Making poverty the policy priority in Budget 2007

Submission to the Minister for Social Affairs and the Government

October 2006

Summary of proposals, beneficiaries and costs[1]

Issue	Proposal	Beneficiaries	Cost (€m)
	Welfare payments		
Personal rates	- Increase lowest rate payments by €20 per week - Increase non-contributory state pension and related payments by €18 per week - Increase contributory state and related pensions by €15 per week	564,160 97,220 313,120	879
Qualified adult allowance	- Increase lower rate by €16 per week - Increase contributory allowance by €13 per week	82,395 35,580	86
	Child payments		
Child benefit	- Increase by €10 per month	1,144,500	139
Early childcare supplement	- Increase by €1,000 per annum for children aged 3-4 years attending pre-school (one year only) - Provide annual payment of €500 for children aged 6 to 12 years	61,450 338,570	61 169 .
Child dependant allowances	- Bring up the two lower rates of child dependant allowance to the standard rate of €21.60 per week - Pay higher rate of €25 per week for children aged 12 years +	255,230 107,720	50 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	- provide the option of getting child benefit and the early childcare supplement on a fortnightly basis for low-income families - pay the clothing and footwear allowance automatically to all recipients of means-tested payments	Existing recipients	minimal
	Welfare reform		
Parental allowance	- Introduce new means-tested parental allowance (at standard personal rate) for the principal carer in families with young children (under 8 years), replacing the One Parent Family Payment and the qualified adult allowance under various means-tested schemes - 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 the 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 to a half-rate child dependant allowance 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 each additional child), under all means-tested schemes, including FIS	Not available	Not available

[1] Costings and number of beneficiaries, where available, are provided by the Department of Social and Family Affairs and the Department of Finance.

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 families holding a doctor-only medical card	) not) available)	Not available
Savings scheme	- Introduce a pilot savings scheme for low-income households as part of debt recovery programme, in conjunction with the Money Advice and Budgeting Service	1,000 initially	0.6
	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 exemption limits by 5.5 percent		677
Tax reliefs	- Monitor reform of tax reliefs and ensure that higher earners pay a minimum 20 percent rate of income tax - Restructure state support for PRSA pension contributions to a matching 'tax credit'	Not available	Not available
Indirect taxes	- Ensure there is no increase in indirect tax rates		
	Fuel poverty		
Fuel costs	- Increase the fuel allowance by €4 per week	266,000	31
Energy-efficiency	- Increase investment in the SEI Warmer Homes Scheme; - Enforce minimum standards of thermal efficiency in the private rented sector	Not available	5 Not available
Alternative energy	- Taper subvention of the greener homes scheme towards low-income households; - Ensure all new social housing is fitted with alternative energy sources	Not available	Not available
	Food poverty		
Food costs	- Increase welfare payments (as above) - Improve access to food retailers at local level, including discount stores		As above
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, with option of universal provision with tiered payment structure	200,000	10 10 estimate
	Waste charges		
Waiver system	- Introduce a national waiver system covering both public and private waste collection, to be implemented by local authorities and supported financially by a national waste collection levy	Not available	Not available

Details of the changes in welfare rates and child income support is contained in annex A, including some illustrative examples.

1. 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 make an impact on poverty, both though income distribution and targeted measures. The theme of the submission, *Making poverty the policy priority in Budget 2007*, is appropriate as Budget 2007 marks the completion of the 10 year National Anti-Poverty Strategy. At the same time, Budget 2007 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, with the aim of making a decisive impact on poverty by 2010.

It is important that Budget policy focuses on income poverty (or 'risk of poverty'). Income poverty is one component of the official consistent poverty measure. From a policy perspective, the government is committed to providing levels of income support sufficient to sustain dignity and avoid poverty. At the EU level, income poverty is the key measure for monitoring progress by member states in making a decisive impact on poverty.

Ireland's rate of income poverty is significant, with a fifth of the population below the 60 percent median threshold (in 2004 cash terms €185.51 per individual per week). It has remained at this high level despite the growth in average incomes over the last decade. In European terms, Ireland has one of the highest rates of income poverty, being 30 percent more than the European norm. There are specific concerns relating to our high income poverty rate:

- long periods of income poverty may result in a higher exposure to basic deprivation over time, especially as societal expectations increase;
- strengthened link between income poverty and general welfare dependency, which is less amenable to 'employment' solutions;
- a significant proportion of those in income poverty are at work (17 percent), which highlights an emerging problem of the working poor.

Combat Poverty sees a key role for the Budget in redistributing public resources in order to reduce income poverty. This outcome is central to the design of the proposed budget package, especially its pro-welfare focus. It also distinguishes our proposals from a conventional budget package.

The surplus exchequer finances arising from economic growth create a policy opportunity to prioritise poverty, without having to extract resources from other sections in society. In this context, the submission assumes a tax/welfare budget package of €2.4 billion, which is in line with Budget 2006. Almost half of this is devoted to welfare improvements, with a further 23 percent allocated to supports for children. This enables significant improvements in the cash transfers received by low-income households. A final 29 percent of the Budget package is provided for tax reductions, in order to ensure that tax credits and bands are indexed in line with wage growth.

In allocating resources to welfare recipients and children, the submission seeks to maximise the impact of this expenditure on labour market activation and educational attainment. The submission also addresses some structural issues highlighted by rising living costs, such as fuel poverty, food poverty and waste charges, which impact in a major way on low-income households. On the tax side, the objective is to foster greater equity.

2. Budget proposals

2.1 Welfare payments - Recommendations

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

Welfare payments are the primary policy mechanism for redistributing resources to low-income households. EU data illustrate the importance of cash transfers in reducing income poverty. Through cash transfers, income poverty in the EU falls from an average of 40 percent to 16 percent (a decline of three-fifths). Generally, countries with higher average living standards are better placed to reduce income poverty. This is not the case in Ireland, as cash transfers reduce poverty by two-fifths, from 38 percent to 23 percent.[2] An insight into how a strengthened system of tax/welfare transfers could reduce income poverty in the Irish context is demonstrated in an ESRI report on comparative poverty rates.[3] This shows that in order to achieve the low poverty rates prevailing in Denmark, a similar country to Ireland in size and living standards, higher welfare rates are the key policy factor.

