POLICY SUBMISSION

Putting Children First: Policy Priorities for Sharing the Benefits of Economic Growth in Budget 2001

October 2001

Combat Poverty Agency
Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8

Tel: 01 670 6746
Fax: 01 670 6760

Email: info@combatpoverty.ie
Web: www.combatpoverty.ie

Introduction

'Having achieved economic growth, the challenge for us now is to ensure that the benefits are shared fairly'. So stated the Minister for Social, Community and Family Affairs, Dermot Ahern TD, in a recent newspaper article. This priority is in keeping with the poverty-reduction targets of the National Anti-Poverty Strategy. The main mechanism for sharing our growing wealth is the Budget, where government can use the tax and welfare systems to ensure that all citizens benefit from the Celtic Tiger. This document outlines some policy options to achieve this end I Budget 2001, which the Agency is presenting to government in line with its statutory policy advisory role.

Part 1: the policy context for Budget 2001

Economic and social context

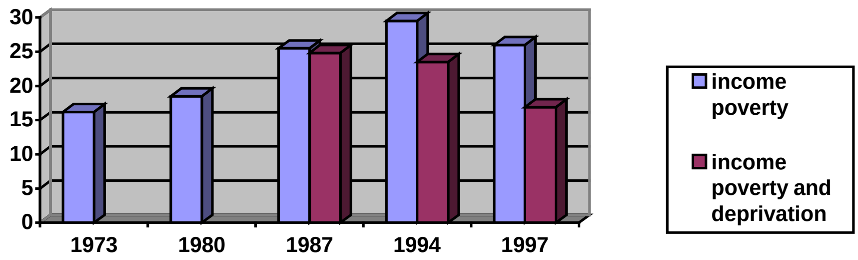
It is useful to remind ourselves of the benign macro-economic situation. The Irish economy continues its upward spiral, with the latest forecasts suggesting a growth rate of 8 per cent in 2000, leading to an increase of 4.2 per cent in employment (78,000) and a rise in personal disposable income of 11.8 per cent. This strong economic performance is reflected in the exchequer finances, with a surplus of almost £2 billion in prospect due to higher taxes and lower unemployment payments. The one economic downside is inflation, which now exceeds 6 per cent. There are also suggestions of a decline in the quality of life, as evidenced in traffic congestion and environmental degradation. The latter highlights the need to shift the focus from economic growth to sustainable improvements in economic wellbeing.

A key element of economic wellbeing is the way our increased wealth is shared out among the population. It is clear that economic growth is not lifting all boats in an equitable manner. Those not in the paid labour force are being left behind, while low paid workers and those with dependants do not gain as much as higher paid households where all members work. Differential benefits of economic growth are reflected in income inequality, with the poorest fifth of households accounting for 5 per cent of total income while the most affluent 20 per cent have 44 per cent or nine times more. Extreme income inequality is reflected in high relative poverty rates: a quarter of children and a fifth of adults are in households with a weekly income below half the average. Those most at risk of poverty are in households not in paid work, such as the unemployed, the ill or disabled, those working at home and the elderly.

Child poverty: a threat to equality of opportunity and economic success

Of particular concern is the disproportionate number of Irish children living in poverty. Recent research reveals that a quarter of children are in households with below half-average incomes and 17 per cent experience a combination of low incomes and deprivation of basic necessities. Our child income poverty rate is 50 per cent more than the European norm. In addition, children are more likely to be poor than are adults in Ireland, bring almost twice as likely to experience severe poverty. Child poverty has fallen in recent times, thereby reversing a long-term deterioration in the relative situation of children observed since the early 1970s. The improvement is greatest when the consistent poverty measure is used (down a third). The gap in poverty risk between children and adults has also narrowed.

Percentages of children in income poverty (50% line) and experiencing income poverty (60% line) and deprivation, 1973-97



Children in out-of-work families are at greatest risk of poverty (ie where a parent is unemployed, ill or disabled or engaged in home duties). Such families account for two-thirds of all poor children. This pattern is accentuated for children in consistent poverty, with over half in unemployed families alone. Working families, though having a low poverty risk, still account for 30 per cent of poor children. Children in lone parent and very large families are more likely to be poor. However, poor children are to be found in a variety of family sizes: two-fifths are in families with two adults and three + children; a third are in families with older and younger children, 18 per cent are in smaller two-adult families and a tenth are in lone-parent households. Poor families are only slightly bigger than non-poor

Child poverty has immediate and lasting effects. The National Anti-Poverty Strategy, the government policy statement on poverty, has the following statement on the significance of child poverty:

> *(L)ack of an adequate income is only one aspect of child poverty. Poor children have been shown to do less well educationally, are more likely to suffer ill health, are vulnerable to homelessness and delinquent behaviour and fewer opportunities in life. Child poverty can seriously damage the life chances of many children, leading to a cycle of deprivation which repeats itself from generation to generation.* [1]

Ending child poverty should therefore be a policy priority, both in terms of improving the wellbeing of children and enhancing their future social and employment prospects. Meanwhile, from an economic perspective, child poverty represents a collective waste of human capital. This has a direct economic cost in terms of lower economic productivity and additional expenditure on compensatory measures. These costs are exacerbated in a context of labour market shortages and an ageing population.

