PRIORITISING POVERTY

Submission to the Minister for Social, Community and Family Affairs on the 1998 Budget

Combat Poverty Agency
November 1997

Contents

Introduction

The aim of the Combat Poverty Agency is to work for the prevention and decrease of poverty and social exclusion and the reduction of inequality in Ireland by striving for change which will promote a fairer and more just, equitable and inclusive society. One of the key objectives of the Agency is to promote social solidarity by influencing wider public debate and civil society in favour of those living in poverty. To this end the Agency is particularly concerned to work with and advise the Government and its departments, agencies and advisory bodies. Government fiscal strategy, as formulated in the budget, is crucial to tackling poverty, not alone in terms of income support, but also in fostering access to work and equality of opportunity.

Pre-budget submission

In this pre-budget submission to the Minister for Social, Community and Family Affairs the Agency argues that getting people back to work, in particular assisting the **long-term jobless** and tackling **child poverty** should be the priorities for the '98 budget. The recently published study, *Poverty in the 1990s*[1], found that the unemployed were the group most at risk of experiencing poverty and that households with children were almost twice as likely to be in poverty as those without children.

The Agency believes that tax and social welfare reform is an important component in tackling unemployment. Tax and welfare policies can also play a very important role in bolstering employment. The Agency advises that the most pro-work reforms of the tax and welfare systems involve putting resources into **increasing personal tax allowances** and **enhancing child benefit**. The Agency advises that the most strategic way to tackle child poverty is by increasing the value of child benefit and addressing the difficulties associated with FIS.

Putting the budget in context

The Economic and Social Research Institute's *Medium Term Review (1997-2003)*[2] projects a positive future for Ireland over the next six years. The projections are that employment will continue to grow by three per cent per year between 1995-2000 and by two per cent per year in the period to 2005. Unemployment is also projected to drop from 12 per cent of the labour force in 1996 to around 8.6 per cent by the turn of the century and to seven per cent by 2005. This reduction is unemployment will be facilitated by the rising educational attainment of the labour force. However, on present trends, those with very limited education are likely to remain seriously disadvantaged in the labour force. These forecasts are based on the assumption of prudent fiscal policy, wage moderation, and the absence of serious domestic or international shocks. It should also be noted however, that the forecasts also assume that social welfare payments will rise in line with average earnings in industry.

Social welfare dependents are at particularly high risk of experiencing poverty and social exclusion. The Agency welcomes the agreement in Partnership 2000 for Inclusion, Employment and Competitiveness that the minimum rates as recommended by the Commission on Social Welfare will be implemented before the end of the current national agreement. In this pre-budget submission we argue that reaching these rates should be a high priority in this budget, and that investment in social inclusion should match spending on tax cuts.

[1] Callan, T., Nolan, B., Whelan, B., Whelan, C., and Williams, J. (1996). *Poverty in the 1990s: Evidence from the 1994 Living in Ireland Survey.* Dublin: Oak Tree Press

[2] Duffy, D. Fitz Gerald, J., Kearney, I., and Shortall, F. (1997). *Medium Term Review 1997-2003.* Dublin: Economic and Social Research Institute.

Age of opportunity

There is considerable debate at the moment concerning the affordability of future pension requirements. The Agency welcomes the establishment of the National Pensions Policy Initiative in this regard. The Agency considers that the recently published *Actuarial Review of Social Welfare Pensions*[3] is a valuable contribution to the current debate. Future pension requirements, however, must be viewed in the context of issues for the social welfare system in general, particularly adequacy and coverage and a broader social policy perspective of promoting social equity. Furthermore, when planning for the future, a distinction should be made between policy issues for the next fifteen to twenty years and policy issues for the longer-term.

Research commissioned from the Economic and Social Research Institute (ESRI) by the Agency to examine the welfare implications of demographic change concluded that Ireland is now entering a period of demographic advantage, as our dependency and unemployment rates are projected to decline[4]. The study argues that Ireland is now facing a demographically and economically favourable period and that the country should make best use of the unprecedented opportunities which are predicted. The Agency argues that this demographic dividend should be used to tackle poverty and social exclusion, particularly the persistent scourge of family poverty. It is the Agency's contention that social solidarity now will sustain economic competitiveness in the future by increasing labour force participation and reducing welfare costs.

National Anti-Poverty Strategy

The Agency welcomes the commitment in *An Action Programme for the New Millennium*[5] to urgently address the issues of exclusion, marginalisation and poverty and halt the continuing drift towards the development of a two-tier society in Ireland. Poverty is still endemic in Irish society despite the current economic boom. Unless policies are strengthened to tackle poverty, the divide in Irish society between those benefiting from the fruits of economic growth and those marginalised and excluded from full participation in society will persist. Our current favourable economic conditions provide an unprecedented opportunity to move towards a more fair, just and equitable society. The publication of the government's National Anti-Poverty Strategy (NAPS) marks a significant watershed in Irish social and economic policy in this respect. The strategy is based on a clear understanding of the multidimensional nature of poverty, the need to tackle the deep-seated underlying structural inequalities that create and perpetuate poverty, and the need to give particular attention to the following key areas: educational disadvantage, unemployment, income adequacy, disadvantage in urban areas and rural poverty.

