

Cabinet Secretary for Communities, Social Security and
Equalities
Angela Constance MSP



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Ms Alison Johnstone MSP
The Scottish Parliament
EDINBURGH
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Our ref: 2017/0035604
13th October 2017

Dear Alison

Thank you for your letter of 26th September 2017 on the Programme for Government commitments re Citizens Basic Income (CBI). The First Minister has asked me to reply, as the relevant Portfolio Minister.

As stated in the Programme for Government, bold and imaginative ideas like CBI deserve support and that is why we committed to fund research into the feasibility of a citizen's basic income scheme. However, CBI is currently untested in advanced economies. While simple in concept, CBI is highly complex in terms of practical delivery and we have a currently poor understanding of short and long term costs and benefits. It also cannot be fully delivered with current powers over tax and benefits.

It is critical, therefore, that any CBI-related research undertaken is robust and capable of providing useful information to government on the viability of the concept. With this in mind, I have asked my officials to scope out how the fund should work in practice so that Scottish Government investment provides the best chance of a successful outcome. My officials are already working with pilot local authorities and partners, such as Carnegie Trust, RSA and CBINS, to explore which elements of CBI can actually be tested at a local level, so the ground-work is currently being laid. But we need to make sure we get the detail right and that's what I intend to do.

Once further progress has been made, I will be happy to provide further detail if that would be useful.

Yours sincerely

ANGELA CONSTANCE

From: Skinner A (Allen)
Sent: 26 September 2017 11:38:01
To: Public Engagement Unit
Cc: First Minister, Gunn Z (Zachary), Betchley K (Katy)
Subject: FW: Basic Income

Attachments: 170925 Basic Income.pdf

MACCS case please for MR for the relevant portfolio Minister

Thanks

Allen Skinner
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From: Johnstone A (Alison), MSP [mailto:Alison.Johnstone.msp@parliament.scot]
Sent: 26 September 2017 11:33
To: First Minister
Cc: Minister for Social Security
Subject: Basic Income

Please find a letter for the First Minister attached.

Best regards,

Alison

[cid:image001.png@01D336BB.3069A310]Alison Johnstone MSP for Lothian |
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Alternatively you can text the Scottish Parliament on 07786 209 888,

addressing your comments to Alison Johnstone MSP.

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Nicola Sturgeon MSP
Scottish Parliament
Edinburgh
SP99 1SP

Basic Income Funding

25 September 2017

Dear First Minister,

I was delighted to hear in your speech on the Programme for Government that the Scottish Government intends to provide funding for research into the feasibility of a citizens' basic income.

A Scottish Basic Income is worthy of consideration for a whole number of reasons. Research commissioned by the Scottish Greens during the 2014 referendum show that it would significantly raise the incomes of the poorest 10%, reducing inequality to levels found in Sweden, Denmark and Iceland, amongst the most equal countries in the world.

A Basic Income would also facilitate citizens taking time out of work to care or go back to education, and the late Prof Alisa McKay was a passionate supporter of a Basic Income because it recognises the often unrewarded "diverse roles of women as wives, mothers, carers and workers".

Local Authorities in Fife, Glasgow, Edinburgh and North Ayrshire have already begun to explore the possibility of Basic Income, and I'm sure they will be equally delighted that the Scottish Government is willing to provide some funding to support that process.

I am proud that the Edinburgh project was initiated by Scottish Green Councillor Gavin Corbett and indeed, Basic Income has been a policy of the party since its foundation in 1990.

I would very much appreciate it if you could provide further detail on these plans, including in particular:

1. How much funding will be available and to which Local Authorities it will be provided
2. What the criteria for receiving funding will be.
3. Given that a Basic Income trial would likely involve the temporary replacement of UK social security payments and tax credits, what discussions the Scottish Government has had

with the Department for Work and Pensions regarding plans to fund Scottish Basic Income trials.

4. Whether any Scottish benefits are likely to be absorbed into the Basic Income paid in any Scottish trials.

I would appreciate any assistance you can give to myself and Mr Walker regarding this matter.

Yours sincerely,

Alison Johnstone MSP

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CC Jeane Freeman MSP

Hunter WA (Willie) (DD)

From: Annie Miller <anniemillerbi@gmail.com>
Sent: 25 August 2017 09:33
To: Paul Vaughan
Cc: Sandra.mcdermott@glasgow.gov.uk; chief.executive@north-ayrshire.gov.uk; Jamie Cooke; Gail Irvine; M HALLIDAY; Hawkins L (Liz)
Subject: City Of Edinburgh Council

Dear Paul,

Gavin Corbett, Green City of Ed Councillor, whom I met on Wednesday, has asked me to pass on to you the news that a full Council Meeting yesterday agreed that Edinburgh should seek to join the three councils already on the Scottish BI Pilot project, (assuming that it is still welcome).

