

First Minister - Briefing on Citizens Basic Income

Table of Proposed Scenarios – figures of costs/savings at UK level

	RSA	Green Party	Citizens Income Trust / Reid Foundation
0-4	82.50- 1 st child 65.15 add child	50	56.25
5-15	56.25	50	56.25
16-24	56.26	80	56.25
25-64	71.00	80	71.00
65+	142.70	155	142.70
Lone parent supplement		80	
Lone pensioner supplement		25	
Disability supplement		30	
Total Cost	£279 billion	£321 billion +£8billion for disability supplement	Not calculated
Total Savings from Benefits	£171 billion	£164 billion	
Additional Savings	£100 billion from Removal personal allowances, NI reliefs, Reduced relief on pension contributions	£150 billion from Removal personal allowances, NI reliefs, Reduced relief on pension contributions	
Total Savings	£272 billion	£331 billion	
Cost to public purse	£2billion	-2billion	

29. From Scottish Government modelling of the RSA version of CBI we found that, without factoring in any behavioral responses, the scheme was beneficial to the majority of the poorest households. However its benefit quickly dropped and only half of people in the third decile would be better off, while half were worse off. Two thirds of households in the top half of income deciles would be better off.

30. This would be an optimistic picture because, even with the abolition of certain benefits and tax changes proposed by RSA, running the analysis for Scotland we estimate that there would be a shortfall of approximately £3.6 billion per annum. This shortfall means that that overall household income is being increased, so household gains will exceed household losses. Further detail is found in Annex E.

31 Citizens Income Trust provided a paper for the oral evidence session of Social Security committee on 9th March. The paper suggests that a CBI should ultimately be set at 50% of the mean income in Scotland for pensioners (roughly £196) or primary care-givers, 40% (£156) for other adults and 20% for children (£78). This does not replace existing Social Security but appears to work alongside it with income from the CBI scheme classed as income for the calculation of existing means-tested benefits. The lack of detail means that it is difficult to conclusively model this proposal but given the fact that each of the suggested incomes are higher than the ones modeled above we can conclude that the scheme will be significantly more costly with the same redistribution and revenue raising issues.

Alternatives to CBI

32 There are many conceptual advantages to CBI but it may be possible to achieve some of those benefits under alternative and potentially less costly approaches. This paper has not fully investigated alternatives but mentions a couple below from the CBI literature.

33 In developing the Finnish pilot a number of other approaches were considered, one of which was UK's **Universal Credit scheme**. As JRF point out the "Universal Credit is to some extent a step towards a more unified structure of income transfer: it abolishes separate systems for in work and out of work claimants and has a single taper rate for the main benefit. It has the potential for a withdrawal schedule closer to that of citizens income although direction of travel by UK Government since 2010 has been in the opposite direction with both tax allowances and taper rates increasing" (although subsequent to this report the 2016 Autumn budget did decrease taper rates very slightly). The Finnish Pilot notes that it is keen to watch the development of Universal Credit as an alternative option. [REDACTED]

34 Another alternative which has been used at various times in various European countries is unemployment insurance. The current Danish unemployment insurance system is seen as one of the most generous in the world, whereby individuals can choose to pay an insurance premium of around £50/month. If made unemployed an individual can claim a high proportion (around 85%) of their previous salary for up to 3 years. After 3 years they enter a separate social security system. A similar model proposed in Belgium suggested using voluntary higher social insurance payments to allow individuals to build up credits for sabbaticals to allow them to leave their job for a few months or years to care or fulfill a range of needs. However one clear downside of this system is the division it creates between those who can and those who can't afford the insurance premium.

35 In post-war Sweden unemployed workers from specific failing industries were compensated in the form of active labour market programmes and retrained for more productive sectors. The Policy Network suggest that such an approach could be adapted to cope with the age of automation combining a time limited basic income with active retraining especially if it is linked to unemployment insurance, perhaps even part funded in advance by technology companies.

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36. However, it is not clear that the issue with work life balance is lack of money. For many it is a lack of jobs that allow the flexibility to work reduced hours or reduced days or different work patterns.

