

Proposals for Budget 2007

Issue	Proposal	Beneficiaries	Cost (€m)
Welfare payments			
Personal rates	Increase lowest rate payments by €20 per week	564,160	879
	Increase non-contributory state pension and other payments by €18 per week	97,220	
	Increase contributory state and related pensions by €15 per week	313,120	
Qualified Adult Allowance	Increase lower rate by €16 per week	82,395	86
	Increase contributory pension rate by €13 per week	35,580	
Child payments			
Child Benefit	Increase by €10 per month	1,144,500	139
Early Childcare Supplement	Increase by €1,000 per annum for children (3-4 years) attending pre-school (one year only)	61,450	61
	Provide annual payment of €500 for children aged 6 to 12 years	338,570	169
Child Dependant Allowances	Increase the two lower CDA rates to standard rate of €21.60 per week	255,230	50
	Pay higher rate of €25 per week for children over 12	107,720	28
Clothing and Footwear Allowance	Introduce two additional payments of €120 (< 12 years) and €190 (≥ 12 years), in December and in March	156,000	50
Family Income Supplement	Increase threshold by €68 per week	21,000	49
Delivery of payments	Pay child benefit and the early childcare supplement fortnightly Make the payment of clothing and footwear allowance automatic for recipients of means tested payments.	Existing recipients	Admin cost

Issue	Proposal	Beneficiaries	Cost (€m)
Welfare reform			
Parental allowance	Introduce new means-tested parental allowance (at standard personal rate) for the principal carer in families with young children (< 8), replacing the One Parent Family Payment and the Qualified Adult Allowance under Job Seeker's Allowance and Illness Benefit. Provide an earnings disregard of €120 per week, with tapered withdrawal of 40 per cent up to €400 per week	Not available	86
Means-tests	Increase the means disregard for state pension by €20 per week Increase the threshold for entitlement to full rate Qualified Adult Allowance by €20 per week Increase the upper income ceiling for tapered Qualified Adult Allowance by €30 per week Increase the upper income ceiling for entitlement for half-rate CDAs by €50 under Job Seeker's Benefit and Illness Benefit Increase the earnings disregard for the Supplementary Welfare Allowance rent/mortgage supplement to €100 per week, with tapered withdrawal of 50 percent up to €150 per week	25,340 Not available	23.5 15 (estimate)
Childcare costs	Introduce a vouched childcare disregard on earnings of up to €100 per week (1 child; with up to €50 per week for additional children), under all means-tested schemes, including Family Income Supplement	Not available	Not available
Medical card and GP visit card	Increase income thresholds for medical cards by €16 per week for a single person, €74 for a couple and €12 for each dependent child Reduce the expenditure threshold under the Drugs Refund Scheme to €50 per month for households on doctor-only medical cards	Not available	Not available
Savings scheme	Work with MABS to develop a pilot savings scheme for low-income households	1,000 initially	0.6
Taxation			
Income tax	Increase PAYE tax credit by €82 per annum Increase personal tax credit by €90 per annum		677

Issue	Proposal	Beneficiaries	Cost (€m)
Taxation (continued)			
Income tax	Widen tax band by €1,760 per annum Adjust all other credits and exemption limits by 5.5 per cent		
Tax reliefs	Monitor tax reliefs to ensure that higher earners pay a minimum 20% rate of income tax Restructure state support for PRSA pension contributions as a matching 'tax credit'	Not available	Not available
Indirect taxes	Ensure there is no increase in indirect tax rates		
Fuel poverty			
Fuel costs	Increase fuel allowance by €4	266,000	31
Energy-efficiency	Increase investment in Sustainable Energy Ireland's Warmer Homes Scheme Enforce minimum standards of thermal efficiency in the private rented sector	Not available	5 Not available
Alternative energy	Taper subvention of Sustainable Energy Ireland's Greener Homes Scheme towards low-income households Ensure all new social housing is fitted with alternative energy sources		
Food poverty			
Food costs	Increase welfare payments (see above) Improve access to food retailers at local level, including discount stores		
Availability of healthy food	Establish €10 million fund for community initiatives providing alternative sources of healthy food for low-income households Provide a hot school dinner (or equivalent) to all children from low-income families under the School Food Programme	200,000	10 10 (estimate)
Waste charges			
Waiver system	Introduce a national waiver system covering both public and private collection, to be implemented by local authorities and financed by a national waste collection levy	Not available	Not available