The strategy marks the development of agreed targets and goals to fight poverty and social exclusion. In keeping with the commitment in the NAPS, the impact on poverty should be a key consideration when decisions are being made about spending priorities in the context of the budget[7]. This budget should, therefore, be audited to ensure that it is consistent with the principles set down in the NAPS and agreed by government as the most strategic approach to tackling poverty and social exclusion. It is important to note that this does not necessarily imply additional government expenditure, but a redistribution of resources and a review of the positive and negative effects of existing tax and spending decisions on poverty. The new urban renewal scheme, for example, is an opportunity to link private sector investment and government tax incentives in property development with a paralleled programme of social regeneration.

A core issue for the submission is the belief that while the Celtic tiger continues to roar, government policy should become more focused on those who are not benefiting from this growth in our economy. Budget '98 presents an opportunity to prioritise poverty through, for example, tax reform which focuses on those on low incomes and ensuring adequate social welfare rates. The Agency strongly advocates such a redistributive approach, not only on social justice grounds, but also because tackling poverty is key to ensuring sustainable development and Ireland's continued competitiveness in the world market ■

[3] Irish Pensions Trust Ltd. (1997). *Actuarial Review of Social Welfare Pensions.* Department of Social, Community and Family Affairs. Dublin: Stationery Office.

[4] Fahey, T. and Fitz Gerald, J. (1997). *Welfare Implications of Demographic Trends.* Dublin: Oak Tree Press.

[5] Fianna Fáil and Progressive Democrats. (1997). *An Action Programme for the New Millennium.*

[6] Government of Ireland (1997) *Sharing in Progress: National Anti-Poverty Strategy.* Dublin: Stationery Office.

[7] *op cit.* pg 20-21

Summary of main recommendations

Issue	Proposal	Cost	Funding
1. Taxation reform i) Marginal tax rates for the lower paid	Increase personal allowances by £1,300 for single people (to £4,200) and by £2,600 for married couples (to £8,400)	£500m	Through buoyancy and/or the introduction of tax credits or standard rating personal allowances
ii) Regressive structure of PRSI	Increase PRSI personal allowances to £100	£40m	Either buoyancy or off-set by the abolition or substantially increasing the PRSI ceiling
2. Social welfare i) Social welfare rates	Increase all social welfare payments in line with average earnings in industry	£63m/ £114m	Buoyancy
	Increase the personal rate to a minimum of £73.24	£55m/ £98m	
ii) Up-rating social welfare rates	Establish a working group to set out the steps and information requirements for an explicit and transparent agreed process of regularly evaluating and up-rating the minimum income standard	negligible	N/A
3. Child poverty i) Increase the value of child benefit	Flat rate increase of £7 per child	£89m	Tax buoyancy Taxing the increase in child benefit would help to off-set some of the additional costs involved
	Extend the higher child benefit rate to the second child	£33.2m	
	Introduce two additional payments per annum	£88.8m	
ii) Health care for children	Extend the medical card to all children in receipt of child benefit	maximum of £60m	Dividend from better child health and abolishing tax relief for medical costs
iii) Educational disadvantage	Action proposals identified by the NAPS Working Group on Educational Disadvantage	would depend on measure	Cost of these measures would be offset by reduced social cost of educational disadvantage and increased Irish labour force competitiveness
4. Welfare to work i) Addressing the difficulties associated with FIS	Prioritise improved take-up of FIS and examine more carefully options in regard to addressing poverty traps associated with FIS	would depend on measure	N/A
ii) Withdrawal of rent/mortgage allowance	Introduce a national housing income support scheme with tapered withdrawal	would depend on scheme	Tax buoyancy and reallocate budget for social housing
5. Other anti-poverty measures i) National Anti-Poverty Strategy	The budget should be audited to ensure that it is consistent with the principles set down in the NAPS	N/A	Does not necessarily imply additional government expenditure
ii) National Networks	Support to national anti-poverty networks in 1998 should be £35,000 per network	£245,000	

1. Taxation Reform

The best and fairest taxation reform route to take is the one which maximises benefit to low income earners . . . . .
. . . . the budget priority should be to increase personal allowances

This budget offers an unprecedented opportunity for taxation reform. The critical choice to be made is between *tax cuts* which disproportionally benefit the better-off, or reforms which are redistributive and reduce the tax load on the low paid and all tax payers. The Agency opposes any further dilution of the tax base. In this regard, the Agency argues that all relief schemes should be standard-rated, if not further reduced, and that no new relief schemes should be introduced (for example, car scrappage, urban renewal) unless their impact on low income groups is clearly documented[8].