He asked me to pass this information on to you and to ask you to make contact with your corresponding officials in Edinburgh, either Nick Croft or Laurence Rockey.

Best wishes,
Annie.

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First Minister - Briefing on Citizens Basic Income

From: Liz Hawkins
Housing and Social Justice Directorate
2 March 2017

CC.

Cabinet Secretary for Communities, Social Security and Equalities
Cabinet Secretary for Finance and the Constitution
Minister for Social Security

CITIZENS BASIC INCOME

Purpose

1 To provide briefing on a Citizens Basic Income (CBI) including an overview of the concept, analysis of the potential costs and opportunities, relevance and practicality in Scotland, modelling of one CBI proposal and a brief discussion of alternatives.

Priority

2. Routine

Overview

3. Citizens Income is seen as a radical reform challenging current notions of the social safety net and the relationship between work and income. There is growing international support for the concept with a number of policy-makers, politicians, academics, think-tanks and campaigners suggesting it offers a solution to some of the most difficult modern day challenges. The Social Security Committee has called an evidence session on CBI for 9th March.

4. The concept of CBI is simple but implementation is highly complex with many divergences in policy under the CBI umbrella. Most forms of CBI share a number of common features:

- CBI is a universal, non-taxable, non-means tested payment made to all citizens from cradle to grave. This means that everyone considered a 'citizen' has a safety net of some kind throughout their lives.
- CBI is paid to individuals not households and is paid regardless of past national insurance contributions record, income/wealth, or marital status.
- Income from the CBI is not withdrawn as employment income increases but all non-CBI income would be subject to tax with models generally referring to a flat rate of income tax on all income. The policy consolidates and simplifies both income tax and national insurance systems.

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- In most cases, it is assumed that the CBI replaces most other social security. However, there is on-going conceptual debate on whether housing support and disability payments should continue to cover additional needs or alternatively, whether the CBI should be set at a high enough level to negate the need for this.
- The level of CBI payment is generally expected to vary with age to reflect needs at different life stages. In most cases proposed payments would be highest at pension age, where the ability to earn income through employment is reduced and sickness and disability are most likely to bring additional needs.

5 On a UK basis there is support for CBI from the political left and to a certain extent from the right, although it has been categorically ruled out by the current UK Government. Whilst the left see CBI as restoring dignity to welfare and ending (or limiting) conditionality the right sees it as lessening state interference in people's lives and reducing complexity in the welfare system. Both argue that carefully set up it could helpfully incentivise work although many stakeholders argue that its primary role is in putting value on currently unpaid work such as caring and volunteering and creative endeavour. It is this argument that leads many proponents to suggest that the measurement of success of such a scheme should not be narrowly measured but considered in terms of wellbeing over a long period.

6 Although elements of the concept align with elements of the Government's stated purpose in terms of promoting inclusive economic growth and creating a Fairer Scotland, it is a very costly policy which is unlikely to gain public acceptability and ultimately may not have the desired transformative impact. This paper summarises findings. More detail is provided in the Annexes:

Annex A	UK Political Perspectives on CBI
Annex B	International Pilots
Annex C	Scottish Pilots
Annex D	Modelling of RSA proposal
Annex E	Current Lines to Take

Analysis of the CBI Concept

7. Advocates of CBI tend to concentrate on the conceptual advantages of the policy suggesting that it could ultimately heal deep divides in the current social and political economy. Various advantages are proposed with the key ones being that:
- A CBI, if set high enough, would give every individual financial security, lifting them out of poverty and giving them greater equality and greater control over their lives.
 - CBI would restore the incentive for paid work by ending means tested benefits and their high taper rates. Proponents say this is especially helpful for encouraging creativity, risk-taking and entrepreneurship and to support individual decisions to develop new skills or retrain for a new sector. It is seen as of particular benefit to small businesses, self-employed individuals, those in failing industries as well as those looking for alternative work life options.

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- CBI would simplify and destigmatise the current benefit administration system making it more transparent and accountable and removing the time consuming and stressful bureaucracy for individuals.
- CBI could result in longer term benefits to health, social care and family relationships as security reduces income stress and allows more time to be spent on voluntary, creative and caring activities with such activities being more readily valued by society.

Impact on labour market

8 Even at a conceptual level the policy's rationale in terms of paid work is rather conflicting and confusing. On one hand the policy argues that there will be greater incentives to work because of the removal of marginal rates. While this may hold true for those in and out of work, for individuals in more stable jobs, no matter the pay or skill level, it will have little incentivizing impact. However, for those on more stable jobs, higher skilled jobs or higher up the income distribution the CBI could allow people to reduce their labour availability. While it is argued that this could be a good thing for society, increasing the value placed on caring and creativity, it nonetheless will reduce the availability of labour and skills to the economy with unknown longer term impacts.