Introduction

Combat Poverty has a statutory remit to advise on all aspects of public policy pertaining to poverty. The annual Budget is a key policy opportunity to impact on poverty. The theme of our submission, *Making poverty the policy priority*, is appropriate as Budget 2007 marks the completion of the 10 year National Anti-Poverty Strategy. Budget 2007 also heralds the beginning of a new social partnership programme (*Towards 2016*) and the development of a new National Action Plan against Poverty and Social Exclusion, which aims to make a decisive impact on poverty by 2010.

The submission outlines budgetary actions which will reduce income poverty and address the structural causes of poverty. This can be achieved through:

- *Increasing the incomes of social welfare recipients*
- *Maximising benefits for children in poverty*
- *Rewarding participation in the labour market*
- *Fostering equality in the tax system*
- *Protecting the living standards of vulnerable consumers*

We assume a tax/welfare budget package of €2.36 billion, similar to Budget 2006. Almost half of this is devoted to welfare improvements; 23 percent goes to supports for children and the remainder is allocated to tax reductions. Our proposals seek to maximise the impact of this expenditure on labour market activation and educational attainment.

Budget recommendations

Welfare payments

Personal rates

- *Increase lowest welfare rates by €20 per week*
- *Increase means-tested state pension and related payments by €18 per week*

- *Increase the contributory state pension by €15 per week*

Qualified adult allowance

- *Increase lower rates by €16 per week*
- *Increase contributory pension rate by €13 per week*

ESRI research shows that increasing welfare rates is the key way to reduce poverty.¹ In Ireland, cash transfers are currently 20 per cent less effective in reducing poverty than the EU average².

The Government has set a target for welfare payments to reach at least €150 per week (2002 values) by 2007. Adjusting for inflation, there is a shortfall of between €9 and €17, while the shortfall for a wage-adjusted target is €26. Given the continued health of the public finances, we recommend an increase of €20 in the lowest welfare rates in Budget 2007.

The contributory pension is just short of the Government target of €200 per week. However there is a shortfall of €18 on the means-tested state pension. We believe that the €200 target should apply to both types of pension and recommend an increase of €18 per week in the non-contributory pension.

We recommend an increase of €15 per week for the contributory state and related pensions.

The amount received by spouses or partners of welfare recipients (Qualified adult allowance or QAA) is critical given the absence of individual entitlement in the Irish welfare system. This payment is currently 66 percent of the personal welfare rate. An official review of equivalence scales highlighted the inadequacy of this payment³ and in Budget 2002, the Government agreed to increase it to 70 percent. We propose that this target should be met over two years with an increase of €16 per week for most welfare categories in Budget 2007 and a €13 rise for the contributory pension.

¹ T Callan et al (2004) *Why is Relative Income Poverty so High in Ireland?* Dublin, ESRI.

² Eurostat (2005), *Income poverty and social exclusion in the EU25*. Statistics in focus. Population and social conditions.