Taxation reform for those on low incomes should be a central consideration of the forthcoming budget. In a recent Agency discussion paper on tax and PRSI reform from a low income perspective, Francis O'Toole argues that recent budgets have not placed particular emphasis, in reality as opposed to rhetoric, on the taxation position of the low paid/unemployed[9]. The Agency proposes a very focused reform of personal taxation, which will benefit all income groups but is the best policy option for low-income groups. In this regard, the central plank of the Agency's submission is to substantially increase personal allowances in this budget.

Personal taxation is an important issue from an anti-poverty perspective. Its interaction with the social welfare system can create poverty and unemployment traps, and its reform can contribute to greater equity across income groups and enhance access to the labour market.

1.1 High marginal tax rates for the lower paid

In last year's budget tax reforms costing almost £400 million (full year) were made, including increases to personal allowances, widening the tax band, a reduction in the standard rate of tax and in the PRSI rate. The Agency believes that, while these policies had some positive impact on low income earners, the diversity of measures diluted the focus of the amount available and limited the scope for (a) targeting the benefits on the lower paid and (b) introducing fundamental reform to tackle the problems faced by low earners with high marginal tax rates. The Agency believes that the best and fairest taxation reform route to take is the one which maximises benefit to low income earners, as this would increase the incentive to work, would reduce poverty traps and increase the progressivity in the system.

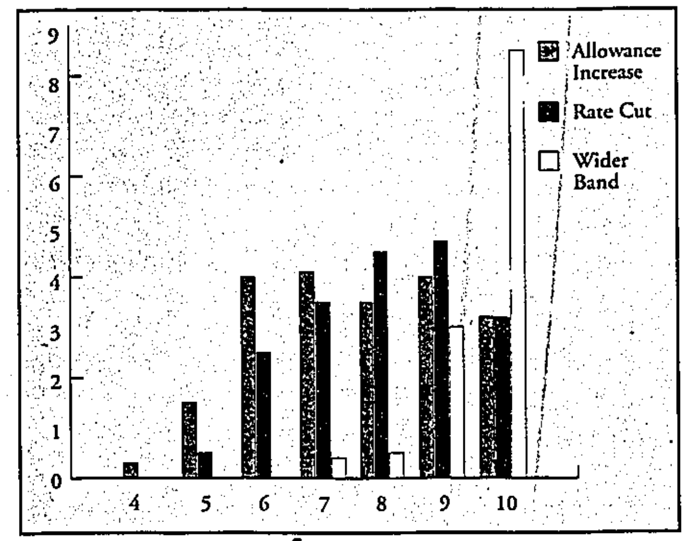
There are three main routes available in reducing the current level of taxation: tax rate cuts; band-widening and allowances increases. Analysis carried out by the Economic and Social Research Institute using their SWITCH model indicates that each of these tax changes benefit higher income earners, but that increasing personal allowances is the most redistributive taxation reform for low to medium earners[10]. This position was endorsed by the Expert Working Group on the Integration of the Tax and Social Welfare Systems[11] and more recently by the National Economic and Social Council which stated that the *superiority of increased personal allowances should be a principle guiding income tax reduction in the coming years*[12].

In the context of economic buoyancy and the extra tax revenue which that has created, there is in the region of £500 million available for tax reforms in this budget. It is imperative that this revenue is used in such a way that it facilitates continued growth in the economy, by encouraging employment creation while maintaining control on inflation.

Recent Agency calculations using the Economic and Social Research Institute's SWITCH model[13] indicate that £500 million roughly offers the following choices: an increase in the personal allowances of £1,300, or a cut in the standard rate of tax[14] of 6.5% or a widening of the standard rate band by roughly £12,600[15].

The distributive impact of these changes is illustrated in the graph below. It shows the percentage change in disposable income for tax units ranked from the lowest to the highest incomes, adjusted for family size and composition, in ten groups of approximately equal size[16]. The graph shows that for all three options the lowest deciles see little or no change, as they are below the income tax threshold. The middle income deciles (deciles 4-6) gain more from an increase in personal allowances than from either a rate cut or a widening of the band. The higher income deciles gain substantially from all three options. Widening the band is the most regressive option, confining almost all gains to the top two deciles.

Distributive Impact of Alternative Tax Cuts



In this context, the Agency argues that the budget priority should be to increase personal allowances. Personal allowances should be increased by £1,300 for single people (to £4,200) and £2,600 for married couples (£8,400). The proposal would cost in the region of £500 million in a full year and would have the following benefits:

- improve the incentive to work;
- reduce tax-based poverty traps;
- increase the incomes of lower paid (non-tax exempt) workers;
- promote employment, especially among the long-term unemployed;
- reduce welfare dependency;
- simplify and rationalise the tax system;
- align tax allowances and welfare payments;
- implement proposals advocated by NAPS.

There are two main ways in which this proposal could be funded. The first would be to rely on additional receipts from tax buoyancy. The second, and more radical approach, would be to fund this proposal by introducing a system of tax credits or standard rating personal allowances[17].