While not explicitly embracing income poverty as a policy driver, the Government has set a target for welfare payments to reach a minimum of €150 per week (2002 values) by 2007. Using inflation to uprate, a figure of between €9 and €17 is required in Budget 2007. A wage-adjusted target would require an increase of €26. Given the continued health of the public finances, there is ample opportunity to maximise the level of welfare increase in Budget 2007. A realistic outcome is an increase of €20 in the lowest welfare rates, which would be in line with the 11 percent increase in Budget 2006.

In regard to pensions, the government target is €200 per week. The contributory pension is just short of this figure. However, a significant gap of €18 exists on the means-tested state pension. Combat Poverty believes that the €200 target should apply to both the contributory and non-contributory pensions. Therefore, an increase of €18 per week is proposed in the non-contributory state pension. For other welfare categories, an increase of €15 per week is recommended, in line with Budget 2006.

A frequently neglected aspect of welfare adequacy is the amount paid to the spouses or partners of welfare recipients (referred to as the qualified adult allowance, QAA). Currently, an additional adult receives 66 per cent of the personal rate, on the basis of economies of scale where two adults live together. An official review of equivalence scales has indicated that the additional payment for a second adult is too low to ensure comparable living

[2] Eurostat (2005), *Income poverty and social exclusion in the EU25*. Statistics in focus. Population and social conditions.
[3] T Callan et al (2004), *Why is relative income poverty so high in Ireland?* Dublin: ESRI

standards with single adult households.[4] In line with this finding, the government agreed in Budget 2000 to increase the qualified adult allowance to 70 per cent of the personal rate. Combat Poverty proposes that this target should be achieved over a two year timeframe. For 2007, a flat rate increase of €16 per week in the qualified rate is proposed for most welfare categories, with a €13 rise for contributory pensions.

2.2 Child payments - Recommendations

Child benefit

- Increase child benefit by €10 per month

Early childcare supplement

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

Child dependant allowance

- Bring up 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 aged 12 years +

Clothing and footwear allowance

- Introduce two additional equivalent 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

- Provide the option of getting child benefit and the early childcare supplement on a fortnightly basis for low-income families
- Pay the clothing and footwear allowance automatically to all recipients of means-tested payments

In recent years, child income support has increased significantly through the increase in child benefit and, in 2006, the introduction of a new universal payment for children under 6 years. Combat Poverty supports this approach as it ensures the largest proportionate gain for low-income households, while reaching all children. Government should continue to invest in child benefit, though its original 2003 target of €150 per month was met in Budget 2006. A further increase of €10 per month is proposed in the forthcoming Budget.

The early childcare supplement was introduced in Budget 2006, with the suggestion that it would be increased in successive budgets. In order to maximise its impact for children, it is proposed that a double payment be made for children between the ages of 3 and 4 years who attend pre-school for a period of one year. Such a linkage was originally advocated by the Commission on the Family in 1998.[5] This intervention would also support the

[4] *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
[5] Commission on the Family (1998), *Strengthening families for life*, Dublin: Department for Social, Community and Family Affairs. The commission proposed a £1,000 (€1,270) per

Barcelona commitment to increase access to pre-school for 90 percent of children, a target re-iterated in the new social partnership agreement. From a poverty perspective, pre-school education is a critical intervention in breaking the intergenerational cycle of poverty.[6] In support of this demand-side measure, there is a need to enhance the provision of pre-school education as outlined by the National Economic and Social Forum.[7] The government commitment to provide 10,000 pre-school places under the National Childcare Investment Programme should be expedited, using a range of existing models, such as Early Start, community playgroups, daycare services and private pre-schools, and incorporating international best practice.

A further reform in the early childcare supplement would be to extend the payment to children aged 6 to 12 years, in recognition of the continued childcare costs for this age category. This approach is supported by the findings of the recent Combat Poverty study on the duration of child poverty, which suggest that children in this and younger age categories are more likely to experience extended periods in poverty.[8] It is proposed therefore that the supplement is extended to children up to the age of 12 years, at a rate of 50 percent of the payment for children aged 0-6 years (ie €500 per annum).

Turning to the position of welfare-dependent families, Table 1 outlines the variable level of payment depending on the age of the child. This varies by a factor of 3.6, from a low of €20.40 for children aged 19 to 21 years to a high of €72.75 for children less than 6 years.

Table 1: The value of child income support by age*[9]*
(standard rates in weekly € equivalent)

Age	CDA	CFA	CB	ECS	Total	% of adult rate
0-5 yrs	16.80	2.30	34.50	19.15	72.75	44%
6-11 yrs	16.80	2.30	34.50	-	53.60	32%
12-18 yrs	16.80	3.60	34.50	-	54.90	33%
19-21 yrs	16.80	3.60	-	-	20.40	12%

This pattern whereby older children receive significantly less than younger children can be questioned on two counts. First, the payments for older

annum ‘early years opportunities subsidy’ for children from three years to commencement of primary school. The subsidy would be centred on the child and directly related to the purchase of early childhood education services.