³ *Report of the working group examining the treatment of married, cohabiting and one-parent families under the tax and social welfare codes* (1999), Dublin: Stationery Office

Child payments

Child benefit

- *Increase child benefit by €10 per month*

Early childcare Supplement

- *Increase the early childcare supplement by €1,000 per year for 3-4 year old children attending pre-school (maximum one year)*
- *Provide annual payment of €500 for children aged 6-12 years*

Child dependant allowance

- *Increase the two lower rates of child dependant allowance to the standard rate of €21.60 per week*
- *Introduce a higher CDA rate of €25 per week for children over 12*

Clothing and footwear allowance

- *Introduce two additional payments of €120 (< 12 years) and €190 (≥ 12 years), in December and in March*

Family Income Supplement

- *Increase the income threshold by €68 per week*

Delivery of child supports

- *Pay child benefit and the early childcare supplement fortnightly*
- *Make payment of Clothing and Footwear Allowance automatic for all recipients of means tested payments*

Combat Poverty supports universal child support payments as they deliver a larger proportionate gain to low-income households. Although the Government target of €150 per month has been met, we recommend continued investment in child benefit and propose an increase of €10 per month in Budget 2007.

We propose an increase in the Early Childcare Supplement (ECS) of €1000 per year for 3 to 4 year old children attending pre-school. Linked to this is the need to increase provision of pre-school education under the National Childcare Investment Programme.

We recommend that the ECS is extended to 6-12 year old children at a rate of €500 per year in recognition of continuing childcare costs for this age group.

Child support payments to welfare-dependent families vary according to age from a low of €20.40 per week for dependent children aged 19 to 21 years to a high of €72.75 per week for children under 6 years. An additional €12 per week is needed to bring the payment for older children up to 35 percent of the adult rate in line with National Anti-Poverty Strategy target.

Child dependant allowances (CDAs), as a result of being frozen in value since 1994, have fallen from 71 percent of the total child income support package to 30 percent in 2006. The bulk of child support is now employment neutral. We therefore believe it is timely to review CDAs as a targeted mechanism for supporting children at risk of poverty.

CDA rates currently differ depending on the welfare status of parents. This cannot be justified on the basis of need. We recommend that payments are standardised at €21.60 for all children aged 0–12 years with a higher payment of €25 for children over the age of 12 to compensate for the higher costs of older children.

The Clothing and Footwear Allowance is an effective, targeted mechanism to assist with child related costs at the start of the school year. We propose that the payment should be repeated in December and March.

We recommend two specific reforms in the delivery of child income supports: Firstly, the introduction of a fortnightly payment option for child benefit and the Early Childcare Supplement; and secondly, the automatic payment of the Clothing and Footwear Allowance to all welfare-recipients on means tested-schemes.

Welfare reform

Parental allowance

- *Introduce a new means-tested parental allowance (standard personal rate) for the principal carer in families with young children (< 8), replacing the One Parent Family Payment and the Qualified Adult Allowance.*

- Provide an earnings disregard of €120 per week, with tapered withdrawal of 40 per cent up to €400 per week

Means tests

- Increase the means disregard for state pension by €20 per week
- Increase the threshold for full rate Qualified Adult Allowance by €20 per week
- Increase the upper income ceiling for tapered Qualified Adult Allowance by €30 per week
- Increase the upper income ceiling for half-rate CDAs by €50 under Job Seeker's Benefit and Illness Benefit
- Increase the earnings disregard for the Supplementary Welfare Allowance rent/mortgage supplement to €100 per week, with tapered withdrawal of 50 percent up to €150 per week

Childcare costs

- Introduce a vouched childcare disregard of up to €100 per week (1 child) and €50 per week for each additional child, under all means-tested schemes, including FIS

Medical card and GP visit card

- Increase the thresholds for medical cards by €16 per week for a single person, €74 for a couple and €12 for each dependent child
- Reduce the expenditure threshold on the Drugs Refund Scheme to €50 for families with doctor-only medical cards

Savings

- Develop a pilot savings scheme for low-income households in conjunction with MABS

Reforms to the welfare system will ensure that it remains relevant to changing economic and social trends.

We support proposals in the Government Green Paper to replace the One Parent Family Payment

(OPFP) with a new parental allowance. This would facilitate lone parents to move out of poverty. Expanded childcare provision and enhanced support structures for lone parents to take up employment are critical to this reform.