1.2 Regressive structure of PRSI

In the '97 Budget Employees' PRSI rate for Class A and H contributors was cut by 1 per cent and no change was made to the allowance for full-rate PRSI contributors, under which the first £80 of weekly wages is disregarded in the calculation of PRSI. The Agency believes that future reforms of PRSI should focus on targeted relief for those on low incomes. The Agency, therefore, recommends that the PRSI allowance should be increased to £100 and that there should be no further cuts in the rate of PRSI. It is important that any changes to PRSI do not erode the contributory principle embedded in the scheme, that the PRSI Fund is not diminished and that the PRSI rates are not lowered.

Increasing the PRSI allowance to £100 would cost in the region of £40 million and would have the benefit of reducing the PRSI wedge on lower incomes. This proposal could be funded by two sources: either buoyancy or off-setting the cost by the abolition of or substantially increasing the PRSI ceiling. The Expert Working Group on the Integration of the Tax and Social Welfare Systems estimated a potential yield of £60 million from the abolition of the employee ceiling (1996 figures)[18] ■

[8] For a discussion of this issue see: O'Toole, F. (1997) *Tax and PRSI Reform from a Low Income Perspective.* Poverty and Policy Discussion Paper Number 3. Combat Poverty Agency.
[9] *op cit.*
[10] See Callan, T., O'Donoghue, C., and O'Neill, C. (1996). *Simulating Welfare and Income Changes: The ESRI Tax-Benefit Model.* Dublin: The Economic and Social Research Institute.
[11] Working Group (1996). *Integrating Tax and Social Welfare.* Dublin: Stationery Office.
[12] National Economic and Social Council. (1996). *Strategy into the 21st Century.* Dublin.
[13] The standard disclaimer applies: *no responsibility for these results is accepted by the ESRI or the authors of the model software.*
[14] A cut in the higher rate of tax would be considerably less redistributive and was therefore not considered in these costings.
[15] While caution should be expressed concerning the sensitivity of these costings to economic performance, it is the **distributional impact** of different tax options (which are more constant) that the Agency would like to draw particular attention to.
[16] For example, the bottom decile contains those with equivalent net income of less than £62, decile 5 contains those with equivalent net incomes between £94.50 and £122.50 and the top decile contains those with equivalent net incomes above £239.50 per week.
[17] For a discussion of this option see: Expert Working Group. (1996). *Integrating Tax and Social Welfare.* Dublin: Stationery Office. p.76. and O'Toole. (1997). op cit.
[18] *op cit.* p.89.

2. Social Welfare

Increasing social welfare rates in line with average industrial earnings would help to ensure that some of the gains of economic growth reach those outside traditional market mechanisms for redistributing resources

Tax and PRSI reforms can play a very important role in addressing low income, reducing the impact of low pay and more importantly facilitating the transition from welfare to work. However, the level of social welfare payment rates is the crucial determinant in the welfare of individuals in receipt of low income and, in particular, for those who are unable to participate in the labour force for a variety of reasons. It is therefore imperative that in this budget tax reforms are balanced with social welfare increases that keep in line with increases in average earnings.

2.1 Social welfare rates

Almost all social welfare payments have now reached at least 98% of the lowest point in the minimum adequate range as defined by the Commission on Social Welfare ten years ago[19]. Supplementary Welfare Allowance and short-term Unemployment Assistance are the two exceptions, both of which are still only 94% of the lowest point in the Commission's range.

The Agency welcomes the commitment in *Partnership 2000* that the minimum adequate rate will be reached in the lifetime of the agreement and argues that this should be a key priority of this budget. Research carried out by the ESRI for the Agency found that future demographic projections are positive for Ireland and that we are now entering a sustained period of demographic advantage[20].

As outlined above, current economic projections are also very positive[21]. Average industrial earnings are projected to increase above inflation in the coming years. It is therefore imperative that social welfare rates follow suit. This has broadly been the experience in the past decade, even if it has not been explicit government policy. If this does not occur, social welfare dependants will become even further marginalised and excluded from full participation in society. Increasing social welfare rates in line with average industrial earnings would help to ensure that some of the gains of economic growth reach those outside traditional market mechanisms for redistributing resources (employment, property, shares, etc.).

In this budget the Agency recommends that all social welfare payments should be increased in line with average industrial earnings and that the lowest personal payments reach a minimum adequate rate of £73.24, with pro-rata increases for adult dependants.

The cost of up-rating all personal rates in line with average earnings in industry (3.7%) is as follows:

29 weeks	52 weeks
£63 million	£114 million

The additional cost of up-rating the lower personal rates to a minimum of £73.24[22] is as follows:

29 weeks	52 weeks
£55 million	£98 million

These increases could be funded from current tax buoyancy and they would have the following benefits:

- reduce poverty levels amongst social welfare recipients;
- target the fruits of growth to those most in need;
- strengthen public commitments to social solidarity;
- meet the agreement in *Partnership 2000* that the minimum adequate rates as set by the Commission on Social Welfare will be implemented;
- work towards targets set in the NAPS.