Conclusion

37. [REDACTED]

ANNEX A
UK Political Perspectives on CBI

On a UK basis there is support for CBI from the left who see CBI as restoring dignity to welfare, ending (or limiting) conditionality, making work always pay:

- o At the SNP March 2016 party conference, SNP members agreed a motion stating that "conference believes that a basic or universal income can potentially provide a foundation to eradicate poverty, make work pay and ensure all our citizens can live in dignity". The motion called for more research into the impact of the policy. Members also agreed that a basic income should be considered as a possibility when designing the welfare state of an independent Scotland.
- o SNP MPs backed a motion from Caroline Lucas that called on the UKG to fund and commission research into the feasibility of various CBI models.¹
- o It is Scottish Green policy. The Greens have proposed a weekly income of £100 for adults – i.e. higher than JSA - and £50 for children.
- o John McDonnell supports CBI, although it is not yet Labour Party policy.
- o In June 2016, Councillor John Mooney, Leader of West Dunbartonshire Council (Labour) proposed a motion to support in principle the concept of a Universal Basic Income. This was agreed by Council with a commitment to write to both the UK and the Scottish Government calling on them to explore the potential of CBI as a potential alternative to the current complications and complexities of the UK welfare system.
- o In the next few weeks Councillor Matt Kerr, Glasgow City council (Labour) is putting forward a paper to Council asking for consent to develop a Glasgow pilot.

CBI also has some support on the right who see CBI as lessening state interference in people's lives, reducing complexity in the welfare system, and incentivizing work:

- o Finland has a centre-right government.
- o Adam Tomkins has written an article in the Daily Record calling for CBI to be discussed seriously in Scotland, although he acknowledges that the main levers to deliver CBI lies with Westminster not Holyrood.
- o The think-tank Reform Scotland published a report on welfare reform in February 2016 and recommended that a Basic Income should be introduced. The levels proposed were the same as the Greens.
- o However, in a UK parliamentary debate in September 2016, the DWP minister Damian Hinds said CBI was unaffordable: "Even the most modest of citizens basic income systems would necessitate higher taxes. At the same time it would cause a significant decrease in the motivation to work amongst citizens with unforeseen consequences for the national economy...While at first glance a CBI might appear desirable, any practical implementation will invariably be unaffordable. Because it doesn't take into account individual needs properly, it will markedly increase inequality."

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Annex B International Pilots of CBI

Finland CBI Pilot

- On January 1, 2017, Finland launched an experiment in which 2,000 individuals—randomly selected from a pool of unemployment benefit recipients—will receive unconditional cash payments of €560 (about £480) per month for two years.¹ The first payments were sent out on Monday, January 9. To avoid selection bias, participation in the experiment was mandatory for those selected.
- The main aim of the pilot is to determine whether unconditional cash transfers are more effective than means-tested unemployment benefits in incentivizing work.
- Those included in the study population will be paid a monthly basic income of €560 for two years. The amount of the benefit does not decrease if the recipient earns additional income. The basic income is not subject to tax. However, it is counted as income for the purpose of determining eligibility for additional social assistance.
- The Finnish government is interested in testing basic income as a way to remove work disincentives and reduce bureaucracy.
- The 2,000 individuals receiving the CBI will be compared with a control group. The study will examine differences in employment rates between these groups.
- The original experiment design wished to test different levels of basic income but because the constitution requires all individuals to be treated equally this could not be implemented.
- The original experiment also wished to make changes in tax provisions but the Finnish Tax Administration was unable to participate in the drafting of the law so this was not carried out.
- Although the pilot will provide good evidence around work incentives compared to an existing benefits based system it will not provide strong evidence on CBI as an option because it is not universal and does not take into account the required redistribution.

Canadian Pilot

In February 2016, Ontario's state budget included a commitment to run a pilot project to test "that a basic income could build on the success of minimum wage policies and increases in child benefits by providing more consistent and predictable support." A proposal for how the pilot should be run has been drawn up in outline with CBI being offered to all households below a certain income threshold. This states that the pilot should test a range of approaches, including various different forms of CBI and a negative income tax proposal.² Ontario is currently looking for a community in which to run the pilot. One community has been approached to date but its council declined to participate.

¹ <http://www.kela.fi/web/en/basic-income-experiment-2017-2018>

² <https://www.ontario.ca/page/finding-better-way-basic-income-pilot-project-ontario>

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Dutch Pilots

In September 2016, the Dutch government decided to allow basic income experiments on a limited scale and under strict conditions.³ However, the Dutch Parliament needs to give its approval and in January 2017 it refused to debate the issue. The pilots aimed to divide unemployed welfare recipients into five groups, with each having different obligations. Some groups will receive an unconditional CBI of around £800 per month; others will be required to have even more contact with employability services than they do at present; still others will receive a CBI and be entitled to 50% of any income earned. The pilots aim to find out:

- Which intervention best incentivizes people into work?
- Which intervention has the best outcome in terms of moving people off benefits?

