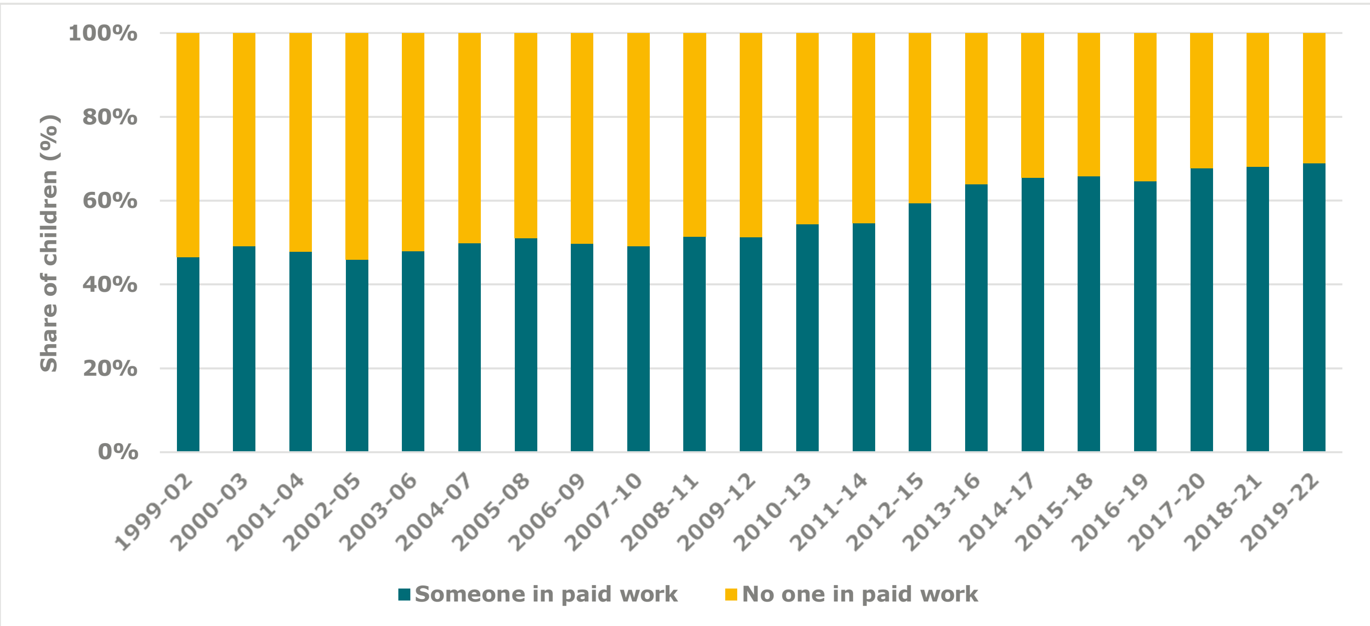
That also committed to "…publish a 5-year delivery plan within the next year [i.e. by September 2022], setting out the phasing and timescales for delivery to the end of the Parliament…" this did not happen. A subsequent *Best Start - strategic early learning and school age childcare plan 2022 to 2026* in October 2022 then committed to publishing a delivery framework by the end of 2022. This also does not appear to have been published yet.

Given the scale of undertaking in delivering a new wraparound system in – now – 3 years at most, this should be published as a matter of priority, and clearly set out delivery timescales and funding, and further detail on how the offer will be targeted at low-income families and will support parental employment.

Employability

While the biggest child poverty risk factor is to live in a household where no one works, more than-two thirds of children in poverty are in a working household – a trend which has grown over the last decade.

Share of children in relative poverty, after housing costs, by household work status.



Source: Scottish Government, Poverty and Income Inequality in Scotland 2019-22

To date, the heavy lifting to meet (at least) the interim child poverty targets has been done by social security – and in particular the estimated impacts of the Scottish Child Payment.

A detailed impact assessment produced by the Scottish Government alongside Best Start, Bright Futures estimates that "direct financial support provided to low-income parents…[is]…estimated to reduce relative child poverty by 5 percentage points in 2023-24" from a rate of 24% in 2017-20.

A detailed breakdown of the contribution of each policy to the estimated drop in poverty – except for the Scottish Child Payment – is unfortunately not provided, making a firm understanding of expected outcomes per policy impossible. While the delivery plan states elsewhere that the employment offer to parents could achieve up to a 2-percentage point reduction in child poverty, it does not say over what timeframe.

More pertinently, the government's modelling shows the child poverty rate flatlining at 17% between 2023-24 and 2025-26 – alluding to little certainty or confidence in a sustained reduction in child poverty through non-social security policies.