We also recommend reforms to means tested welfare schemes to improve the financial position of low income households. This applies to the state pension, the income threshold for retention of the Qualified Adult Allowance and the earnings disregard for recipients of the Supplementary Welfare Allowance (SWA) rent and mortgage allowance.

A vouched childcare disregard of €100 per week under all means-tested schemes, including FIS, should be introduced to support participation of low-income families in employment.

Medical card thresholds should be significantly increased to enhance access to health and social services for poor families, particularly those with children. We also propose a lower expenditure threshold under the Drugs Refund Scheme for households with a GP Visit Card as this scheme is currently hampered by a lack of support with medicine costs.

As SSIs draw to a close, there is an opportunity to develop a targeted saving scheme for low-income households, similar to the *Savings Gateway*, a UK pilot scheme linked to a community financial and learning project.⁴ The proposed two-year scheme, run in conjunction with (MABS), would have the following components:

- a **savings** requirement of €1 to €5 per week or €5 to €25 per month
- a **top up** of €1 for every €1 saved, to a maximum of €600
- a **minimum savings period** of 6 months.

The cost of the scheme per 1,000 participants would be €1 million.⁵

⁴ Kempson et al (2005), *Incentives to save: encouraging saving among low income households. Final report on the Saving Gateway pilot project*. Personal Finance Research Centre, University of Bristol.

⁵ For more details, see 2005 Pre-Budget proposal from the MABS National Advisory Committee to the Minister for Social and Family Affairs for the introduction of a savings incentive scheme for low-income households.

Taxation

Income tax

- Increase PAYE tax credit by €82 per annum
- Increase personal tax credit by €90 per annum
- Widen tax band by €1,760 per annum
- Adjust all other credits and exemptions limits by 5.5 percent

Tax reliefs

- Monitor tax reliefs to ensure that high earners pay a minimum 20 percent rate of income tax
- Restructure state support for PRSA pension contributions as a matching 'tax credit'

Indirect taxes

- Ensure there is no increase in indirect tax rates

Tax policy should continue to reduce the tax burden on low-income households. Income tax reductions in Budget 2007 should be indexed in line with wage growth. This implies an annual increase in the PAYE tax credit of €82 and the personal tax credit of €90. The tax bands should be widened by €1,760 for a single person and pro-rata for other groups.

Tax expenditures (e.g. tax reliefs and incentives) reduce the fairness of the tax system and cost some €8.38 billion⁶. With total tax take close to €30 billion, there is potential to increase the tax base by up to 25 percent by reducing such expenditures.

All tax expenditures should be reviewed with a view to keeping the tax base as wide as possible. In cases where the retention of the scheme is deemed appropriate, caps or ceilings should be used to minimise deadweight loss.

Tax reliefs on pensions are inequitable, as they primarily benefit high income groups. Future state support for supplementary pensions should be focused on lower earners. Our proposal is for matching contributions for pension contributions in the form of a tax credit, as in the SSIA scheme.⁷

A cap on incomes for pension contribution could help to fund this.

Recent Combat Poverty⁸ research on indirect tax shows that low income households pay a significantly higher proportion of their incomes in indirect taxes than the most affluent households. Some pro-poor elements are built into the indirect tax system, but scope to make the indirect tax system more progressive is limited. We recommend that increases in indirect taxes should be avoided on equity grounds.

Fuel poverty

Fuel allowance

- Increase by €4

Energy-efficiency measures

- Increase coverage of the SEI Warmer Homes Scheme
- Enforce minimum standards of thermal efficiency in the private rented sector

Alternative energy sources

- Improve and taper subvention of the SEI Greener Homes Scheme
- Ensure that all social housing is fitted with alternative energy sources

Energy prices have risen significantly since 2002 and further increases are imminent. As price hikes continue, the number of households unable to adequately heat their home looks set to rise.