A maximum of 25 municipalities, or 4% of the total number of Dutch welfare claimants, will be allowed to participate in the experiments. The duration of the experiments is set at two years.

However, on December 15th 2016, the 'committee for citizens' initiatives' decided not to allow a discussion in Dutch Parliament about the proposal to implement a CBI in 2018.

Oakland, California

A large start-up accelerator in Silicon Valley, Y Combinator, announced in mid-2016 that it would pilot paying out monthly salaries between \$1,000 and \$2,000 a month to 100 families in Oakland, California. This is a universal income in that the families range in socioeconomic status and there are no requirements to stay in the US. If the pilot is a success, a five-year trial will follow.

³ <http://basicincome.org/news/2016/10/netherlands-design-of-bi-experiments-proposed-meets-criticism-from-stakeholders/>

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Annex C Scottish Pilots of CBI

Fife CBI Pilot

In November 2015 Fife's Fairer Fife Commission issued a report with a number of recommendations to tackle poverty and inequality in Fife. One of the recommendations was *"to test and evaluate a highly innovative 'Basic Income' pilot, learning from leading practice around the world"*.

Fife Community Partnership remain actively interested in developing a pilot and Officials are planning to submit a paper to the Community Planning Partnership after the May Council elections to explore models and feasibility. A meeting of the Citizens Basic Income Network Scotland (CBINS) was hosted in Kelty, Fife on 28th January where Prof Karl Widerquis from Reading University spoke prior to a discussion about the Fife pilot. The Council are currently working on the parameters of piloting a citizen's basic income in one town in Fife of 2-5,000 people for a minimum of 2 years. They are fully aware that it will be a long complicated process requiring agreement from a wide number of partners, including UK Government. Such agreement has not yet been sought.

Glasgow CBI Pilot

According to the Basic Income Network (BIEN) website, on "November 26 2016, Glasgow Councillor Matt Kerr announced that Glasgow City Council had instructed its officers to begin researching and designing a local pilot study on CBI". No further formal announcements have been made although officials of Glasgow Council have been in touch with Scottish Government officials recently to ask for a meeting.

ANNEX D
Illustrative Modelling of the RSA CBI Scheme

Micro-simulation modelling of the RSA scheme for households in Scotland was undertaken in order to investigate the potential distributional impacts. The analysis should be viewed with the following caveats in mind:

- Microsimulation modelling requires significant detail about the tax and benefit system. This level of detail is not provided in the RSA paper therefore we have had to make assumptions about the benefits that would be retained under their scheme. We assume all benefits are stopped, with the exception:
 - Disability Living Allowance
 - Personal Independence Payments
 - Severe Disablement Allowance
 - Industrial Injuries Disablement Benefit
 - Housing Benefit
- As per the analysis presented by the RSA, the analysis does not apply any behavioural responses to households
- The levels of the payments suggested by RSA are for 2012-13 so the analysis has been run with data from 2012-13. This means that the charts below present what would have happened had the system been in place in 2012-13.

Summary

- In their report RSA state that the scheme would be funded by the abolition of certain benefits and tax changes. However, running the analysis for Scotland with all the tax and benefit changes specified we estimate that there would be a **shortfall of approximately £3.6 billion**.
- In considering the distributional impact, this shortfall needs to be noted since it means that overall household income is being increased, so household gains will exceed household losses.
- It is estimated that the scheme would lead to approximately 85% of households in the bottom decile being better-off. However, the proportion of households better off in deciles 2, 3 and 4 is 62%, 51% and 54% respectively compared to 64% or more households being better off in deciles 5 and upwards.

Table 1 – Estimated costs and funding

	£bn
Increase in benefit expenditure on CBI	12.3
Additional income tax	6.8
Additional national insurance	2.0
Shortfall in funding	3.6

Notes: The increase in income tax from the removal of the personal allowance is calculated using the microsimulation. An estimate of the impact of reducing tax relief on pensions is calculated as a Scotland share of the RSA UK estimate.