9 CBI is sometimes seen as a means to confront labour market inequalities resulting specifically from automation and indeed some technological companies are funding CBI pilots. However, it is not clear how this confrontation would happen. CBI would leave the current inequalities in the labour market intact, doing little to challenge inequality from ownership of technologies and assets and offering no alternative help or direction to the unemployed. Likewise the policy is said to confront current inequalities in the labour market around low skill, low pay, unpredictable work because the CBI will mean that people withdraw their labour unless conditions improve. In reality this confrontation can only happen if the CBI is set at such a level that a household can have a reasonable standard of living without work. If this is the case then significant work incentive is also removed.

Impact on stigma from benefit system

10 Similarly the policy argues that it would destigmatise benefits. The recent consultation on social security in Scotland reinforced the importance of dignity and respect in the social security system and as CBI is universal it does remove much of this stigma. However for certain groups (people with disabilities and those on housing benefit) means tested benefits will remain and could become even more stigmatising if they relate to smaller sub-populations.

11 It is also important to recognise that although removal of conditionality and means testing may be desirable in some circumstances, in other circumstances it may not. For households with specific needs it is the conditionality and means testing that allows them to receive appropriate allowances. A way needs to be found to remove stigma but it is quite a blunt instrument to do this by removing targeted allowances.

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Impact on poverty

12 One of the most profound concerns around CBI is the impact it could have on people in poverty. The high cost of CBI, financially and politically, could limit the scope of existing social policies to assist individuals needing specific social security assistance. According to recent analysis by the Policy Network this leads to 3 specific concerns

- Existing social programmes are rolled back to finance basic income
- Services are marketised under the logic that CBI could be used to pay for them
- Political will and public support for more expansive programmes to address specific inequalities is weakened.

13 CBI supporters acknowledge this as an issue and warn against such practice but it is difficult to see how this can be avoided given that most governments will not be able to afford both CBI and a generous welfare state.

Impact on equality of opportunity

14 One of the suggested advantages of CBI is that it will create better equality of opportunity. All individuals will have a basic income from which they can seek to work to increase their total income. However for this to be true society would need to be neutral to start with. For example CBI is said to promote gender equality by giving women independent finance. However, to counter this, if CBI is implemented in an environment of gender related constraints on choice and a gendered division of labour, then CBI is more likely to further entrench gender stereotyping. Certainly evidence from early pilots suggests that it was women rather than men who reduced working hours and women who took on greater caring and domestic roles. Likewise, if CBI is introduced into an environment where the employment rate for people with a disability is significantly lower than for people without a disability, then the inability of people with disabilities to find suitable work to top up their CBI could retrench inequalities further. As noted above if money has been spent on CBI there may be little political will or public support to tackle some of the entrenched social and institutional inequalities.

Impact on health and welfare

15. Various literature shows that moving people out of poverty is generally good for health and well-being and certainly removing some of the indignity around receipt of benefits may be beneficial. However it is not clear that CBI will specifically help those in poverty and its impact on related social structures may ultimately entrench deep routed inequalities in society.

Analysis of Application in Scotland

16. The reality of any CBI will depend on the practical detail of any system in its local economic and social context. The higher the CBI the more likely it is to lift people out of poverty but the higher the public finance cost to fund and the harder it

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would be for the government to fund other supportive social policies. This section looks more specifically at the realities of trying to implement a CBI system in Scotland.

Public attitudes

17 According to JRF and the Policy Network the CIB would require at least three seismic shifts in British and Scottish attitudes and policy:

- Acceptance that everybody should be supported at a certain level with no work-based conditions. Current social attitudes suggest that if anything public opinion is moving in the opposite direction to this. A British Social Attitudes survey question in 2011 asked what should happen to an unemployed person who fails to prove that they are actively searching for work. In the response 94% said that benefits should either be reduced or removed completely.
- Acceptance of a greater role for the state in redistribution involving higher rate of direct taxation or some equivalent means of raising money. Again there is no evidence that this is in line with current public thinking in fact evidence from parts of Europe suggest that widespread support for CBI quickly falls away when the full implications of the costed proposals are understood.
- A reduced role for the state in ensuring that each citizen can afford essentials such as housing or childcare through income transfers. Stakeholders working to tackle poverty are particularly concerned about the impact of such a move on vulnerable groups.