If the final relative child poverty target of 10% is to then be met in 2030, it is going to require an unprecedented shift in scale and impact through other means, not least employability. If not, it would require an equally unprecedented increase in social security spending, again primarily through the Scottish Child Payment.

The Scottish Government's general commitment and emphasis to employment support through Best Start, Bright Futures should therefore be welcomed – particularly targets to reach 86,000 parents by 2025/26 through its employability offer, with 51,600 supported through out-of-work support and 34,400 through in-work support.

While this does represent a significant increase it comes with a significant caveat: while that number may be reached, the government's modelling assumes only 6,385 people will be supported into work over the period, and a further 2,160 will be supported to increase their in-work earnings.

A stretch aim of helping at least 12,000 parents into sustained employment was also excluded from the government's modelling of the Best Start, Bright Futures policy package – indicating they are not optimistic it will be met. Reaching that number come with – as the government themselves allude to – significant, ambitious, optimism.

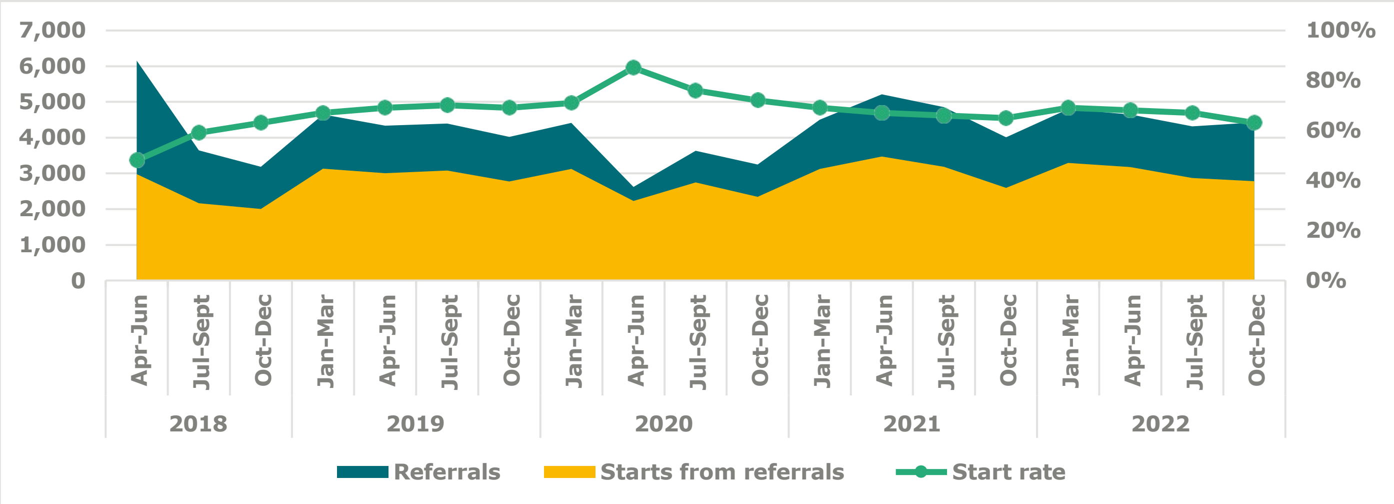
At present, the bulk of Scotland's (devolved) employability offer comes through two main sources: Fair Start Scotland and No One Left Behind. While the introduction of Fair Start Scotland has been welcomed by many organisations, particularly for its person-centred and wholly voluntary approach (with no conditionality or sanctions attached to participation), and it has supported tens of thousands of people to secure work they may not otherwise, there remain concerns around whether it is fully realising its potential – and whether it even can in the circumstances. Most noticeably, there remains a significant gap between the number of people referred to the service and those who ultimately find their way into secure work.

The programme was launched in April 2018 "with funding to support up to 38,000 people into work over an initial three-year referral period to end March 2021". However, over that period, while 32,504 people started receiving employability support just 10,417 people who joined started a job, and longer-term job outcomes (beyond 3 months) are lower still.

For the most recent period (to December 2022) these figures increased to 54,030 programme starts and 18,819 job starts – with the proportion of programme starts achieving job starts also fluctuating over time, but generally sitting at around a third, and decreasing further for those sustaining employment for at least one year.

The below chart shows the number of referrals to the programme, and those who then then started across each quarter since its introduction in April 2018 (the stacked bar chart, read against the primary axis) and in turn the start rate (the line graph, read against the secondary axis).