2.2 Up-rating social welfare rates

The *Review of the Commission on Social Welfare's Minimum Adequate Income*[23] outlined alternative approaches used to up-rate social welfare rates. The examination revealed a number of themes such as: inflation proofing; concern about work incentives; adequacy; sharing growth; and affordability. However, in the current period of economic growth it is essential that payments are up-rated in line with the general living standards, otherwise the incomes of those dependant on social welfare will fall further behind the rest of society.

In order to determine the appropriate rate of increase more detailed data than is currently available on indicators of general living standards such as earnings and household incomes and their distribution is required as well as more work on equivalence scales. However, data does exist on changes in consumer prices, in average take-home pay and in average income per head which could be used to assess how an adequate standard was changing over time, in the first instance.

The Agency advises that a working group should be established by the Government to set out the steps and information requirements for an explicit and transparent agreed process of evaluating and up-rating the minimum income standard.

Such a working group could develop a transparent and accountable mechanism for future up-rating of social welfare rates to ensure that they reach a minimum adequate rate and that they remain in line with general living standards thereafter ■

[19] Callan, T., Nolan, B., and Whelan, C. (1996). *A Review of the Commission on Social Welfare's Minimum Adequate Income.* Dublin: Economic and Social Research Institute. Policy Research Series paper no. 29.

[20] Fahey, T. and Fitz Gerald, J. (1997) *Welfare Implications of Demographic Trends.* Dublin: Oak Tree Press.

[21] Duffy, D. *et al.* (1997). *op cit.*

[22] This figure is based on up-rating the Commission on Social Welfare's minimum adequate rate of £50 in 1985 to £68.10 in 1996 (see National Anti-Poverty Strategy. *Sharing in Progress* (1997), p96). For 1997 and 1998, payment rates have been up-rated by projected average growth in industrial earnings 1995-2000 (3.7 per cent per year) - Medium Term Review Table 6.8. p128.

[23] Callan, T. ét al (1996) op cit

3. Child Poverty

Further flat rate increases in child benefit are required if child poverty is to be addressed

Households with children have twice the risk of poverty as those without: 25.5 per cent as compared to 13.8 per cent[24]. This difference in poverty risk is reflected in the composition of poor households, with households with children accounting for 55 per cent of the total, though only representing 40 per cent of the entire household population. A similar variation in the risk of poverty is also apparent between children and adults. The relevant figures here are 29.3 per cent (children) and 17.9 per cent (adults), a gap of 11.4 percentage points. Children are thus two-thirds more likely to be below the 50 per cent income threshold as adults.

These findings have important policy implications if the inferior and deteriorating income status of households with children is to be addressed. Reform of child income support must take cognisance of the wider context influencing tax and social welfare reform, particularly work incentives, employment and poverty traps. These are relevant because of the structure of welfare payments to the unemployed, especially child dependant allowances. The loss of these benefits, and other secondary benefits, when a person takes up work can result in only a small gain in net household income. Transition mechanisms, such as FIS and child additions to tax exemptions give rise to another set of problems for low income workers with children - high marginal tax rates as income from work rises. This is addressed further on page 10.

3.1 Increasing the value of child benefit

Over recent years, considerable resources have been dedicated to improving child benefit, which has the advantages of high take-up and no poverty traps. Further flat rate increases in child benefit are, however, required if child poverty is be addressed. An immediate concern is that the real value of the child income support package for smaller (and more numerous) families has declined by 20p per week following Budget 1997. This was due to the fact that in Budget 1997 child benefit was only raised by £1 for the first and second child and child dependant allowances were not increased. Currently the third and subsequent child receives a higher payment - this should be extended to the second child with the long-term aim of extending it to the first child.

In addition, families face particular financial stress at certain times of the year, for instance in the lead up to Christmas or when children are returning to school[25]. To help with the costs at these times two extra payments should be made per year for each child, the first in August and the second in December. The August payment could play an important role in alleviating educational disadvantage and therefore breaking the cycle of poverty by contributing to the extra costs associated with returning to school.

Until such time as child benefit can be considered to adequately cover the cost of a child for those reliant on social welfare, child dependant allowances should not be cut.

The Agency makes the following proposals in relation to child benefit:

- a flat rate increase of £7 per child;
- extend the higher child benefit rate to the second child;
- introduce two additional payments per annum.

These increases in child benefit could be financed through tax buoyancy. Alternatively, taxing the increase in child benefit would help to off-set the additional costs involved and would ensure that while all families gained from the increase, poorer families would gain most.

The cost of a flat rate increase of £7 for all children would be £89 million in a full year. The additional cost of extending the higher rate child benefit to the second child would be £33.2 million in a full year. The additional cost of introducing two additional payments per year would be £88.8 million in a full year.

