Combat Poverty Agency

working for the prevention and elimination of poverty

Investing in the future: ending child and family poverty

PRE-BUDGET SUBMISSION

Combat Poverty Agency submission on Budget 2004

Combat Poverty makes this submission on Budget 2004 in accordance with its statutory role to advise the Minister for Social and Family Affairs on all aspects of economic and social policy pertaining to poverty. The theme of the submission is *Investing in the future: ending child and family poverty.* The submission takes as its starting point government policy to build a fair and inclusive society, in particular commitments to end child poverty and to strengthen family life. In prioritising child and family poverty, the Government will be targeting those in greatest need. It will also be investing in the economic potential of children and their parents.
The priorities for ending child and family poverty identified in the submission are a) child income support, b) welfare payments for families and c) employment supports (cost €905 million). These proposals, if implemented, will result in a 1 per cent drop in relative income poverty, with a positive knock on effect on consistent poverty.

Proposals for Budget 2004

Issue	Proposal	Cost
1 Child income support	■ Increase child benefit for all children by €12 to €137.60 (+€14 for higher rate to €171.30); bring forward the date for the increase to January	€160m
	■ Increase child dependent allowances for the poorest children by €2.50 for under 12s (to €19.30) and by €4.80 for those 12 years and over (to €21.60)	€25m
	■ Expand breakfast and hot school meal provision for 100,000 poor children as part of a combined nutrition and school retention initiative	€11m
	■ Pay the clothing/footwear scheme to all long-term welfare recipients with children (including FIS)	N/A
	■ Increase the child income thresholds for the medical card by €14 to €38 for first and second child and by €22 to €46 for the third plus child.	N/A
2 Welfare payments for families	■ Increase personal rates by a minimum of €10 for all welfare categories	€474m
	■ Increase qualified adult allowances by between €8.90 and €9.50 to bring them to a minimum 68 per cent of the personal rate	€54m
3 Employment supports	■ Increase the minimum hourly wage by 65 cent to €7 from February 2004	N/A
	■ Increase the PAYE tax credit by €140 to €940	€170
	■ Increase the income limits for family income supplement by €32	€11m
	■ Review reductions in employment programmes	N/A
	■ Improve childcare provision for families in low-paid work	N/A

Ending child and family poverty: a social goal with an economic impact

Building a fair and inclusive society is a core policy objective of Government and the social partners, with child and family poverty a key concern.[1] The Government target is to reduce consistent poverty, including among children and women, to below 2 per cent and, if possible, to eliminate it. This commitment is underlined in the new social partnership agreement, *Sustaining Progress,* where ending child poverty is prioritised as a special initiative of economic and social policy. Also, support for families is a theme of the Irish Presidency of the European Union next year, coinciding with the tenth anniversary of the UN International Year of the Family.

Poverty among children is particularly invidious.[2] Childhood, a crucial period in human development, is especially vulnerable to poverty. Hence, the UN Convention on the Rights of the Child includes the right to an adequate standard of living as being of central importance if childhood is to be nurtured and protected. Second, the effect of child poverty can be life-long, through greatly diminished health, educational and employment opportunities. Third, child poverty can increase the risk of social problems, including child abuse, teenage pregnancy, drug abuse and anti-social behaviour. As well as the immediate consequences for those affected by child poverty, the social and economic costs for the rest of society are considerable.

Child poverty is intrinsically linked to the welfare of families, as poverty usually affects the living standards of all family members. The most vulnerable children are in families with higher risks of poverty. In addition, parents play a key role in moderating the impact of poverty, as evidenced by the sacrifices that parents often make to protect children's living standards.

Rates of child and family poverty are higher than average in Ireland, whether measured in terms of relative or consistent poverty. The most recent data (2000/2001) indicate a quarter of all children (almost 300,000 children) are in income poor households, while 6.5 per cent (around 70,000 children) live in households experiencing a combination of income poverty and deprivation of basic necessities.[3] This compares with adult poverty rates of 21 per cent and 4.3 per cent respectively. Highlighting the links between child and family poverty, children in larger families and lone parent families experience the highest rates of poverty, up to five times the norm. Irish rates of child poverty are also higher when compared to other developed countries as well as the EU average.[4]

Policy approach to Budget 2004

International research on policy interventions to tackle child poverty shows that low rates of child poverty are associated with high levels of social expenditure.[5] Bearing in mind the comparatively low level of social expenditure in Ireland, it is unlikely that we can achieve a similar outcome in this country without the investment of significant public resources.[6] A radical transformation in policy towards children and families is required, rather than marginal improvements to basic deficits in social provision. Policies to tackle child and family poverty must be part of a wider policy framework, including early childhood education, play and childcare facilities.