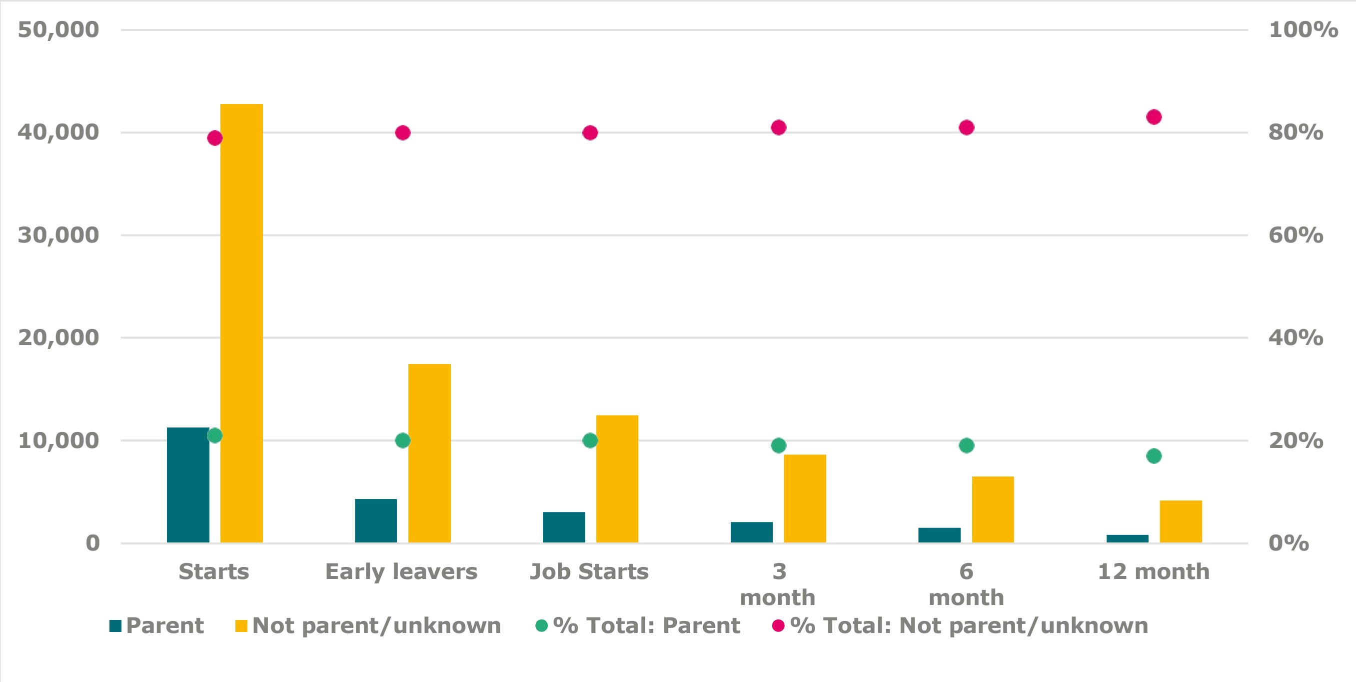
Fair Start Scotland – referrals, starts, and start rate, April 2018-December 2022



This shows that – barring some fluctuations – the number of people starting on the programme has remained around two-thirds of those who are referred there. While is a good proportion for a still (relatively) young service, it indicates that the true scale of the scheme is being unrealised, in part through lack of engagement by a significant minority of referrals.

Perhaps most pressingly, in the context of the Scottish Government's child poverty commitments, only a fraction of these starts are parents – as shown in the table below.

Fair Start Scotland – starts and outcomes by parental status, April 2018-December 2022