The benefits of increasing the value of child benefit would be to:

- reduce poverty traps;
- increase the incomes of lower and middle income families;
- simplify the system of child income support;
- improve the potential financial independence of mothers
- reduce child poverty;
- help to tackle educational disadvantage;
- reduce welfare dependency;
- work towards the targets set in the NAPS.

3.2 Health care for children

Medical care for children can prove to be expensive, especially in large families. For low income families, the medical card acts as a cushion against the exceptional costs associated with their children if and when they get sick.

The Expert Working Group on the Integration of the Tax and Social Welfare Systems considered the option of introducing a universal medical card for children, but did not recommend this approach on the grounds of cost (£60 million in 1996). They did, however, consider this proposal to have merits in terms of equity, administrative cost efficiency and simplicity.

There are also alternative approaches to helping with the costs of child health care: the eligibility limits for the child medical card could be extended; a gradual withdrawal could be introduced, for instance, the card could cover doctor's charges only for higher income households; or a child heath scheme could be introduced under the Social Insurance System.

The cost involved in extending medical care for children could be off-set by a dividend from better child health or be abolishing tax relief for medical costs. The potential benefits of these alternatives should be seriously considered.

3.3 Tackling educational disadvantage

Addressing educational disadvantage and encouraging the acquisition of educational qualifications are key routes out of poverty. The NAPS Working Group on Educational Disadvantage identified key actions to address educational disadvantage in the context of a continuum of provision from early childhood through to adulthood. Educational actions were also prioritised in *Partnership 2000* and the Community Platform made specific recommendation in this area[26]. The budget should reflect an increased commitment to tackling educational disadvantage.

Research evidence suggests that the best way to tackle educational disadvantage is to target resources to the most disadvantaged schools, to reduce class sizes and encourage well planned and systematic interventions. Education is one area in which projected demographic changes (i.e. a reducing birth rate) and economic growth should mean the availability of increased resources. These should be redeployed to address educational disadvantage.

The Agency proposes that extra resources are needed to tackle educational disadvantage at every stage in the educational process, but particular attention should be paid to: tackling educational disadvantage at pre-school and primary school levels; early school leavers with little or no qualifications; and adult and continuing education, particularly in the area of literacy and numeracy.

In relation to pre-school provision, the Agency proposes the establishment of an initiative to support community based provision of pre-school education, building on the large network already in existence. Priority should also be given to extending the *Breaking the Cycle* programme, with a specific focus on the contextual problems faced by pupils in disadvantaged urban and rural settings. The NAPS target to eliminate illiteracy on a phased basis over ten years should receive financial backing in this budget[27]. In this regard, priorities for additional funding are: tutor provision, tutor training, guidance and certification. There is also a particular need to develop strategies to reach unemployed people who are three times more likely than someone in employment to have problems with basic reading. The Adult Literacy and Community Education Budget (£2 million in 1996) should be substantially increased in Budget '98.

Attention should also be paid to encouraging the development of an integrated response to the problem of educational disadvantage at a local level. Structures of delivery which support consultation and partnership, democratic decision-making and which effectively link provision in schools and colleges with that in the non-formal sector and the wider community to ensure a coherent client-focused and area based response to educational disadvantage are required. Further development of meaningful partnerships between parents, young people and schools; between schools and the wider community; at a local level; within the Department of Education and between government departments is needed ■

[24] Callan, T., Nolan, B., Whelan, B., Whelan, C. and Williams, J. (1996). *Poverty in the 1990s: Evidence from the 1994 Living in Ireland Survey*. Dublin: Oak Tree Press.

[25] see, for example: O'Donoghue, M. (1991) *Educational Costs and Welfare Provision for Low Income Families*. Limerick: PAUL Partnership. Daly, M. and Walsh, J. (1988). *Money Lending and Low Income Families*. Dublin: Combat Poverty Agency.

[26] Community Platform. (1997). *Achieving Social Partnership: The Strategy and Proposals of the Community Platform at the Partnership 2000 Negotiations*. Community Platform. pp. 29-31.

[27] Government of Ireland. (1997). *Sharing in Progress: National Anti-Poverty Strategy*. Dublin: Stationery Office. p. 128.

4. Welfare to Work

The decision to move from welfare to work involves decisions around the costs and benefits of taking up employment. The Back-to-Work Allowance and the retention of secondary benefits, such as a medical card, for those returning to work acknowledge this transitionary problem.

However, the social welfare system has been slow to respond to the growing pattern of households with long-term combined (i.e. welfare and work) income sources. Encouraging the transition from welfare to work and acknowledging welfare/work combinations would allow welfare recipients to take advantage of emerging work opportunities, while secure in the knowledge that they have an income safety net. Such an approach would also be relevant to the growth in seasonal work, particularly in rural areas.

Proposals are made here in relation to two central areas that require reform: family income support and housing income support.