[6] P Hoelscher (2004), *Preventing and reducing child poverty*, Brussels: European Commission, DG Employment and Social Affairs

[7] National Economic and Social Council (2005), *Early childhood care and education*, Dublin NESF

[8] Combat Poverty Agency (2006), *Tackling child poverty: a dynamic perspective*, Dublin: Combat Poverty

[9] CDA = child dependant allowance (basic rate is €16.80 per week; higher rates are €19.30 and €21.60); CFA = clothing and footwear allowance (standard rate is €120 pa for children aged 2-11 years or €2.30 per week; rate for 12-22 years is €190 pa or €3.60 per week) CB = child benefit (standard rate is €150 monthly or €34.50 per week; rate for 3rd + child is €185 monthly or €42.50 pw); ECS - early childcare supplement (rate for all children under 6 is €250 every three months, or €19.15 per week).

children are now below the threshold of 33-35 percent of the adult payment, set by Government in the National Anti-Poverty Strategy (equivalent to €4 per week in cash terms). Assuming a further significant increase in the adult rate in Budget 2007, an increase of €12 per week will be required in the value of child supports to reach the threshold of 35 percent for older children. Second, in comparison with updated estimates of the cost of a child, the shortfall for older children is over €16 per week.[10]

To achieve these rates, Combat Poverty believes that targeted measures should be used, both the child dependant allowance (CDA) and the clothing and footwear allowance. In recent years, reform of CDAs has been stymied by government policy which has prioritised child benefit while freezing CDA rates at 1994 values. As a result, the proportion of the child income support package accounted for by CDAs has fallen from 71 percent to 30 percent in 2006. Furthermore, the value of CDAs relative to the adult payment has fallen significantly, from 22 percent in 1994 to 10 percent at present. Consequently, the bulk of child support is now employment neutral. It is therefore appropriate to revisit the CDA rate as a targeted mechanism for supporting children at risk of poverty. Two main reforms are proposed.[11]

The first reform is in regard to the three rates of CDA for welfare-dependent families, ranging from €16.80 to €21.60 depending on the welfare status of parents. This differential of €5 or 30 per cent between the three rates cannot be justified on the basis of the needs of the child. Combat Poverty proposes that the three rates of CDA are standardised at the highest rate for all welfare recipients, ie €21.60.

A second suggestion is to adjust the CDA rate to compensate for the higher costs of rearing older children. There is already recognition of the higher costs of older children under the clothing and footwear allowances. Having a higher rate of CDA for older children extends this perspective into the mainline welfare system. The CDA rate for children aged 12 years and over should be raised to €25 per week in Budget 2007 as a first step.

Another targeted mechanism for low-income children is the clothing and footwear scheme, which provides a valuable lump-sum for families to assist with the school-related costs of children. Combat Poverty believes that this scheme should be repeated on two more occasions in the school year, with the suggestion of December and March as appropriate times.

The means-tested scheme for supporting working families is the family income supplement. The income thresholds for this scheme should be increased by €63, to maintain current work incentives.

Turning now to the delivery of child income supports, Combat Poverty has identified two areas for reform. The first is the frequency of the universal payments such as child benefit and the early childcare supplement. This is of particular relevance for low-income households, who depend more on these

[10] This is based on adjusting by inflation the original estimates in the 1994 Combat Poverty report (E Fitzgerald et al, 1994, *The cost of a child*, Dublin: Combat Poverty).
[11] A more radical reform of CDAs, which would combine them with the family income supplement into a second-tier child benefit, is under consideration by the NESC. The proposals made here are not contrary to this wider reform.

payments to meet basic needs and who tend to budget on a weekly basis. Combat Poverty believes that there should be the option of claiming child benefit and the early childcare supplement on a fortnightly basis, as is the case in the United Kingdom.

The clothing and footwear allowance remains a distinct administrative scheme under the Supplementary Welfare Allowance, with its own separate application procedure and administration structure. This duplication is wasteful for welfare recipients on means-tested schemes. A simpler approach would be to confer automatic entitlement to this category, on the basis of a passport system. A similar entitlement could be provided under other school-related schemes, such as the school books and the school meals schemes.

2.3 Welfare reform - Recommendations

Parental allowance

- Introduce a new means-tested parental allowance (standard personal rate) for the principal carer in families with young children (up to age 8), replacing the One Parent Family Payment and the qualified adult allowance under various means-tested schemes
- 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 earnings threshold for entitlement to the 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 a 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 earnings disregard for vouched childcare costs of up to €100 per week (1 child) and a further €50 per week for each additional child, under all means-tested schemes, including FIS

Medical card and GP visit card

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

Savings

- Introduce a pilot savings scheme for low-income households as part of a debt recovery programme, in conjunction with MABS

Combat Poverty recognises the importance of welfare reform if the system is to keep up-to-date with changing social and economic trends. This submission identifies a number of reforms for consideration in Budget 2007. The primary reform is in the One Parent Family Payment (OPFP). Combat Poverty supports the proposals in the government green paper on the replacement of the OPFP with a new parental allowance. This would remove a major barrier to lone parents in establishing adult relationships. It is also designed to support the significant minority of lone parents (40 percent) who do not currently access employment. Other key features of the reform are the expanded provision of childcare and the development of support structures for lone parents to take up employment.

There is a number of reforms of means-tested welfare schemes which could improve the financial position of households. These relate to the means-test for the state pension, the income threshold for retention of the qualified adult allowance and the earnings disregard for recipients of the rent and mortgage allowance under Supplementary Welfare Allowance. The introduction of an earnings disregard for vouched childcare costs under all means-tested schemes, including family income supplement, would support low-income families to participate in the labour market (€100 for the first child, €50 for next). This would be in keeping with the revised means test for the GP visit card.

The medical card is a key instrument for providing access to health and social services for poor children. However, eligibility is restricted by the income thresholds under the scheme, especially for households with children. A significant increase in these thresholds is proposed, especially as they relate to couples and those with children. The GP visit card was introduced to provide some support with health costs to low-income working households. However, the lack of any assistance with the costs of prescribed medicines is a drawback with this card. To address this issue, it is proposed that households in receipt of the doctor-only cards should have a lower expenditure threshold under the Drugs Refund Scheme (eg €50 per week).

The Government has promoted a 'savings culture' through the savings incentive scheme. This scheme has been criticised as not being relevant to low-income households. Now that the SSIA scheme is coming to an end, there is an opportunity to develop a targeted scheme for low-income households, at a fraction of the cost of the original scheme. The UK government has piloted a similar scheme called the Savings Gateway, linked to a community financial and learning initiative, with positive results.[12] The introduction of a savings scheme on a pilot basis in conjunction with MABS is proposed. The proposed two-year pilot scheme has 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 €0.6 million.[13]

[12] E 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.