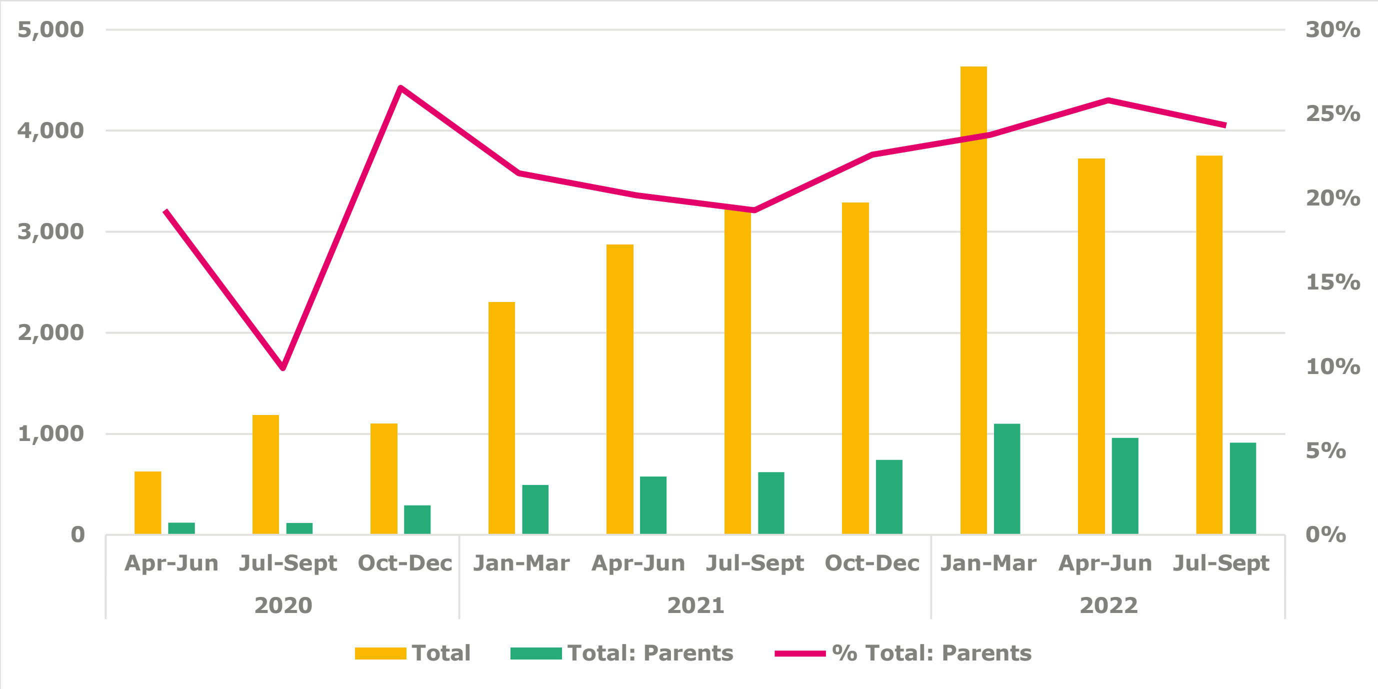


Source: Author's analysis of Scotland's Devolved Employment Services: February 2023

Since the programme began, starts and outcomes between parents and non-parents have broadly followed the same pattern, with parents making up a fifth of total starts but with a smaller share of positive job start outcomes.

This pattern of lower parental uptake and positive outcomes is further reinforced through No One Left Behind statistics, and the numbers of parents accessing employment support through that route: in total, since April 2020, of 26,710 people overall starting to receive support, just 22% (5,944) were parents.

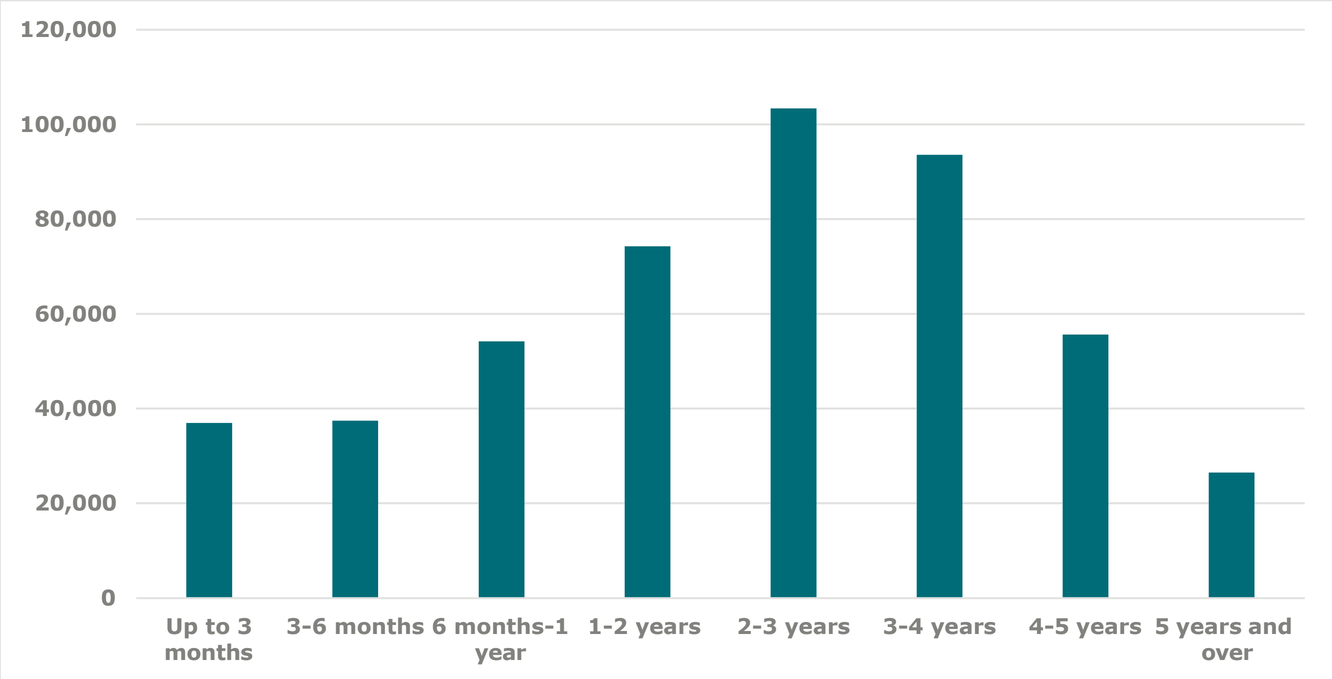
No One Left Behind – total number and parents accessing employment support – April 2020-Sept 2022