The Minister for Finance indicated last year that the financial constraints surrounding Budget 2003 would become the template for budgetary policy over the next few years. Since then, the outlook for 2003 has become less favourable than had been assumed at Budget time, with a fall in projected tax revenues of up to €500 million.[7] A greater prioritisation of public spending will therefore be required in the year ahead, along with a renewed emphasis on value for money.[8] Measures which enhance human capital and physical infrastructure should be given priority. This includes a focus on children and their families, together with measures to improve access to the labour market. Prudent

1 For example, *Building an Inclusive Society* (the revised National Anti-Poverty Strategy) and the *National Action Plan against Poverty and Social Exclusion.* Also, child and family poverty are key themes in the National Children's Strategy and the Commission on the Family.

2 Recent qualitative studies of poor families such as M Daly and M Leonard (2002), *Against all odds. Family life on a low income in Ireland,* Dublin: Institute of Public Administration and Combat Poverty Agency, illustrate the effects of poverty on children and families.

3 B Nolan et al (2002), *Monitoring poverty trends in Ireland: results from the 2000 Living in Ireland Survey,* Dublin: ESRI; Government of Ireland (2003), *National Action Plan against poverty and social exclusion 2003-2005 – Ireland,* Dublin: Office for Social Inclusion

4 Ireland, at 17 per cent, has the 6th highest rate of child poverty in OECD countries (Innocenti Report Card No 1 (2000), *A league table of child poverty in rich nations*, Florence: UNICEF Innocenti Research Centre). In an EU comparison, Ireland has the second highest rate of child poverty, 2 percentage points above the EU average (Eurostat (2002), *The social situation in the European Union,* Luxembourg: Office for Official Publications of the European Communities)

5 Innocenti Report Card No 1 (2000), op cit

6 V Timonen (2003), *Irish social expenditure in a comparative international context,* Dublin: Institute of Public Administration in association with Combat Poverty Agency

7 Department of Finance (2003), *Economic review and outlook 23;* Dublin: Stationery Office

8 Ibid

social spending on these areas can be an important contributor to economic recovery and not simply a luxury consequent to economic success.

Combat Poverty proposes a budget package costing €905 million, the equivalent of the cost of indexing tax and welfare rates, which is one measure of fiscal neutrality. Four-fifths of the cost goes on welfare measures (€735 million), with €170 million on tax. The main difference with last year's Budget is the size of the welfare allocation, which is €200 million more. However, if the child benefit cost (€160 million) is excluded, which is reasonable as it is a universal payment, then the welfare cost is €575 million, slightly more than last year's allocation.[9] Delivering these resources will require the deferral of other public expenditure and/or the raising of additional tax revenues. However, Combat Poverty believes that there would be strong public support for such a child-focused and pro-family budget, given the high value placed on childhood and on family life by Irish society.

Policy priorities for Budget 2004

Combat Poverty identifies three priorities for ending child and family poverty in Budget 2004: a) income-related supports for children, b) welfare payments for families and c) employment supports.

a) Child income supports

Government policy for the last decade has been to prioritise child benefit as the route for channelling resources towards families, including those on low incomes. A child benefit of €149 per month is planned by 2005 (equivalent of €34.40 per week). This universalist approach to child income support favours poorer families: first, they get the greatest proportional gain and second, there are no work disincentive effects. However, these benefits have been diluted by a parallel policy which has frozen child dependant allowances (CDAs) for welfare recipients at the same value as 1994. This represents a significant devaluation of CDAs, which are now worth €5.45 (25 per cent) less in real terms, while child benefit has increased ahead of inflation by €21.13 or 173%. The combined effect for welfare-dependent families is a €15.67 or 52% increase in the real value of child income support, significantly less than that secured by better-off families. As the current growth phase in child benefit comes to an end, it becomes more urgent to review this policy.