[13] 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.

2.4 Taxation - Recommendations

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 reform of tax reliefs and 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', as applies in the SSIA scheme

Indirect taxes

- Ensure there is no increase in indirect tax rates

The taxation system is one of the main mechanisms to ensure a more equal society. Government policy should continue to maximise the progressivity of the income tax system by prioritising tax reductions which favour lower-income households. For Budget 2007, it is proposed that income tax reductions should be indexed in line with wage growth. This would imply an increase in the PAYE tax credit by €82 per annum and the personal tax credit by €90 per annum. The tax bands would be widened by €1,760 per annum for a single person and pro-rata for other groups.

A neglected aspect of the taxation system is tax expenditures such as tax reliefs and incentives, which play a considerable part in reducing the fairness of the system. Tax expenditures are also expensive, equating to some €8.38 billion, according to the Tax Strategy Group[14]. Bearing in mind that the income tax take is around €10 billion and the total tax take is close to €30 billion, there is potential scope for the total tax base to be increased by up to 25 percent in monetary terms if tax reliefs and expenditures were abolished. Closing these tax loopholes and widening the tax base would provide opportunities to reduce both direct and indirect taxation and enhance progressivity further.

Combat Poverty welcomes the outcome of the recent review of tax reliefs and exemptions for high earners announced by the Minister for Finance in Budget 2006, in particular the decision to cap reliefs and to discontinue property-based schemes after 2007. The implementation of these decisions should be closely monitored. Combat Poverty recommends that other tax expenditures should also be reviewed. Even where tax expenditures are seen as economically or socially beneficial, their feasibility should be kept under scrutiny in the context of the overall taxation system and the need to keep the tax base as wide as possible. Caps are a good way of minimising the deadweight loss where there is some societal gain demonstrated in a scheme's retention.

Tax reliefs on pensions have a strong inequity effect, as they benefit primarily those in the top income quintile. Using 2000 data, it has been shown that 65 percent of employees and 78 percent of those self-employed in the top

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

income quintile claim tax relief on private pensions, while less than 3 percent of employees and virtually no self-employed individuals in the bottom income quintile avail of such reliefs.[15] Combat Poverty supports the view of the National Pensions Review that state support for supplementary pensions should be focused on medium to lower earners. One way to achieve this is to provide a matching state contribution for PRSA personal contributions in the form of a tax credit, as applies in the SSIA scheme. The cost of this measure could be recouped by imposing a cap on tax relief for pension contributions.[16]

Recent research undertaken by Combat Poverty demonstrates the regressive nature of the indirect tax system.[17] Households in the lowest decile pay a higher proportion of their incomes in indirect taxes relative to households in the higher deciles. Using rates of VAT and excise rates for 2004, the estimates suggest that indirect tax payments for households in the lowest decile amounted to 21 percent of income, while the corresponding figure at the highest income decile was 10 percent. There are some pro-poor elements built into the indirect tax system, eg the exemption of food, the taxing of fuel at the lower VAT rate, and the non-taxing of children's clothes and footwear.[18]

The scope to reform the redistributive effect of the indirect tax system is limited. The main problem is that very few items are bought exclusively by either low-income or high-income households. If there were identifiable 'luxury' commodities that were bought exclusively by the more well-off, then a high indirect tax could, theoretically at least, be placed on such items in an effort to raise revenue equitably. Alcohol and tobacco is one commodity group that is consumed proportionately more by low-income households. However, reducing taxes on such items to improve the progressivity of indirect taxation would produce perverse incentives and result in adverse health effects. Reducing the rates of VAT and excise duty could improve the progressive nature of the indirect tax system. However, economic theory suggests that the impact of such tax cuts would not be fully passed onto the consumer, but instead would be absorbed by the retailer in an effort to maximise profits. Thus, once indirect taxes are raised, it is very hard to claw back and reduce these taxes. Therefore, Combat Poverty recommends that further increases in indirect taxes should be avoided on equity grounds.

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[15] G Hughes. (2005). 'Pension tax reliefs and equity', in J Stewart (ed). *For richer, for poorer: an investigation of the Irish pension system*, Dublin: TASC/New Island Press.

[16] Pensions Board (2005), *National Pensions Review*, Dublin: author

[17] Combat Poverty Agency (2006), *Promoting equity in Ireland's tax* system, Dublin: Combat Poverty

[18] The study indicates that excise duty is proportionately more regressive than VAT, with the poorest income decile spending 130 percent more than the richest income decile, as a proportion of household income, on excise duty (2004 data). The equivalent figure for VAT is 112 percent. In overall terms, the poorest tenth of households spend 117 percent more than the richest tenth, as a proportion of income, on total indirect taxes. Furthermore, time-series data indicate that the proportion of household income spent in low-income households on VAT and excise payments is increasing over time. The lower (13.5 percent) rate of VAT is almost twice as regressive as the standard 21 percent rate – the poorest income decile spend 177 percent more that the richest decile on the lower VAT rate, as a proportion of household income, compared to 98 percent at the higher rate. This is because low-income households consume more goods, as a proportion of income, at the reduced VAT rate.

2.5 Fuel poverty - Recommendations

Fuel allowance

- Increase by €4 to €18 per week

Energy-efficiency measures

- Increase investment in the SEI Warmer Homes Scheme by €5 million;
- Enforce minimum standards of thermal efficiency in the private rented sector

Alternative energy sources

- Taper subvention under the SEI Greener Homes Scheme towards low-income housheolds;
- Ensure that all social housing is fitted with alternative energy sources

Fuel poverty refers to the inability of households to adequately heat their home. Depending on definitions, fuel poverty affects between 14 percent and 17.4 percent of households.[19] Fuel poverty is a phenomenon experienced in private and social housing alike. As energy prices continue to soar, and are unlikely to fall back to historical levels, the number of households experiencing fuel poverty is set to rise. Energy prices have risen 33 percent in the four-year period, January 2002 to December 2005. In addition, there will be a gas price hike of 34 percent from October 2006 and an electricity price rise of 13 percent in early 2007.