4.1 Family income support

Addressing the difficulties associated with Family Income Supplement (FIS)

Government policy has prioritised a reformed FIS as a means of improving work incentives for low income families *(Partnership 2000)*. This was one of four options outlined in the report of the tax/ welfare integration expert group. This expert group pointed out that the FIS option would militate, in the longer-term, against other options such as an integrated child benefit or a child benefit supplement. The Agency is opposed to this FIS policy choice as, in principle, it favours the route of an integrated child benefit. However, given the government's decision in favour of FIS, the Agency wishes to contribute to discussion on how FIS could be enhanced.

There are two major weaknesses associated with the scheme: the low take-up of benefit, estimated at 40 per cent of potential beneficiaries and 63 per cent of potential cost; and the high rate of tax-cum-benefit withdrawal (poverty trap), which can exceed 100 per cent for those affected by marginal tax relief (FIS is withdrawn at a rate of 60p in the pound, while marginal tax plus PRSI can take 47p in the pound, a combined withdrawal rate of 107 per cent). Another set of difficulties linked to FIS arises from its interaction with the increasing array of similar in-work benefits[28] in terms of duplication, poverty traps, horizontal equity and long-term subsidisation of low wage employment. Finally, there are issues pertaining to the exclusion of low paid self-employees, the hours threshold for eligibility to the scheme (19) and the absence of an allowance for a working adult dependant.

The current focus of FIS reform is on reducing the poverty trap, through calculating entitlement on a net income basis. The first stage in this process was introduced in the 1997 Budget, where PRSI contributions and levies were exempted from calculations of earnings. Ironically, these deductions are not central to the high tax/benefit withdrawal rates associated with FIS and therefore will have minimal impact on this issue.[29]

A move to FIS on a net income basis will undoubtedly address the issue of marginal tax/welfare rates over 100 per cent. However, it will also have a number of drawbacks:

[28] i.e. one parent family payment, back-to-work allowance, retention of child dependant allowances for 13 weeks and Jobstart (£80 subsidy to employers).

[29] see Callan, T., O'Neill, C. J., and O'Donoghue, C. (1995). *Supplementing Family Income.* Economic and Social Research Institute. Policy Research Series. Paper Number 23.

[30] *op cit* pp.32-34.

[31] The Agency's recent submission to the Minimum Wage Commission outlines the additional supports required to prevent poverty in the event of the introduction of a national minimum wage. Copies of the Agency's submission to are available on request.

[32] Copies of the Agency's discussion paper *Lone parents, labour market policy and the community employment programme* (August 1997) are available on request.

[33] Details of the Agency's proposals, and how such a payment could be designed to rationalise housing subsidies in other tenure groups can be found in the Agency's submission to the Interdepartmental Committee on the transfer of the administration of SWA rent and mortgage supplementation to local authorities (July 1996), which is available on request.

- by making more families eligible for FIS, it will increase the number of beneficiaries exposed to high tax/welfare withdrawal rates of 70 - 90 per cent;
- the additional expenditure under the scheme will primarily benefit middle income families, with no gain for those on the lowest incomes (who do not pay tax or PRSI).

Another means of addressing the poverty trap associated with FIS is to reduce the number of families liable to tax at the 40 per cent marginal rate by increasing personal tax allowances (see Taxation Reform proposals, page 4 of this submission).

There is also the fact that more severe poverty traps exist within the system, for example, in relation to housing benefits and differential rent. These problems are not being addressed, although proposals to address them are contained in this submission (see below). There is also the continued disincentive to work faced by a partner of a FIS recipient, in particular if they have to take on child care costs.

Also, this approach does not address the other principal weakness of FIS: low take-up rates. It is assumed that putting FIS on a net income basis will increase take-up, but there is little evidence to suggest that - most families will undoubtedly claim it, but equally more families will be eligible for FIS, so that the overall take-up rate may not increase.

Addressing the take-up issue is as important as putting FIS on a net income basis. To-date, most of the effort to improve take-up of FIS has focused on information dissemination. Research in the UK has pointed to other factors which may inhibit take-up: for example, perceived eligibility and negative attitudes towards dependence on state benefits. Another issue is the means by which FIS is delivered, and whether a tax-based system of identifying and subsequently paying FIS might improve take-up.[30]

Finally, further consideration should be given to the interaction of FIS with other in-work benefits and the long-term implications of these in terms of providing a permanent subsidy to low paid employment. In particular, the issue of introducing a minimum wage should be looked at as a quid-pro-quo for public subsidisation of low paid work.[31]

One Parent Family Payment

The Agency welcomes the introduction of the One Parent Family Payment (OPFP) as a welfare payment which reduces the disincentive to lone parents seeking to take up employment. However, the structure of the payment favours low paid employment and creates a poverty trap where lone parents enter higher paid employment (i.e. £12,000 plus). There are also some other anomalies associated with the payment in terms of penalising lone parents with larger families.