Child income support can also be assessed as to its adequacy in relation to the needs of children in families dependent on welfare payments. The current adequacy target based on a proportion of the adult payment – between 33 and 35 per cent – has in fact been reached with a combined child benefit/CDA payment of €45 per week. An alternative approach is to use a budget standards methodology to calculate the actual costs of rearing a child (excluding childcare).[10] These costs, when updated in line with inflation, show that the adequacy target falls up to €5 short of the average costs of a child (€50). The discrepancy is especially acute for older children at €20 per week, as their costs exceed those of younger children by 80 per cent (€66 as compared to €37). Other comparators also suggest a shortfall in the adequacy of child payments, especially for older children.[11]

The adequacy of child income support for older children is best addressed in the context of a re-evaluation of the policy approach towards CDAs. CDAs are a targeted mechanism for families who must meet the full costs of children from state transfers. They also offer a cost-efficient way to deliver support at a time when the cost of universal child benefit is proving a major burden. This selective approach would be in keeping with the review of child support mechanisms such as CDAs and Family Income Supplement proposed under the ending child poverty initiative. As an interim measure, the lowest CDA rate should be increased, especially for older children.

Finally, there are a number of specific child schemes which, if reformed, could have a significant impact on the health and education of poor children. The back-to-school clothing and footwear scheme is an administrative payment under Supplementary Welfare Allowance. To improve take-up of the scheme, it should be integrated into the mainline welfare system and delivered in conjunction with child dependent allowances. This would also induce administrative savings. An enhanced school meals scheme, addressing issues of quality and take-up, could provide a multi-faceted intervention with

9 There are a number of reasons for ring-fencing the child benefit increase:
it is part of a government commitment to support childcare costs in an equitable manner;
it benefits all sections of society with children, not just those in receipt of welfare payments;
it compensates for the tax savings derived from the non-transferability of income tax bands;
it puts major pressure on the welfare budget allocation at a time when it is already reduced due to pressures on the government finances.

10 The basic costs of a child in 2003 aged 0-6 years are €37, aged 7-12 years are €50 and aged 13-18 are €66, based on original estimates carried out in 1992 and indexed by inflation (C Carney et al, 1994, *The cost of a child. A report on the financial costs of child-rearing in Ireland,* Dublin: Combat Poverty Agency).

11 The additional welfare payment for a dependent child in the UK is around €55. Similarly, recent ESRI poverty analyses assume an adult equivalence scale for older children on the grounds that they are likely to consume similar amounts to adults. The welfare system itself acknowledges the higher costs associated with older children in the case of the clothing and footwear scheme.

benefits for children's diet and educational participation.[12] The extension of school meals to all school children, with the option of better-off children paying for the meals, should be considered as a long-term goal. Finally, the medical card is a key instrument for providing access to health and social services for poor children. However, eligibility is restricted by the exceedingly low income thresholds for children under the scheme. A recent health boards review of these eligibility thresholds recommends a significant increase.[13]

- **increase child benefit by €12 per month to €137.60, with a €14 increase in the higher rate to €171.30, in line with government programme announced in Budget 2000 and re-affirmed in Budget 2003**
- **increase the lowest rate of child dependent allowance by €2.50 to €19.30 for children under the age of 12 years and by €4.80 to €21.60 for children aged 12 years and over**
- **pay clothing/footwear scheme to all long-term CDA recipients as an automatic entitlement**
- **expand the provision of breakfasts and hot lunches under an enhanced school meals scheme at a cost of €11 million**
- **increase the medical card income thresholds for children by €14 to €38 for the first and second child and by €22 to €46 for the third plus child**

b) Welfare payments for families
Ending child poverty also requires measures to increase family incomes, including adult welfare rates. The policy target is a minimum welfare payment of €150 by 2007 (to be inflation adjusted based on 2002 values). Another welfare target is a minimum €200 payment for pensions by 2007. In Budget 2003, no progress was made towards achieving the index-linked €150 target as the real value of a €6 increase (5 per cent) was undermined by an inflation rate of over 4 per cent. In fact, an interim figure of €127 – a commitment under the previous social partnership agreement – was not even achieved (€2 gap). By contrast, progress was made towards the pension target with a €10 increase (7 per cent). The headline increases required in Budget 2004 to meet these targets by 2007 are €11.80 and €14 respectively.