The main mechanism to support low-income households with higher fuel costs is the fuel allowance. Combat Poverty proposes an increase in the standard-rate fuel allowance, currently €14 per week for 29 weeks, to €18 per week (a 29 percent increase), in recognition of the significant rise in household fuel costs experienced during 2006 and forthcoming in 2007. It is also recommended that payment of the allowance be offered either on a weekly basis, as is the current situation (to aid those who buy solid fuels on a weekly basis), monthly or bi-monthly (for those who use natural gas) or twice yearly (for those with oil-fired systems). This would enable low-income households to manage their finances better and avoid going without fuel or running into debt.

The balance of public investment in fuel poverty alleviation measures heretofore has been firmly in current measures, such as fuel allowances. This does not tackle the underlying issue of domestic energy inefficiency, which requires capital investment. In general, low-income householders are unable to afford the capital investment measures that would improve the energy efficiency of their homes**.** The Low Income Housing Programme, operated by Sustainable Energy Ireland (SEI), implements a national plan of action to systematically address the problem of fuel poverty. Core delivery of the programme is through the Warmer Homes Scheme, which aims to improve the energy efficiency and comfort conditions of homes occupied by low-income households**,** and to increase the capacity to install such

[19] Data from the 1999/2000 CSO Household Budget Survey indicate that 14 percent of households experience fuel poverty, as measured by households spending more than 10 percent of gross income on fuel and light; this rises to 21 percent if the calculation is based on disposable (rather than gross) household income. A middle-bound figure of 17 percent is produced for 2001 based on a national household survey in which fuel poverty is self-reported (see J D Healy (2004), *Housing, fuel poverty and health: a Pan-European analysis*, Ashgate: Aldershot and New York).

measures. The focus is on privately owned and rented homes.[20] The Low-Income Housing programme has a designated budget of €7.6m over the five-year period of the National Development Plan. This is 34 percent of the expenditure on fuel allowances in 2005.

Combat Poverty believes that a long-term view should be adopted in terms of combating fuel poverty. This requires investment in the housing stock to bring all housing to a minimum standard of energy efficiency. Combat Poverty recommends a substantial increase in the Warmer Homes Scheme in order to improve in the thermal standard of housing among low-income groups.[21] Many studies have demonstrated that larger retrofitting programmes have lower marginal costs because of improved economise of scale, so there is a multi-faceted economic rationale associated with increasing the scale of such projects. In time, the fuel allowance could be rolled back or streamlined into mainstream welfare payments. The forgone current expenditure cost of the fuel allowance scheme could be 'revenue recycled' for the continued roll-out of a capital expenditure energy-efficiency programme.

The Greener Homes Scheme, also administered by SEI, provides assistance to homeowners to purchase renewable energy heating system (e.g. solar power and wood-pellet burners) for either new or existing homes. The proposed budget allocation for this scheme in the residential sector is €25m over five years. This scheme aims to make the residential sector less reliant on fossil fuels through fuel-switching measures and use of renewable-energy technologies, such as solar power. This objective is especially relevant to households experiencing fuel poverty, who tend to be more reliant on fossil fuels, including those with the greatest pollution effect. In order to boost the take-up of alternative energy sources in low-income households, Combat Poverty proposes that the level of assistance 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 social housing schemes currently at the planning stage.

The level of fuel poverty in the private rented sector is almost three times higher than that found among mortgage-holders. Because the owner of rented accommodation does not occupy the dwelling, landlords have little incentive to invest in costly energy-saving measures for the benefit of tenants and tenants have little incentive to purchase costly energy-saving technologies that will remain in the dwelling after they have moved on, nor are they generally authorised to do so. Consequently, a regulatory approach is required to improve energy-efficiency standards in this sector. Combat Poverty recommends that minimum standards of energy/thermal efficiency be applied to all private rented housing. A minimum thermal-efficiency standard, i.e. a 'U-value', could be adopted and enforced by law via inspection.

[20] SEI and Combat Poverty are undertaking an action research project to monitor the outcomes of the Warmer Homes Scheme, which is supported by government departments.
[21] There is a separate investment programme for local authority homes, the Local Authority Central Heating Schemes. Some €35m has been earmarked under this programme in 2006, allowing more than 9,000 houses to be provided with central heating under the programme. Further expansion of this programme should also be considered.

2.6 Food poverty – Recommendations

- Ensure welfare payments are adequate to meet costs of a healthy diet (see earlier recommendations on welfare and child payments)
- Improve 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 (eg community gardens, food cooperatives)
- Provide a daily hot school dinner (or equivalent) to all children from low income families under the school food programme, with option of universal provision based on a tiered payment structure

Diet and nutrition are key determinants of population health. Consumption of a healthy diet poses particular problems for low-income households. Research by Combat Poverty and the Department for Social and Family Affairs highlights the financial and other constraints in accessing healthy food.[22] One study estimates that households on welfare would have to spend between 38 and 80 percent of the weekly income to buy a healthy diet. This is another rationale for significant increases in welfare and child support payments in Budget 2007, as outlined above.

There has been a lot of public debate on the cost of grocery items in Ireland, relative to EU countries. Food items are a significant component of higher inflation trends, representing almost 10 percent of the annual rate in May 2006 (despite the abolition of the Groceries Order). Combat Poverty believes that more can be done to ensure the low-income households benefit from price competition in the grocery trade, by improving access to discount and other food retailers at the local level. A greater selection of appropriately sized purchasable quantities of economy-line foods is needed, as is accessible transport and/or free delivery of purchases. This will require action by local planning authorities and food retailers, supported by national government.