The interaction of OPFP and Community Employment (CE) is currently the subject of debate. The Agency believes that it is important that the financial arrangement for lone parents on CE is not disimproved. Furthermore, the effectiveness of CE and other labour market programmes in meeting the employment and social needs of lone parents should be enhanced.[32]

4.2 Housing income support

Withdrawal of rent/mortgage supplements

The commitment in *Partnership 2000* to consider an appropriate tapering arrangement for SWA rent or mortgage supplements is to be welcomed. It is the Agency's view that the best way to alleviate the current poverty traps which exist in relation to these housing supplements would be to introduce a statutory, means-tested scheme of housing income support which would be open to employed and unemployed people. Such a scheme would incorporate a tapered withdrawal of benefit, where income exceeded the eligibility threshold.[33]

The benefits of a statutory means-tested housing support scheme would be to:

- remove poverty traps and increase incentives to work;
- reduce welfare dependency;
- simplify the system of housing support;
- strengthen the social housing sector in general;
- eliminate anomalies between schemes of housing assistance;
- make public subsidisation of housing more transparent.

While it is impossible to estimate the cost of such a scheme without further consideration of the exact eligibility criteria, etc., funding could be allocated from current commitments for increased investment in social housing. Also by rationalising current housing subsidies, savings could be made by ensuring that housing needs are met in a cost effective way, be that by the local authorities, the private sector, the voluntary sector or combinations of these ■

5. Other Anti-Poverty Measures

This budget should . . . be audited to ensure that it is consistent with the principles set down in the NAPS and agreed by government as the most strategic approach to tackling poverty and social exclusion. . . . budget proposals should be made subject to independent analysis with regard to their distributional effects

5.1 National Anti-Poverty Strategy

This is the first budget since the publication of the NAPS. The strategy marks the development of agreed targets and goals to fight poverty and social exclusion. In the NAPS there is a commitment that the impact of poverty should be a key consideration when decisions are being made about spending priorities in the context of the budget.[34] This budget should, therefore, be audited to ensure that it is consistent with the principles set down in the NAPS and agreed by government as the most strategic approach to tackling poverty and social exclusion. To this end, *budget proposals should be made subject* to independent analysis with regard to their distributional effects.[35] It is important to note that this does not necessarily imply additional government expenditure.

5.2 Supporting community-based anti-poverty work

Supporting the work of the voluntary and community sector is vital to tackling poverty. Continued support is needed for community-based approaches to tackling disadvantage such as the Local Development Programme. Particular attention is needed to target support for anti-drugs work with young people in areas identified by the Task Force on Measures to Reduce the Demand for Drugs. Continued government recognition of the valuable work carried out under the EU Peace and Reconciliation Programme is also vital in fostering social inclusion in the border counties. Further encouragement is also needed to facilitate the increased involvement of the private sector.

Community Development Programme

The Community Development Programme, operated by the Department of Social Community and Family Affairs, provides valuable resources to locally based community development groups engaged in anti-poverty work. The Agency welcomes the increased resources that have been allocated to the programme in recent years and believes that further funding is required to enable more projects to be funded and for adequate support and management systems to be put in place.

National Anti-Poverty Networks

The value which national anti-poverty networks[36] bring to the policy-making process has been clearly identified through, for example, their involvement in the development of the National Anti-Poverty Strategy and to *Partnership 2000* through their involvement in the Community Platform. The continued support of the national networks is essential to enable them to broaden and develop their membership, provide information/newsletters on relevant issues, represent the particular sectoral interest concerned on national policy fora and to undertake research and develop policy proposals.

The Agency recommends that the core costs of a programme of support to national networks in 1998 should be £35,000 per network. This would cover the employment costs of a network co-ordinator (including social insurance, travel, etc.) a contribution to the overhead costs (rent, heat, light, etc) and a contribution to some of the core activities of a network including newsletters and other publications, seminars and policy work (including research and publications).

5.3 Urban renewal

The Agency welcomes government proposals to re-orient the new urban renewal scheme towards enhancing the economic and social benefits for local communities, as recommended in the KPMG review. This shift should be copper-fastened in the guidelines being prepared for the scheme, through a change in the name to urban regeneration and by a greater targeting of the scheme on local authority housing areas in the main cities and suburbs. Furthermore, the Agency supports the introduction of a parallel grants programme for renewal projects promoted by not-for-profit groups and a linkage scheme whereby a proportion of the value of tax incentives is reserved for investment in community facilities and economic activity ■

[34] Sharing in Progress. (1997). *op cit.* p20-21.
[35] see also O'Toole. (1997). *op cit.* p23.
[36] National anti-poverty networks currently funded by the Agency are: Community Workers Co-operative, European Anti-Poverty Network, Forum of People with Disabilities, Irish National Organisation of the Unemployed, Irish Rural Link, Irish Traveller Movement and One Parent Exchange and Network.

COMBAT POVERTY AGENCY

Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8

Tel. 353 1 670 6746
Fax. 353 1 670 6760