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Chart 1- Proportion of households in each decile better/worse off

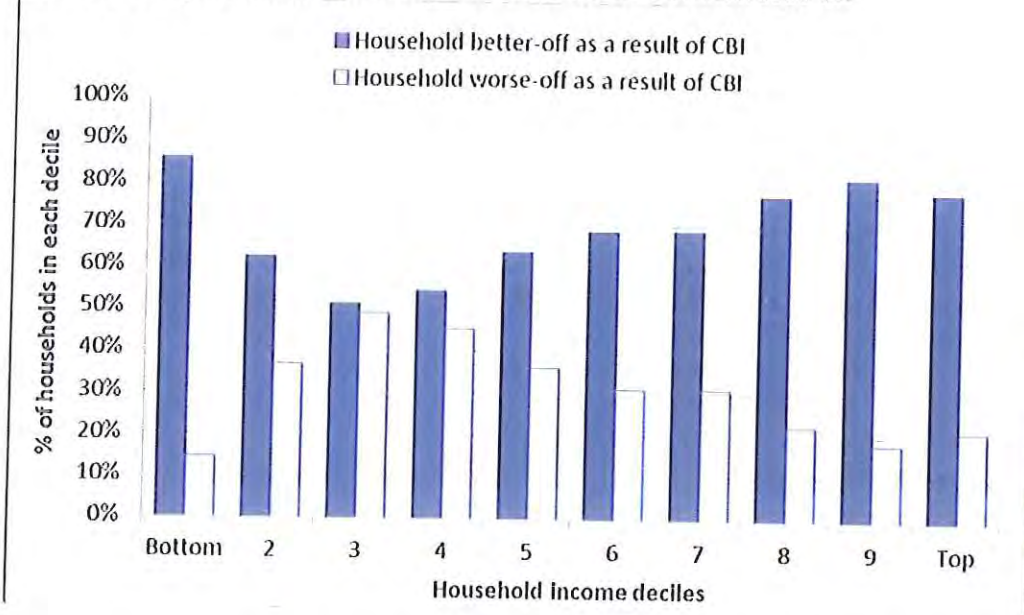


Chart 2 – Average gains for better-off households as a proportion of net income

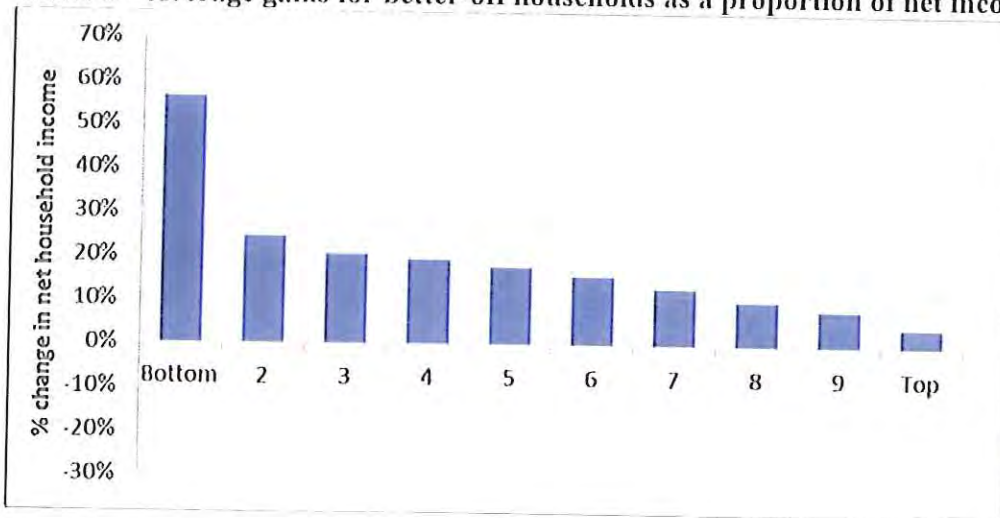
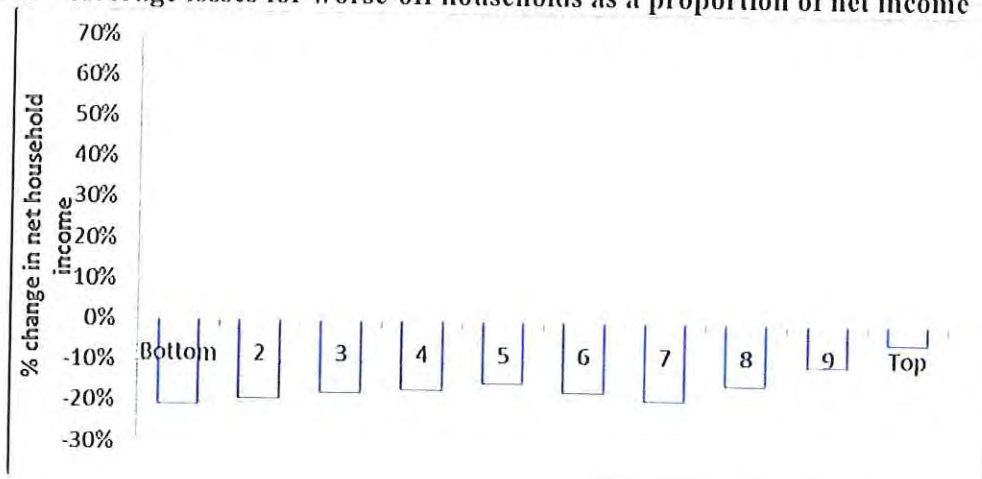