Another constraint on the consumption of a healthy diet is the restricted availability of healthy foods for low-income groups. There is a role for public intervention in the provision of healthy food for low-income consumers, especially in areas of concentrated disadvantage which often have limited food outlets. Various official health reports have advocated pilot community projects with families on low-income to enable them to provide sufficient and varied food to meet their requirements.[23] Community action can be part of an inclusive approach to addressing both poverty and the wider food system. In the UK, there is an extensive network of community food initiatives, including food coops, community gardens, food banks and community cafes. There are also some emerging examples in Ireland, such as the Southill Food Coop in Limerick. To support the development of these initiatives, Combat Poverty proposes that a €10 million fund is established over a three year period. Food producers and distributors should have a role in supporting these initiatives.

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[22] S Friel et al (2004), *The financial cost of healthy eating in Ireland*, Combat Poverty Agency Working Paper 04/01, available at www.combatpoverty.ie/publications/workingpapers.htm . M Cullen (2006), *Examination of the cost of healthy eating and specialised diets for a single individual in Ireland*, Report prepared for the Department of Social and Family Affairs

[23] Department of Health and Children (1999), *Building Healthy Hearts, Cardiovascular Health Strategy*, Dublin: Stationery Office

The issue of food poverty is especially relevant to school-going children, because of the negative effect of inadequate nutritional intake on children's capacity to learn. It can also contribute to health complications, especially where associated with obesity. The school food programme was introduced to address this issue. However, the take-up of the programme is limited by a number of factors. Combat Poverty recommends that the school food programme should provide a hot school dinner or its equivalent to all low-income children. This programme could be extended to all schools in the long-term, with a tiered payment scheme. This would minimise stigma and reach out to a wider category of low-income children, as well as bringing important health benefits for all school children. It should also be accompanied by a whole school community approach to healthy eating and recreation.

2.7 Waste collection charges - Recommendations

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

Waste collection charges have increased in recent years as the government implements the polluter pays principle. There is widespread concern that these charges are impacting most severely on low-income households. A study by Combat Poverty has shown wide variation in the waste charging practice of local authorities. In response, Combat Poverty has recommended best practice guidelines for the implementation of a national waiver system for low-income households.[24] It also proposes the optimum way to deliver such a waiver system is through local authorities, especially as this would maintain continuity with current practice. Combat Poverty proposes that this policy is supported in Budget 2007 through a central fund, which could be at least part-funded by a national waste collection levy.

3. Cost of proposals

We now look at the overall cost of the proposals for Budget 2007, which is based on official sources. Table 2 shows the total cost of the Combat Poverty proposals for Budget 2007 is €2,355.5 million, which is in line with the out-turn in Budget 2006. This equivalent amount, together with the positive state of the public finances, is a realistic and affordable package for Budget 2007. It also avoids the dangers of an expansionary budget, which has been highlighted by some commentators.[25]

There are significant differences in how the package is divided compared to Budget 2006. The amount spent on social welfare is up by €173.5 million, or 18 percent more than in Budget 2006. The allocation on child support is similar, though the Combat Poverty proposals spend more on targeted payments compared to last year. The tax package is reduced by €211m or a quarter compared to Budget 2006. This is because the Combat Poverty tax changes are capped as wage-indexation (+ 5.5 percent).

[24] Combat Poverty Agency (2005), *Implementing a waiver system. Guidelines for local authorities.*
[25] ESRI *Quarterly Economic Commentary*, Summer 2006

Table 2: Cost of Combat Poverty tax/welfare package for Budget 2007 compared to Budget 2006 out-turn (full year)

Category	2007 CPA proposals	2006 Budget out-turn	Comparison of 2007 with 2006
Social welfare	1,131.5 (48%)	958 (41%)	+ 173.5 (+ 18%)
Child support	546 (23%)	507 (21%)	+ 39 (+ 8%)
Income tax	678 (29%)	889 (38%)	- 211 (- 24%)
All	2,355.5	2,354	

4. Distributive and poverty impact of proposals

We now consider the distributive and poverty impact of the Combat Poverty proposals for Budget 2007. This analysis is carried out using the ESRI tax/welfare model, SWITCH, which takes into account variation in individual and family circumstances relevant to tax liabilities and welfare entitlements.[26] The SWITCH cost of the Combat Poverty budget proposals is €2,078 million, which is close to 90 percent of the official cost. Differences in costing are primarily due to the inclusion of additional tax revenues arising from the welfare increases (€70 million).[27] When this and other differences are discounted, the SWITCH cost is 98 percent of the official estimate.

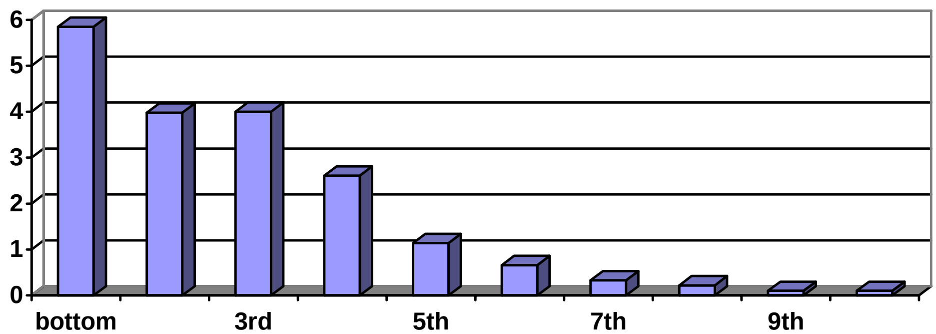
Diagram 1 outlines the distributive impact for the population divided into 10 equally sized groups (deciles) ranked from poorest to richest by disposable income. This is benchmarked against a 'neutral' wage-indexed policy, whereby welfare payments and tax credits/bands are assumed to increase in line with wage growth (in this case, 5.5 percent).[28] The additional amount available for redistribution after indexation in the Budget is €750 million.[29] This provides 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 targeted 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

[26] 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.
[27] SWITCH does not include the higher rate of CDA for older children, parental allowance, fuel allowance and special initiatives in regard to savings and food.
[28] The estimate for wage growth in 2007 is from the ESRI *Quarterly Economic Commentary*, Summer 2006
[29] While significant in budgetary terms, in terms of overall income redistribution this figure is a quarter of the cumulative amount of government resources which will be released to the 1 million holders of maturing SSIAs in 2006-2007.

deciles also get an above average increase, of between 2.5 and 4 percent. In cash terms, the weekly increase is on a par with that received by the lowest decile, at €11 to €12 per week. By contrast, the richest four deciles benefit marginally from the budget proposals, with modest cash increases of between €1 and €2.50 per week. In terms of family type, 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 than those who have adult members in work.