Source: IPPR Scotland analysis of Scotland's Devolved Employment Services: February 2023

Some of this uptake and completion may in part be driven by No One Left Behind and Fair Start Scotland sitting as part of a convoluted and complicated employability and social security landscape, with roles and responsibilities shared across the UK and Scottish Governments. That in turn can create confusion for those referred to the service – but also, those referred still only make up a small proportion of people receiving out-of-work and low-income benefits.

People in Scotland on Universal Credit by duration of claim



Source: DWP, Stat-Xplore.

Note: Data refers to people on UC in February 2023. More people will be on a low-income/out-of-work benefit overall as this data only relates to UC and not legacy benefits, however, the vast majority of claims for out-of-work benefits are now through UC.

As of February 2023, there were 481,776 people in Scotland on Universal Credit. Of particular note is that the vast majority (almost three-quarters) who had a claim duration of a year or longer. While not all of these people will be long-term unemployed and/or able to work, it still represents a sizeable difference between the potential target group for a programme such as Fair Start Scotland (with its focus on the long-term unemployed) and the group which ultimately benefits from it.

Instead, due to the tight eligibility criteria, many of these claimants will find their only interaction with the social security system to be through a DWP-run Jobcentre. This means they will be subject to the restrictions and requirements of the Universal Credit system and makes it more difficult to provide a genuinely holistic and 'one-stop shop' system of employability (and wraparound) support – particularly when there is anecdotal evidence to suggest Jobcentre staff often struggle to fully understand the Scottish system and can refer people to inappropriate support.

The convolution of the system also lends weight to idea of fully devolving all employability support to the Scottish Government. Ultimately, Scottish Government schemes often operate at the margins of those who could benefit most from support – meaning both scale and impact go unrealised. The creation of a twin track route also leaves many individuals at the hands of an often-punitive reserved welfare system – not least the attendant conditionality and sanctions regime of Universal Credit.

Most pressingly, however, if employment offers the most secure and sustainable route of poverty, alongside a robust social safety net – as the Scottish Government's Tackling Child Poverty Delivery affirms – then such a convoluted system risks undermining efforts to reduce child poverty in Scotland. Ensuring employment plays a strong role in tackling poverty ultimately requires a strong focus on in-work households, not just those who are long-term unemployed as through Fair Start Scotland.

Taken together all the evidence to date shows that while the Scottish Government's aims to increase the numbers of parents receiving employment support is right and will be vital to achieving Scotland's child poverty targets, at the current rates of progress; scale of service delivery; and investment, they are highly unlikely to be met.

Key to that is the funding provided – and how it is delivered. A sign of priority was seen during the Scottish Government's Emergency Budget Review, when in-year cuts of £53 million were applied to employability programmes (from an initial Employability and Training budget line of £125 million). The then Deputy First Minister stated that this would not see any programmes stopped, rather planned expansion would not take place – undercutting many of the commitments made just a few months previously in Best Start, Bright Futures and against the evidence that expansion was the primary issue. For 2023-24, this budget line has been increased to £135 million.

Over and above this, there is a question of what the programmes deliver for the funding provided. The Scottish Government's own modelling shows that, with £455.6 million of funding in its employability offer over the period 2022-23 to 2025-26, it hopes to help 6,225 into work and a further 2,610 to increase their earnings in work. Even based on optimistic assumptions, that is an investment of almost £55,000 per positive outcome.

While the 'softer' support and services those programmes offer will be invaluable to many people, that also indicates that a more impactful approach could be taken – for example, building on the positive example of the Young Person's Guarantee and instead providing a direct, scaled up, wage subsidy programme for businesses who take on referrals from the programmes.

Alongside this, while a positive feature of the introduction of Fair Start Scotland is it being a 'no strings' entitlement – without conditions, sanctions, limits or caps, and standing in contrast to the approach of the UK welfare system – that vital principle of no conditionality or sanctions should not mean that Scottish social security should only be a passive cash transfer where the government can absolve itself of any further responsibility.