We recommend an increase in the standard-rate fuel allowance, of €4 to €18 per week (29 weeks per year). Payments should be offered at suitable intervals to prevent low income families running into debt or going without fuel. Public investment to alleviate fuel poverty has, to date, focused on current measures, such as fuel allowances. However a longer term view and capital investment is needed to tackle domestic energy inefficiency and eliminate fuel poverty. If this was done we believe

⁶ Department of Finance (2004a). *Tax Incentives/Expenditures and Broadening the Tax Base*, Tax Strategy Group Paper 04/22. Department of Finance: Dublin.

⁷ Pensions Board (2005), *National Pensions Review*, Dublin: author

⁸ Combat Poverty Agency (2006), *Promoting Equity in Ireland's Tax System*, Dublin

that over time the fuel allowance could be rolled back into mainstream welfare payments. Future savings on the cost of the scheme could then be reinvested in the continued roll-out of a capital expenditure energy-efficiency programme.

We recommend a substantial increase in capital investment programmes such as the Warmer Home Scheme operated by Sustainable Energy Ireland (SEI). This seeks to increase the thermal efficiency of housing among lower income groups, who typically cannot afford the cost of making their homes more energy efficient.

Another programme delivered by the SEI, the Greener Homes Scheme, aims to reduce domestic reliance on fossil fuels by allocating grants to homeowners who intend to install a renewable energy heating system in their home. In order to boost the take-up of alternative energy sources in low-income households, we recommend that funding under this scheme should be tapered so that low-income households get a higher subvention of the capital costs of fuel switching. In addition, strong consideration should be given to the incorporation of such technologies into planned new social housing schemes.

The level of fuel poverty among the private rented sector in Ireland is almost three times higher than that found among mortgage-holders, as there is little incentive for either landlords or tenants to invest in costly energy-saving measures. A regulatory approach is required to bring all private rented housing up to a minimum standard of energy efficiency. We recommend the introduction of a minimum thermal-efficiency standard, i.e. a 'U-value', enforceable by law.

Food poverty

- *Ensure welfare payments are adequate to meet costs of a healthy diet (see earlier recommendations)*
- *Ensure greater access to food retailers at local level, including discount stores*
- *Provide a €10 million fund to support alternative sources of healthy food for low-income*

households (e.g. community gardens, food cooperatives)

- *Provide daily hot school dinner (or equivalent) to all children from low income families under the School Food Programme*

Income constraints and limited access and availability of healthy food can make it extremely difficult for low income households to consume a healthy diet. One recent study estimates that households on welfare would have to spend between 38 and 80 percent of their weekly income to buy a healthy diet.⁹ This may be higher for those on special diets for medical reasons.

Food items are a significant component of higher inflation trends, reaching almost 10 percent in May 2006 (despite the abolition of the Groceries Order). A number of measures are needed to assist low-income households to benefit from price competition in the grocery trade including: enhancing access to discount and other food retailers at local level; ensuring availability of a greater selection of appropriately sized economy-line foods and enhancing transport facilities and/or free delivery of purchases. This will require action by local planning authorities, food retailers and national government.

Community initiatives in the UK and to a lesser extent in Ireland have proven to be effective in helping families on low-incomes to access sufficient and varied food to meet their requirements.¹⁰ These include food co-ops, community gardens, food banks and community cafes and are often located in areas of concentrated disadvantage with limited food outlets. We recommend a €10 million fund over three years to support such initiatives. Food producers and distributors should have a role in supporting these initiatives.

Low nutritional intake can affect children's capacity to learn and contribute to health complications, especially where associated with obesity. Combat Poverty recommends that the School Food Programme, which was introduced to address this issue, should provide a hot school dinner or its equivalent to all low-income children. This

⁹ S Friel et al (2004) *The Financial Cost of Healthy Eating in Ireland*, Combat Poverty Research Working Paper 04/01

¹⁰ Department of Health and Children (1999), *Building Healthy Hearts, Cardiovascular Health Strategy*, Dublin, Stationery Office

programme could be extended to all schools in the long-term, with a tiered payment scheme to minimise stigma, extend coverage and bring important health benefits for all school children. Capital investment and staff will also be required.