Diagram 1: Distributive impact of Combat Poverty budget proposals, benchmarked with wage-indexed budget

(% gain by equivalised disposable income per decile)



In terms of the aggregate package of €750 million, roughly equal amounts of €130 million go to each of the bottom four deciles, which is a cumulative €538 million or 70 percent of the total. By contrast, the richest three deciles get less than €20 million each, or less than 6 percent of the entire package. These figures illustrate the significant scale of income redistribution inherent in the Combat Poverty budget proposals.

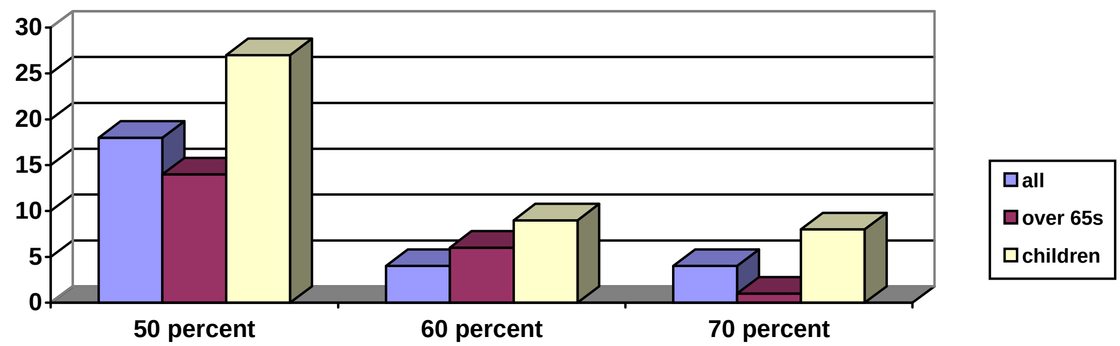
Diagram 2 outlines the impact on relative income poverty of the Combat Poverty proposals. Looking first at the headcount of people in poverty, there is a reduction at each of the three income thresholds, ranging from 18 percent at the 50 percent threshold to 4 percent at each of 60 and 70 percent thresholds.[30] In terms of the extent to which people are below each of the poverty lines (known as the poverty gap), this has also declined, by between 9 and 20 percent. We also break down the analysis to examine vulnerable sub-groups, notably the elderly and children. The poverty impact is similar for older people, whose poverty risk falls by 14 percent at the 50 percent line, and 6 percent and 1 percent at the higher lines. There is a bigger poverty impact for children, with a reduction of 27 percent at the lowest line. The percentage fall is also greater at the two higher lines, at 9 and 8 percent respectively.[31]

[30] 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.

[31] In terms of absolute change, the 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.

Diagram 2: Impact on relative income poverty of Combat Poverty budget proposals, benchmarked with wage-indexed budget

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

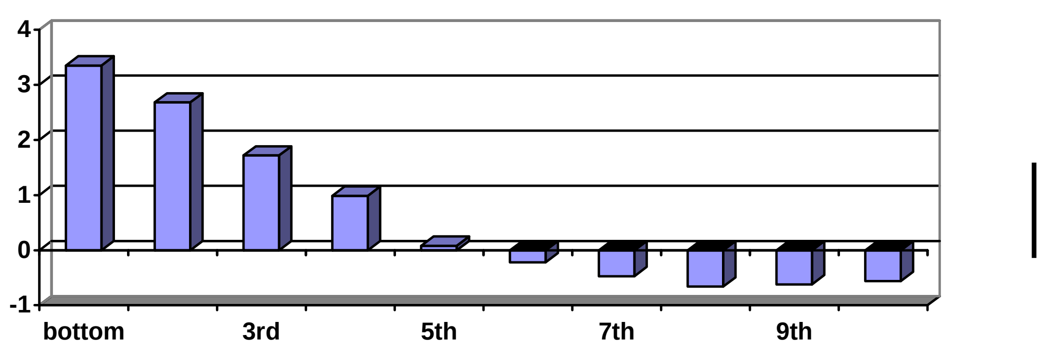


5. Comparison with conventional budget

It is also informative to compare the distributive impact of the Combat Poverty proposals with a 'conventional' budget, which is of similar cost but divides its resources 50:50 between tax and welfare/child support (whereas the Combat Poverty budget is 70:30 in favour of welfare/child expenditure).[32] This helps to illustrate the outcomes of different budgetary choices. Diagram 3 shows that the Combat Poverty budget is more favourable to the bottom 40 percent of households, whose disposable income rises by between 1 and 3.5 percent over a conventional budget. This is the equivalent of €5 to €6 more per household every week. By contrast, the top half of population all do less well in the Combat Poverty budget as compared to a conventional budget. The losses are, however, very modest, and are below 1 percent for all deciles. In aggregate terms, the Combat Poverty budget redistributes an additional €250 million to lower-income households. This is a significant amount of exchequer funds, which under a conventional budget would go to the better-off.