Cost

18 CBI is not a cost neutral option in operation: A CBI would require Scotland to accept much higher marginal tax rates. Several tested experiments have relied on windfall funds such as the Alaskan Oil and Gas Reserves, Aid funding in Namibia and philanthropical funding in California. In these cases everyone can see an increase in income with resultant positive impacts. However, where such windfalls are not available CBI has to be met from taxation which will require some element of redistribution. Work by JRF at a UK level suggested that whatever system was developed would require a tax rate on all earned income of around 40% if housing benefit was excluded or over 50% if CBI was to be large enough to also cover housing benefit. Due to differences in income distribution between Scotland and the rest of the UK there may need to be an even higher tax rate in Scotland.

Winners and losers

19 Covering such costs means that there will be winners and losers either because the CBI does not equate to previous benefit levels or because of the redistribution of taxes and benefits. The exact nature will depend on how the system is established. For example in terms of total redistribution the Green Party model analysis suggests that everyone in work with an income below £40,000 will gain from the system, whereas those with incomes above that will lose. In the initial models put forward by the Citizens Income Trust families with children lost out and poverty increased. Later models in support of CBI increased the amount for children,

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especially young children which did reduce this impact, however, even then families with more than 4 children saw their income drop compared with the current benefit system.

20 There is also likely to be contention around the level of support offered with, for example, remote rural areas arguing that costs of living are higher and therefore they should receive greater CBI. Further information is provided below but significant modeling effort would be required to establish levels which did not impact negatively on vulnerable groups.

Administrative complexity

21 As CBI relies on complete information on every citizen it would probably require the construction of a new register of citizens, containing details such as name and address (necessary for fraud prevention), date of birth (because the rates depend on age) and bank account details in order to receive the income. Although partial databases already hold much of this data linking it into a comprehensive register will give rise to civil liberties concerns. In addition as almost all of the models suggest that housing benefit and disability benefit should remain as separate benefits this complexity remains in the system.

Work incentives and disincentives

22 As noted above, it is not clear if, in a modern economy such as Scotland the CBI would increase or decrease labour availability. The partial evidence that is currently available from different economic contexts suggests that most people will remain working (eg. Namibia and Manitoba) but many will reduce hours. Those reducing hours in the pilots tend to do so for arguably better societal outcomes eg. to spend more time with families or to increase time in education. Nevertheless this will reduce the available pool of labour which will have a knock on effect on the economy.

23 In the case of increased work incentives it is not known whether it is the cash or the removal of conditionality that leads to behaviour change. As a result some recent pilots have introduced new and different conditionality requirements to test this issue.

24 It also follows that CBI may not be enough on its own to encourage people into the labour market. Ongoing provision of skills, training and assistance in entering the labour market will be required. But it may be increasingly hard to find the additional money to pay for such services and to target such assistance to individuals who are no longer known to the State because they are not receiving means tested benefits.

Lack of Powers

25 In practice a basic income can either be administered as a benefit such as child benefit or the state pension or it can be administered as a negative income tax

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alongside changes to personal allowance. Most commentators suggest that the former is better because it is more transparent to individuals and negates the need for children to be incorporated into the tax system. However, neither approach would be possible for Scotland under devolved powers:

- Scotland does not have powers to set a tax base meaning that it can only discriminate based on income not additional needs.
- Personal allowance for tax purposes is reserved. A negative income tax approach could only be implemented alongside changes to personal allowance and hence would not be implementable with current powers.
- Some of the schemes propose significant changes to employee National Insurance Contributions which are also reserved.
- A new CBI benefit could be brought in by Scottish Government but to work as a CBI it would need to replace all existing reserved benefits including Child Benefit, state pension as well as all those in the Universal Credit umbrella. This would require UK Government endorsement and transfer of the corresponding budget which is unlikely. In addition households with specific needs and support would be difficult to administer across such a system.

Lack of evidence

26. The concept is currently untested. Although various pilots are being established to test elements of the concept there has not yet been a fully robust experiment. To be robust and transferrable to Scottish society the experiment would need to be based on an advanced economy, giving universal income, randomised, long term and basic (that is, the income should be sufficient to live on). No pilots have been set up on this basis. Further detail on pilots is provided in Annex D.

Modelled Examples

27 The following table lists some of the proposed CBI models for the UK. The one most commonly discussed and modelled below is that by the RSA published in 2016. Across the models child payments vary from £50 to £82.50 per week as compared to £20.70 for a first child benefit payment. Pension payments are broadly similar to current levels of state pension. Working age adult CBI payments vary from £56.25 to £71.

28. Although savings will be made from various welfare payments the savings are roughly £100 billion less than the cost of CBI at a UK level (roughly £10 billion for Scotland). Various proponents suggest various policy combinations to meet the shortfall including removing the personal tax allowance, removing private pension incentives, introducing land value taxes, raising income tax, introducing a higher tax threshold, removing basic income for anyone earning over a threshold (£150,000 is mentioned). In both the RSA and Green party examples below these types of revenue policies are estimated to raise around £100- £150 billion although as noted in Annex E our modelling could not replicate this.