It should enable people to be signposted to and connect with a wider suite of support and services through a proactive – albeit no strings attached – offer. That is a principle that the Scottish Government has started to adopt in its work on tackling child poverty, placing an emphasis on a 'no wrong door' approach – however, progress has been slow with an emphasis on pilots before scale, despite evidence from other countries showing it is a successful approach. That is particularly important where individuals can face an often-complicated set of options and choices.

In previous research, through discussions with service providers and representative organisations, we have heard how people trying to access support can face confusion – given split responsibility across DWP, Social Security Scotland, local authorities, and (at times) the third sector – and ultimately fall between gaps in provision.

As such, the Scottish Government should work to ensure that all devolved benefit recipients should be provided with a fast-track offer of relevant advice and support services – including employability support, debt and financial advice, housing support and more – and work with local authorities and DWP to ensure the same of local and reserved benefit recipients. This should come at the point of application and be tailored to the person's circumstances – for example, where specific support is available for lone parents.

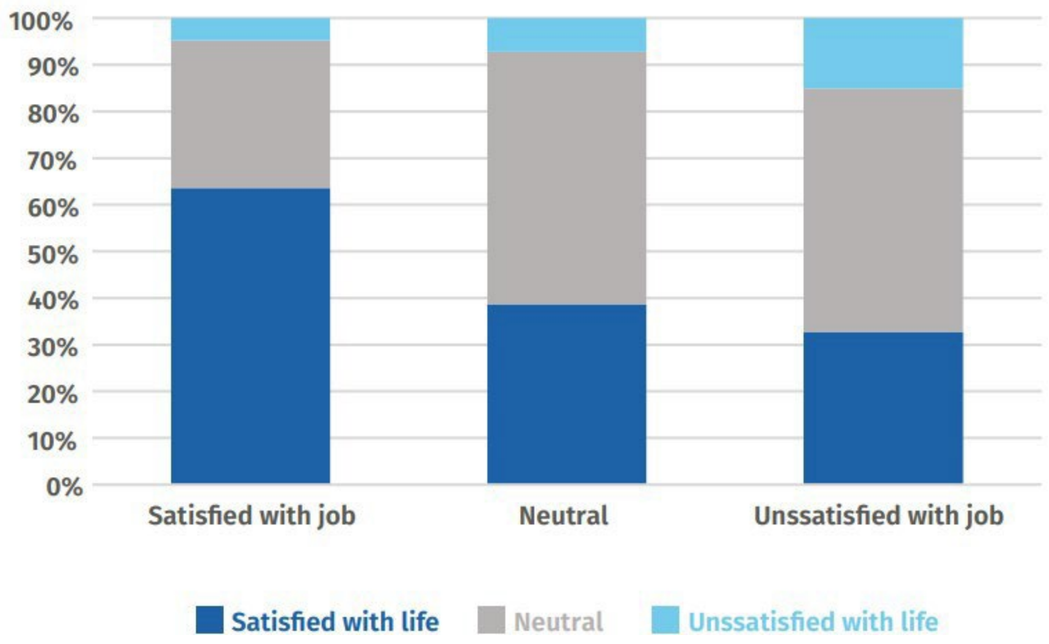
Securing fair work

Despite positive macroeconomic trends in the overall rate of employment, significant inequalities within the labour market also remain. And previous IPPR Scotland has shown how it's not enough to secure a route into work – it needs to be secure and well paid, and that in turn requires a social security and employability system that works in tandem and can respond to individual needs.

Being in work can play an important role in supporting our health and wellbeing – providing people with a sense of purpose, a reliable income, independence, and social contact. It also plays a role in preventing both physical and mental health problems. Our own analysis shows there is a clear correlation between reported levels of job satisfaction and levels of overall life satisfaction – in other words, how you feel about your job matters for how happy you are with your life overall.

The chart below shows that those who were happy with their job were twice as likely to be satisfied with their life overall as those who were unhappy, while fewer than one in 20 of those who were satisfied with their job reported poor life satisfaction.