Diagram 3: Distributive impact of Combat Poverty budget proposals compared with conventional budget

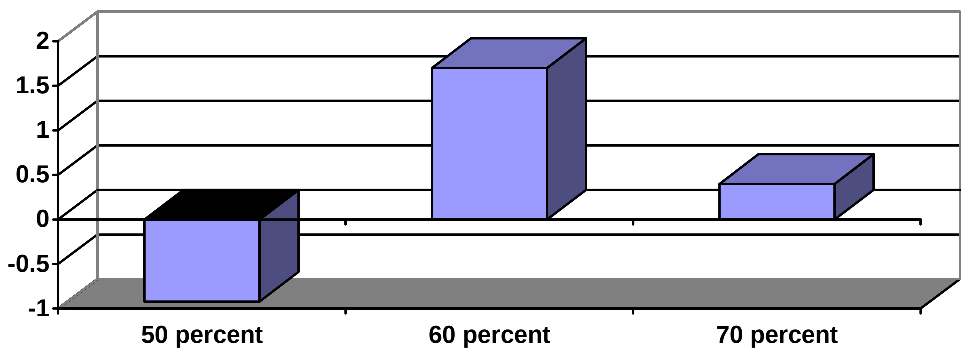
(% gain by equivalised disposable income per decile)



[32] The conventional budget is based on budgetary practice over the last 10 years. In this example, social welfare parameters are further indexed by 8.5 percent and tax parameters by 8.75 percent as against the wage-indexed budget.

The comparative poverty impact of the two alternative budget strategies is shown in diagram 4. The Combat Poverty budget has a slightly bigger poverty reduction effect that the conventional budget at the 60 and 70 percent of median thresholds. However, the conventional budget does better at the 50 percent threshold. Focusing on the poverty gap, this is further reduced at all three lines by the Combat Poverty proposals. The difference in impact is intensified when the situation of child poverty is examined. The Combat Poverty budget reduces child poverty by between 8 and 22 percent more than the conventional budget. By contrast, the conventional budget would have a greater impact on elder poverty, especially at the 50 percent median line.

Diagram 4: Impact on income poverty under Combat Poverty 2006 Budget proposals compared with conventional budget
(% fall in persons below various median income thresholds)



6. Conclusion

This submission argues that poverty - both income and deprivation - should be made the policy priority in Budget 2007. As well as directly boosting low-incomes, the measures will have a wider benefit on material deprivation, educational attainment and labour market participation. With a total cost of €2.4 billion, which is in line with Budget 2006, the package is clearly affordable, while being prudent in terms of the economic cycle. The outcome of the budget proposals is a substantial reduction in income poverty of up to 18 percent and a decline in the poverty gap of up to 20 percent, with parallel improvements for older people and children. Thus, Budget 2007 can ensure Ireland delivers on its shared EU objective of making a decisive impact on poverty by 2010.

Annex A

Details of budget changes

Table A1: Increases in adult welfare rates

Welfare payment	Personal rate			Qualified adult allowance		
	Increase	% gain	new rate	Increase	% gain	new rate
	€		€	€		€
UA, OPFP etc	20	12%	185.80	16	14.5%	126
State pension (non-contributory)	18	10%	200	16	13%	136.30
State pension (contributory)	15	8%	208.30	13	10%	141.80

Table A2: Increases in child income support by age[33]

(standard rates in weekly € equivalent)

Age	CDA*	CFA	CB	ECS	Combined gain	% gain	New combined rate	Combined total as % of adult rate
0-6 yrs	4.80	4.60	2.30	-*	11.60	16%	84.45	45%
3/4 yrs*	4.80	4.60	2.30	19.15	30.85	42%	103.60	56%
6-11 yrs	4.80	4.60	2.30	9.63	21.33	40%	74.93	40%
12-18 yrs	8.20	7.28	2.30	-	17.78	32%	72.68	39%
19-21 yrs	8.20	7.28	-	-	15.48	76%	35.88	19%

* for a child attending pre-school for one year

Table A3: Increases in income tax credits and bands

Income tax measures	Increase	% gain	New rate
	€		€
Personal tax credit (single)	90	5.5%	1,720
PAYE tax credit	82	5.5%	1,572
Standard rate band (single)	1,760	5.5%	33,760

[33] Changes include new standard CDA rate of €21.60, up from €16.80 and €19.30; payment of clothing and footwear allowance an additional two times a year; increase in child benefit of €10 per month; doubling of early childcare supplement (€1,000) for child attending pre-school and payment of half-rate (€500) for children aged 6-12 years. Assumes adult welfare rate is increased to €185.80

Illustrative examples of Budget changes

a) Couple on unemployment assistance, with two children aged 4 and 10 (not working)

	€ (weekly)	*gain € (weekly)**
personal rate	165.80	20
qualified adult	110	16
cda	16.80 x 2	4.80 x2
child benefit	34.50 x 2	2.30 x 2
childcare supplement	19.15	19.15 (in playschool) 9.63
clothing/footwear	2.30 x 2	4.60 x 2
total	402.15	88.18 (+ 22%)

*Would get a further €60 if parental allowance is introduced (total gain €148 or 37%)

b) Lone parent on one parent family payment, with one child aged 4 (not working)

	€ (weekly)	*gain € (weekly)*
personal rate	165.80	20
cda	19.30	2.30
child benefit	34.50	2.30
childcare supplement	19.15	19.15 (in playschool)
clothing/footwear	2.30	4.60
total	241.05	48.35 (+ 23%)

c) Couple on non-contributory state pension (no other income)

	€ (weekly)	*gain € (weekly)*
personal rate	182	18
qualified adult	120.30	16
fuel allowance	14	4
total	316.30	38 (+ 12%)

d) Low-earner in receipt of family income supplement, with two children aged 4 and 10

	€ (weekly)	*gain € (weekly)***
average FIS payment	54.21 x 2	40.80
child benefit	34.50 x 2	2.30 x 2
childcare supplement	19.15	19.15 (in playschool) 9.63
clothing/footwear	2.30 x 2	4.60 x 2
total	201.17	83.38 (+ 41%)

** Could also get a subsidy for vouched childcare costs of up to €60 per week for one child