Chart 3 – Average losses for worse-off households as a proportion of net income



ANNEX E – CURRENT LINES

Top Lines [REDACTED]

Current Context

- There is increasing interest in Scotland and internationally on Citizens Basic Income – a tax-free, unconditional, non-means-tested regular payment for all citizens, replacing most social security benefits.
- CBI pilots are being developed in parts of Finland, Canada and the Netherlands – however, these are all small scale and there is an argument about whether these are genuinely testing aspects of a CBI system or just elements of it.

Scotland and CBI

- Scottish Ministers have made clear in parliament their view that CBI is not viable in Scotland without full powers over tax and social security or without co-operation of UKG. That is because basic income is a replacement for most benefits. The UK Work & Pensions Committee held a one day oral evidence session on CBI on 12 January 2017. However, the UK Government has not been positive about CBI to date - DWP Minister Damian Hinds said in September last year that CBI was 'unaffordable'.
 - The Scottish Government's Expert Working Group on Welfare (2014) did not recommend CBI as a replacement welfare system in an independent Scotland: 'It is likely that the introduction of CBI would be a controversial step and would need careful introduction to gain widespread support.'
 - The Social Security Committee is holding a one day investigation into CBI on March 9th.
 - The 2016 SNP Conference agreed a motion supporting the principle of CBI.
 - Both the Fife and Glasgow discussions about pilots are at the earliest stages. A Fife pilot was proposed by its Fairness Commission, but so far only an initial scoping meeting has been held. A Glasgow pilot has been proposed by Cllr Matt Kerr but it is not clear that any work is being taken forward on this as yet.
 - The Citizens Basic Income Network Scotland (CBINS) is a new organization, established at the end of 2016, 'to raise awareness of the benefits that a Basic Income would bring to Scotland'.
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From: Liz Hawkins
Communities Analysis
29th March 2017

Cabinet Secretary for Communities, Social Security & Equalities

CITIZENS BASIC INCOME – SCOTTISH GOVERNMENT APPROACH TO THE THREE PROPOSED PILOTS

Purpose

1. To advise you of a further potential pilot of Citizens Basic Income in Scotland and to seek your views on Scottish Government's future approach.

Priority

2. Routine

Background

3. Briefing sent to the First Minister and copied to the Cabinet Secretary for CSSE and Minister for Social Security on 3 March 2017 set out the advantages and disadvantages of Citizens Basic Income. This paper concluded that [REDACTED]

Local Authority Pilots

4. In December 2016 the Minister for Social Security noted that she wished officials to keep a watching brief on the Fife Pilot of Citizens Basic Income. Officials have been engaging with Fife Council on this matter. In recent months there has been increasing attention on the approach and both Glasgow Council and North Ayrshire Council have now committed to develop a pilot.
5. None of the pilots have moved further than early thinking and there are no solid proposals on the table at this stage. Glasgow are developing a feasibility study and RSA Scotland are taking a leading role advising both Glasgow and Fife. Council elections on May 4th may influence proposals although all three are currently confident that the policy has cross party support and will continue to feasibility stage.
6. You have already been invited to meet with Alex Rowley, MSP to talk about Scottish Government's role in the Fife pilot. You have also been asked to meet Councillor Joe Cullinane (Labour), the leader of North Ayrshire Council.
7. It does not seem to make sense for each local authority to independently go through a feasibility stage and initiate discussions with UK and Scottish Government. If all three projects went ahead together they could potentially reduce the cost and administrative resource required for each pilot or they could test different aspects of CBI, but this would only work if all three had been designed together.
8. At this stage you may wish to consider whether:

[REDACT]

RECOMMENDATION

9. You are invited to:

[REDACT]

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Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Minister for Social Security			X		
First Minister					X

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 Paul Tyrer, Social Justice Strategy
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