Rates of life satisfaction by job satisfaction among workers in Scotland



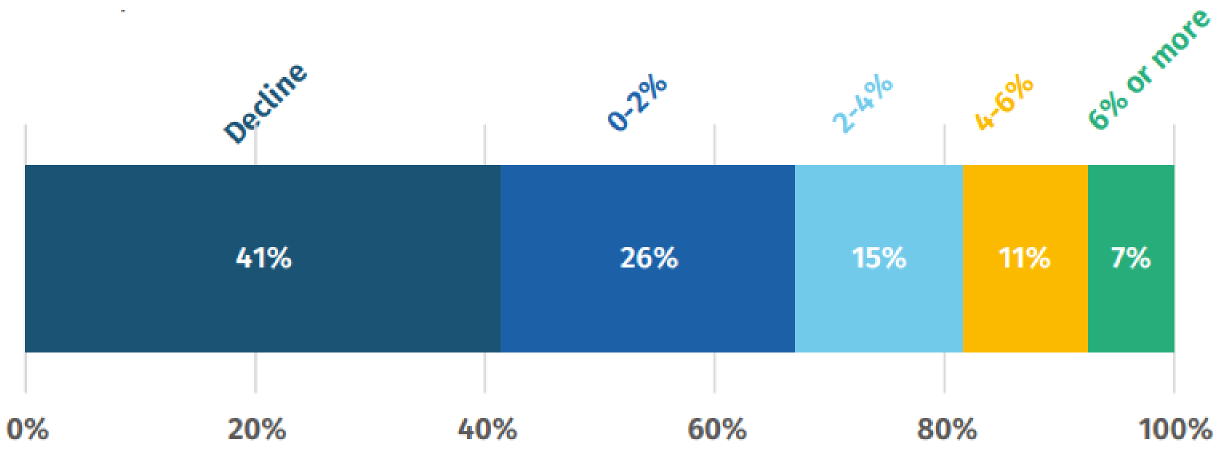
Source: IPPR Scotland analysis of University of Essex (ISER 2020)

Good work is also better for business. Better quality pay and conditions can translate into improved retention rates, and reduced spending on up-front training and recruitment costs. It is also the case that improvements in job quality (increased earnings, strengthened labour market security, and improvements in the working environment) appears to track with increasing levels of employment across the OECD, indicating that there is no ‘trade off' between quality and quantity of work (OECD 2016). Decent pay is also associated with lower levels of sickness absence and absenteeism. Fair work employers can also expect to see improvements in the quality of applicants for job roles, which can strengthen the business' human capital.

Fair work also strengthens our wider economy and society. As more people get into and get on in fair work, Scotland's tax base will be stronger and broader, with increased tax revenues collected from more income taxpayers helping to support stronger public services. Fair work can support better health outcomes for individuals, and across the population – reducing costs to public services later down the line and has a critical role to play in reducing in-work poverty in Scotland – and by extension, in unlocking progress on Scotland's ambitious targets to reduce rates of child poverty. Improving the pay of low paid workers also moves cash into the pockets of low-income households who have greater likelihood to spend it, stimulating the economy. Previous IPPR analysis has shown that if all workers pay was brought up to the effective rate of the real living wage - this would amount to an extra £1.9 billion in the pockets of workers in 2019 (Statham et al 2021b).

Despite these positives, we have still seen limited progress in key areas. Most importantly, our analysis has found that substantial numbers of workers in Scotland – and disproportionately those in lower paid occupations to begin with – have experienced sluggish pay growth over the last decade, with many seeing below real-terms increases, as shown in the chart below.

Share of workers experiencing different rates of real-terms average annual pay growth in Scotland, 2010–19