A number of challenges can be identified in meeting the minimum welfare target. First, the level of resources required to meet this target is considerably in excess of those provided for in Budget 2003. Unless the government finances improve as a result of economic growth or additional resources are found elsewhere, then progress will be very slow in meeting the €150 figure. Second, the persistently high rate of inflation is making it more difficult to reach the inflation-adjusted target, as exemplified this year. A continuation of high inflation will make the achievement of the target figure by 2007 all the more difficult. Third, an even-handed approach is required as between the improvements in payment rates across welfare schemes, in order to ensure that progress is also made on the €150 target for the lower rates.

In addition to the personal welfare rates, the additional payment for spouses or partners is important in determining family living standards. Of particular concern here is the relative deterioration in the financial position of women, especially among older women.[14] A recent policy report from the National Women's Council identifies ways to enhance the economic position of women. Excluding those in receipt of payments in their own right, the welfare of women is primarily linked to the payment rate for qualified adults. 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 adult equivalence scales has indicated that the additional payment for a second adult is too low to ensure comparable living standards with single adult households.[15] 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. In addition, there is a government commitment to increase the qualified adult allowance for pensioners aged over 66 years to the equivalent of the personal rate of the non-contributory pension (currently 77 per cent).

12 Combat Poverty Agency (2000), 'Submission to the Department of Social, Community and Family Affairs on its evaluation of the school meals scheme.' These proposals are also in line with the review of school meals schemes published by the Department of Social and Family Affairs in 2003.

13 *Report of the Medical Card Review Group,* 2001. The report recommends a higher income threshold for the fourth and subsequent child. However, in line with the structure of child benefit, Combat Poverty proposes this should be applied to the third-plus child.

14 National Women's Council (2003), *A woman's model for social welfare reform*

15 *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

- Increase all personal rates by a minimum of €10 per week, bringing the lowest welfare payment to €134.80 and the pension rate to €167.30
- Increase qualified adult allowance by between €8.90 and €9.50 to bring them to a minimum 68 per cent of the personal rate

c) Employment supports
Employment remains central to efforts to end child and family poverty. Increases in employment over the past decade have contributed significantly to a fall in child poverty among unemployed households and, more generally, to a reduction in the overall level of extreme child poverty. It is important that the progress made here is continued in what are now more difficult circumstances. Programmes which increase access to employment, especially those which incorporate support with childcare responsibilities, are of particular importance in tackling child and family poverty.

Work alone is not the solution. Much also depends on the wages people earn and the costs associated with employment, e.g. transport, childcare. Of particular concern here is the increased incidence of poverty among working families. This highlights the need to give more attention to what happens once people have made the transition from welfare into paid employment. The main fiscal policy instruments here are the minimum wage, family income supplement and personal tax credits.

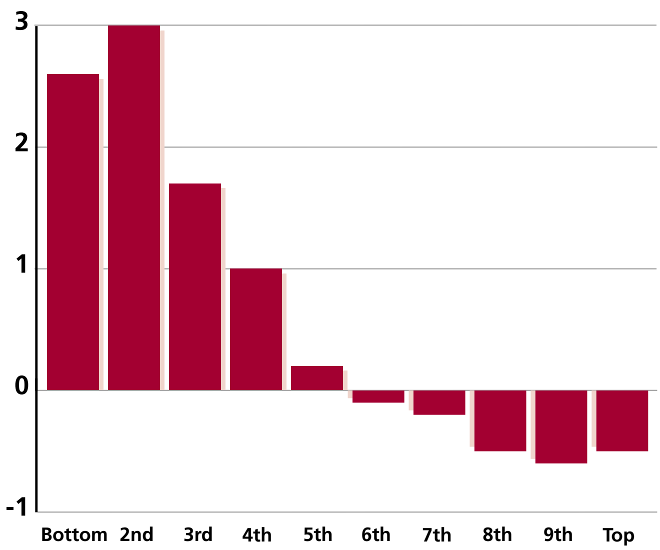
The provision of in-work training and making childcare more accessible and affordable are also critical issues in increasing the returns from low-paid employment. The main focus of childcare policy through the Equal Opportunities Childcare Programme is to increase affordable provision in disadvantaged communities. This policy should be expanded to target low-paid families throughout the country. However, parents must be enabled to maintain a balance between work and childcare, as it would be counter-productive if increased female employment was to the detriment of the care and education of children.