Waste collection charges

- *Introduce a national waiver system covering both private and public waste collection, implemented by local authorities and financially supported by a national waste collection levy.*

Wide disparities exist in the waste practices adopted by local authorities¹¹ and recent increases have put a significant financial strain on many low-income households. In 2005, Combat Poverty published guidelines for the implementation of a national waiver system for low-income households. We believe that waiver schemes should be implemented through local authorities, maintaining continuity with current practice. This policy should be supported through a central fund, which could be at least part-funded by a national waste management levy.

Cost of proposals

The cost of the Combat Poverty proposals for Budget 2007 is €2.36 billion. With the positive state of the public finances, this is an affordable package that is in line with the outturn in Budget 2006. It also avoids the dangers of an expansionary budget, which has been highlighted by some commentators.¹²

There are significant differences in how the package is allocated compared to Budget 2006. The amount proposed for social welfare increases is €173.5 million, or 18 percent higher than in Budget 2006. The allocation on child support is similar, though proposed spending on targeted payments is higher. The tax package is reduced by €211m (25 percent) against Budget 2006, as the proposed tax changes are capped at wage-indexation.

¹¹ Combat Poverty Agency (2005), *Implementing a Waiver System. Guidelines for local authorities.*

¹² ESRI *Quarterly Economic Commentary*, Summer 2006

¹³ The SWITCH tax/welfare model is based on a nationally representative sample of households. For further information on the model and its use as a tool for analysing tax/welfare policy, see T Callan et al, 2001 *Reforming tax and welfare*, Dublin: Economic and Social Research Institute. SWITCH is a well-established policy tool for analysing the first round effects of tax and welfare policies, which is used by the Departments of Social and Family Affairs and Finance, including the poverty proofing of the Budget.

Distributive and poverty impact of proposals

The distributive analysis of our proposals is carried out using the ESRI tax/welfare model, SWITCH, which takes into account variations in individual and family circumstances relevant to tax liabilities and welfare entitlements.¹³ Diagram 1 outlines the distributive impact of our proposals for the population divided into 10 equally sized income groups. This is benchmarked against a wage-indexed 'neutral' budget whereby welfare payments and tax/credit bands are assumed to increase in line with wage growth for 2007 (5.5%). The additional amount available for redistribution in our proposals is €750 million.

Our proposals provide for an average gain in disposable household income of 1 percent, the cash equivalent of €6.50 per income-sharing unit. However, because of the welfare and child focus in the proposed budget, the gain is concentrated towards lower income households, with the poorest decile getting a 6 percent increase, the equivalent of €11.30 per week. The second to fourth poorest deciles also get an above average increase, of between 2.5 and 4 percent (cash increases of between €11 and €12). By contrast, the richest four deciles benefit marginally from the budget proposals, with modest cash increases of between €1 and €2.50 per week. Households with children do better than those without children. This is especially the case in non-working families, whose income rises by between 7 and 9 percent. Unemployed people and retired households also do better.

Diagram 1: Distributive impact of Combat Poverty 2007 Budget proposals, benchmarked with wage-indexed budget (+5.5%)

(% gain by equivalised disposable income per decile)