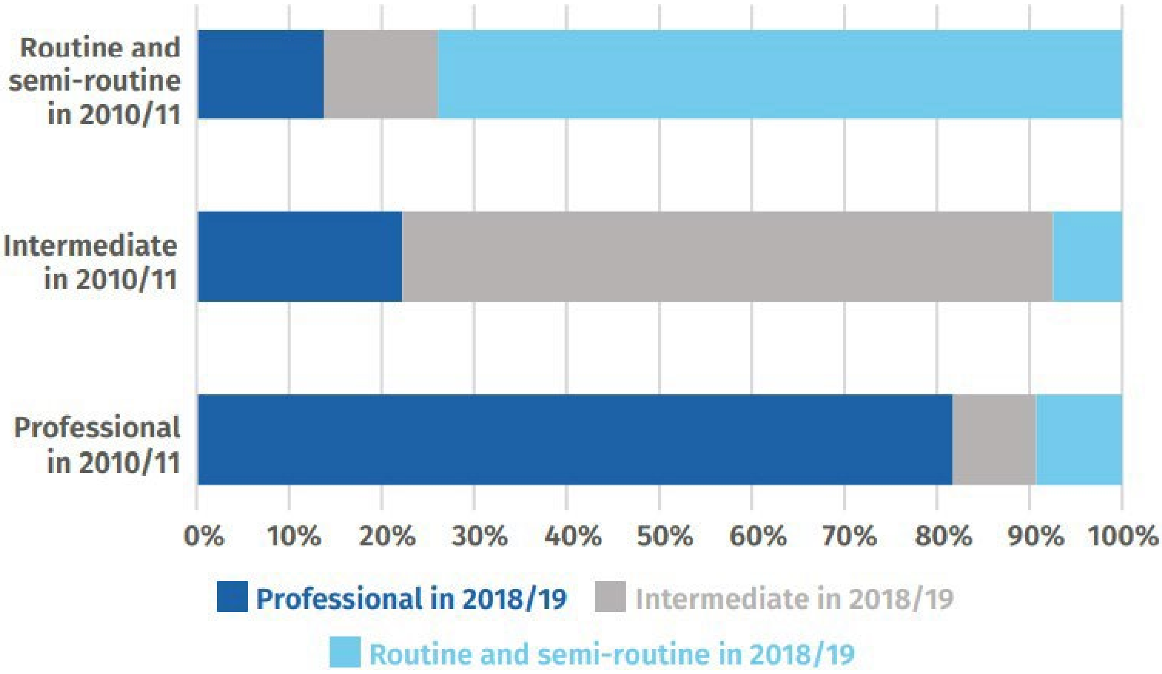


Source: IPPR Scotland analysis of University of Essex 2020

Around two-fifths of workers in Scotland (41 per cent) reported lower pay in real terms in 2019 than in 2010. Meanwhile, one in 14 workers (7 per cent) in Scotland reported high average wage growth (of 6 per cent or more per year) – meaning their earnings were substantially higher in real terms in 2019 than they were in 2010.

Related to this – and the role of not just out of work but also in-work employment and training support – our analysis also found that many workers can find themselves with limited opportunities for progression in work. Looking at career progression between 2010-11 and 2018-19, with the data broken down by job skill classification, we found that the vast majority of workers in Scotland remained in the same job type over this period – shown below.

Proportion of workers reporting progression between 2010-11 and 2018-19, by job type



Source: IPPR analysis of University of Essex 2020

On the basis of the evidence, the role of fair work in helping to find high-quality, secure and well-paid employment is vital to helping people to escape a potential poverty trap. However, the extent of Scottish Government action is debateable – or at least in lieu of more responsibility and action being taken by businesses themselves.

While the Scottish Government has stated its ambition to become a ‘fair work nation’ by 2025 getting there will most often utilises ‘softer’ power to engage and influence businesses operating in Scotland to enhance their fair working practices. More significant action to tackle issues of (un)fair work, tackling these issues within Scotland can face competence barriers with employment legislation, and in turn most significant policy levers, remaining reserved – including industrial relations, pay and benefits, and employment rights and working practices.

Again, there is a clear argument for the further devolution of greater powers over employment in Scotland to enable stronger action to be taken – particularly on pay and workers rights. However, even in the absence of that there are significant powers that the Scottish Government could either utilise afresh, not least looking at potential wealth and business taxes to encourage fair work, and scale up, including the role of education and training as noted in the section above.

In previous IPPR Scotland research we have identified three key areas, and associated policy proposals, where the Scottish Government should take greater action to bolster fair work:

Priority area 1: Driving up job quality – hours, pay, wellbeing and progression.

- The Scottish Government should work with employers and workers to develop new sectoral 'fair work agreements' as the foundation of sector 'renewal deals' that deliver investment into sectors in return for trade union-bargained minimum terms and conditions on pay, hours and conditions.
- The Scottish Government and local authorities should ensure government grants and loans, alongside the Scotland and local tax system, are being used fully to incentivise employers to adopt fair work business practices.
- Scotland's economic strategy must focus heavily on driving fair work, pay, and progression within Scotland's lower paid sectors.
- The forthcoming Wellbeing Act should place new legal duties on government and business and set up new institutions at the national level and sectoral level that work to focus the economy on long-term objectives that can deliver against ambitions to realise inclusive and sustainable prosperity, rather than short-term shareholder profits.
- The Scottish government should establish Job Quality Scotland as a national or local authority-based agency to monitor fair work compliance, to drive implementation of fair work rules and stipulations (like Fair Work First), and to help to enforce UK-wide employment law in Scotland (such as the minimum wage).

Priority area 2: Lowering barriers to getting into and getting on at work.

- The Scottish Government must work with its enterprise agencies, to ensure flexible working as a default becomes a key component of the Fair Work First criteria.
- The Scottish Government should work with key partners to develop a new lifelong learning offer in Scotland for in-work learning. This should be fully flexible, offer bite-sized, modular and a blend of online and face-to-face learning, delivered under the banner of the Open College.

Priority area 3: Transforming Scotland's social infrastructure.

- The Scottish Government must work to improve Scotland's social infrastructure to ensure opportunities are open to people from all backgrounds and circumstances – with a stronger focus on the priority groups targeted through the government's poverty strategies.