- Increase the minimum wage by 65 cent to €7 from February 2004, as agreed by the social partners
- Increase PAYE tax credit by €140 to €940 per annum
- Increase the weekly income thresholds under the Family Income Supplement by €32
- Review reductions in employment programmes such as Community Employment and the Back-to-Work Allowance
- Increase childcare supports for women accessing employment or in low-paid work

Distributive and poverty impact of Combat Poverty proposals for Budget 2004

Using the ESRI SWITCH model, it is possible to calculate the impact of Combat Poverty's budgetary proposals for households with different income levels and family composition (see Figure 1).[16] These are assessed against a neutral comparator budget which indexes wages and welfare rates in line with forecast wage growth. Both budgets have roughly similar costs, which indicates the overall fiscal neutrality of the Combat Poverty approach. However, the tax/welfare allocations are very different, with the Combat Poverty budget containing an additional welfare package over indexation of €250 million, which is offset against a tax increase of €280 million relative to indexation.

Figure 1: Distributive impact of Combat Poverty budget proposals
(% gain by equivalised disposable income per decile)



16 The SWITCH model is described in detail in T Callan et al (1998), *Simulating tax and welfare changes,* Dublin: ESRI

The distributive impact is also very different, with an income increase of between 1 and 3 per cent for the poorest 40 per cent of households, no change for the middle 30 per cent and a small drop in income of half a percentage point for the top 30 per cent under the Combat Poverty budget. The cash gains are quite significant for the bottom 40 per cent: between €2.30 and €6 per week. The losses for higher income households are modest, at between €3 and €7 per week. These figures mask substantial gains and losses occurring within middle and higher income deciles. The gains reflect the positive impact of child benefit on the income of households with children across all decile groups. The losers are taxpaying households without children. More generally, the families benefiting most are non-earning parents and lone parents, while the single unemployed and unemployed childless couples also gain. The losers are dual earner couples and the single employed.

The proposed budget's impact on income poverty rates is positive, in line with its redistributive focus. Thus, there is a fall of up to 1 per cent in the percentage of households below relative income poverty lines set at 50 per cent of the mean and 60 per cent of the median. This should have a beneficial effect on consistent poverty rates also.

An analysis was also undertaken of the distributive impact of a flat-rate €10 increase in all welfare payments as compared with a similarly costed pro-pension strategy as in last year's Budget. The latter approach would result in an income drop for the bottom fifth of households, while benefiting the second and third quintiles in the population. This clearly indicates that an equitable increase is more targeted at households on the lowest incomes.

Funding the Budget proposals

The total cost of the budget package is €905 million, which is up €200 million on last year. While the cost is in line with a fiscally neutral budget based on wage indexation of tax and welfare, the challenge of finding this level of resources in the current fiscal climate remains. For this reason, Combat Poverty proposes various options for securing the resources required to tackle child and family poverty. In considering these, key criteria should be to minimise the impact on low income households and not to worsen work incentive effects for those in low-paid employment.

There are three possible sources of additional revenue: increasing taxes, curtailing expenditure or higher borrowing. Excluding borrowing as an inappropriate option for current expenditure, this leaves higher taxes or deferred spending. Recent policy papers have highlighted the loss to the exchequer of tax expenditures, at a cost of over €7 billion per annum in revenue foregone. Among the options to be considered in reducing tax expenditures are to end reliefs which are of questionable economic value or to curtail the value of tax reliefs for higher earners. The latter could be achieved by standard-rating all discretionary tax reliefs or by setting a minimum effective tax rate for earners above a certain income threshold.[17] Other tax-raising measures would be to freeze income tax credits and bands or further restrict the transferability of tax bands, or more broadly to increase general tax rates, especially those on capital, business and property which are comparatively low.

On the expenditure side, one mechanism to achieve savings is through the introduction of service charges. There are some downsides to this from a poverty perspective, in that user charges tend to be regressive. This is illustrated by waste collection charges, which have risen considerably in recent years, yet there is no universal waiver system to minimise the effects on lower-income households.[18] Greater efficiencies may also be possible in the provision of public services, especially in the area of administration costs.[19]

17 A recent Revenue Commissioners survey of high earners reveals that 18 per cent pay an effective tax rates of less than 20 per cent. Indeed, a small minority (7 per cent) pay no income tax at all, while a similar number pay less than 10 per cent.

18 V Brophy and N Feely (2003), 'Refuse collection charges and low income households', manuscript, Combat Poverty Agency.

19 Timonen (2003), op cit

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