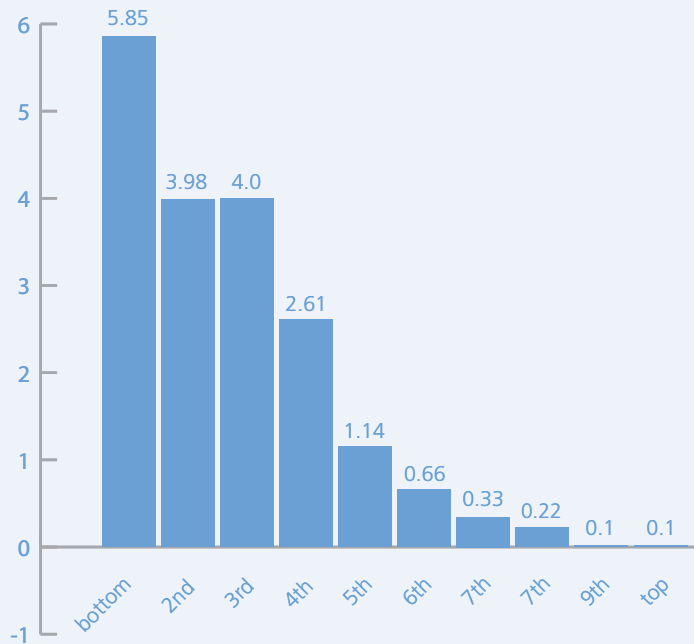
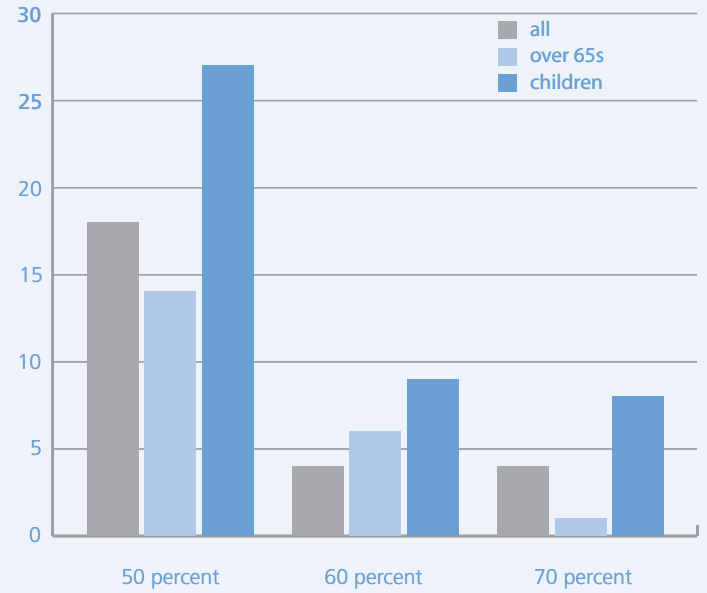


Diagram 2 outlines the impact on relative income poverty of our proposals. Looking first at the number of people in poverty, there is a reduction at each of the three income thresholds, ranging from 18 percent at the 50 percent threshold to 4 percent at each of 60 and 70 percent thresholds.¹⁴ In terms of the extent to which people are below each of the poverty lines, this has also declined, by between 9 and 20 percent. We can also break down the analysis to examine vulnerable sub-groups, notably the elderly and children. For older people, the poverty risk falls by 14 percent at the 50 percent line, and 6 percent and 1 percent at the higher lines. The impact is higher again for children, with a reduction of 27 percent at the lowest line, and 9 and 8 percent at the higher lines.¹⁵

Diagram 2: Impact on relative income poverty of Combat Poverty 2007 Budget proposals, benchmarked with wage-indexed budget (+5.5%)

(% fall in persons, older people and children below median income thresholds)



Conclusion

This submission argues that poverty – income and deprivation – should be the policy priority in Budget 2007. Combat Poverty’s budget package of €2.36 billion is affordable given the government finances. As well as directly boosting households on low-incomes, the measures will have a wider social benefit in addressing the underlying causes of poverty. The outcome of the budget proposals is a substantial reduction in relative income poverty, especially for older people and children, which will assist in Ireland meeting its shared EU objective of making a decisive impact on poverty by 2010.

¹⁴ The median income is the adult equivalent of €433 per week, equal to €216.5, €260 and €303 at each of the three income thresholds.

¹⁵ In terms of absolute change, the overall fall is between 0.7 and 1.4 percentage points. For older people, it is between 0.6 and 2.3 percent and for children, between 1.2 and 2 percent.



**Combat Poverty
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