Child poverty has recently emerged as key policy concern at the international level. The UN Convention on the Rights of the Child, to which Ireland is a signatory, obliges government to provide an adequate standard of living for children as a basic right, where families are unable to meet this need. The particular challenge this poses for Ireland is highlighted in a recent national review by the UN Committee on the Rights of the Child.[2] It notes that child poverty undermines the fundamental rights of Irish children, including their access to education, housing and health services. The committee called for immediate steps to tackle child poverty and to make all possible efforts to ensure that all families have adequate resources and facilities.

[1] Ireland (1997), *Sharing in progress. National Anti-Poverty Strategy*, Dublin: Stationery Office, p47
[2] UN Committee on the Rights of the Child (1998), *Concluding observations on the report submitted by Ireland under Article 44 of the convention*.

The challenge of child poverty for rich industrialised nations such as Ireland has also been highlighted by UNICEF. It notes that the combination of economic growth and rising living standards has not eliminated child poverty, as had been expected. UNICEF's recent report reveals that one-in-six of the world's richest children is poor. However, national child poverty rates vary considerably, reflecting economic circumstances and policy responses. Ireland is identified as among those countries with the highest rates of child poverty in the 23 OECD member states, whether using relative or absolute measures. UNICEF poses the following challenge for countries with high rates of child poverty, such as Ireland:

> *The persistence of child poverty in rich countries undermines both equality of opportunity and commonality of values. It therefore confronts the industrialised world with a test both of its ideals and of its capacity to resolve many of its most intractable social problems.*[3]

The EU Commission has recently proposed the adoption by EU member states of a child poverty reduction target of 50 per cent over ten years. In the UK, meanwhile, the government has proposed to end child poverty in a generation. In line with this, the Irish government is considering the inclusion of a child poverty reduction target as part of an updated National Anti-Poverty Strategy, as indicated in the 1998/9 annual report on NAPS and the *Programme for Prosperity and Fairness*. The reduction of child poverty is also likely to be a key theme in the imminent national children's strategy, being drawn up for government by the Minister of State for Children.

Sharing the benefits of economic growth: the policy priority in Budget 2001

Income inequality and child poverty are not inevitable features of industrialised society: Ireland is more unequal and has higher child poverty rates than comparable countries. This suggests that these problems are primarily of our own making, arising from the concentrated nature of unemployment and the low levels of child income support. The challenge in Budget 2001 is to redistribute our wealth and jobs in a fairer manner. We cannot rely on the argument that money is tight: last year's Budget distributed over £1.6 billion in tax reductions and welfare increases. So affordability is no longer the issue, it is how we choose to allocate the additional resources.

How, then, can the government achieve its stated goal of fair shares for all citizens? First, we need a radical departure from recent Budgetary policies in terms of the share out between tax and welfare changes. Here an important lesson can be drawn from last year's 'give-away' Budget: spending three-times as much on tax reductions (£1,200 billion) as on welfare increases (£400 million) is a recipe for greater inequality. Thus, affluent households gained up to four times more than those on lower incomes. Second, we require structural reforms in the tax/benefit system, including a new benchmark for increasing welfare rates, a greater focus on supporting households with children and improving the returns from lower paid work. Third, we need to revisit the policy direction in recent Budgets which has reduced tax rates across a range of measures: company profits, personal incomes and capital assets. As a result, Ireland now has among the lowest tax take as a percentage of GNP among EU member states. There are long-term implications of this in terms of narrowing the scope to expand government expenditure in the future.

In this context, the Agency proposes a threefold poverty-reduction strategy for implementation by government in Budget 2001:

---

[3] UNICEF (2000) *Innocenti Report Card* No 1 ; Florence: UNICEF

- Increase direct cash support for households with children;
- Target additional resources at households on welfare and low pay;
- Improve public services which address key aspects of social exclusion.

Part 2: tax/welfare proposals in relation to children

Increase income support for all children

A key policy objective is to share the costs of children with families. Since 1986, the sole mechanism for sharing the costs of a child has been child benefit. The redistributive rationale underlying child benefit reflects three key policy objectives:

- investment in children are an economic asset for the future;
- horizontal equity between households with and without children;
- balancing income over the lifecycle needs of families, as with pensioners.

Child benefit has many attractions as a means of child income support: high take-up and low administration costs, equitable payment to all families, avoidance of unemployment traps and recognition of mothers as the primary carers of children (NESC, 1980; Commission on Social Welfare, 1986; Child Benefit Review Committee, 1995). Nolan (2000; 92)) quotes Gordon Brown's (UK chancellor of the exchequer) endorsement of child benefit as 'the fairest, the most efficient and the most cost-effective way of recognising the extra costs and responsibilities borne by parents'.

The key policy issue in regard to child benefit is what proportion of the costs of children the payment should represent (Mangan, 2000). In practice, payment rates have been developed in an ad hoc fashion, either in line with inflation or, in more recent times, incorporating significant improvements in real terms. In keeping with this approach, the *Programme for Prosperity and Fairness* refers to 'substantial progress' in the rate of child benefit, though its target of a £100 child benefit (£23.07 per week) for the higher family size rate is a significant departure from previous policy aspirations. Since 1993, child benefit has gone from £15.80 to £42.50 per month, representing a doubling of the real value of the payment. Other enhancements include a lower threshold for the higher payment for children in larger families (from sixth to third) and a higher age cut-off (from 18 to 19 years). Despite these improvements, the basic payment on a range of comparisons remains very low: 29 per cent of the basic costs of a child and 11 per cent of the old age pension. It is also relatively low compared to child support in EU countries, including the UK, though the gap is narrowing (Bradshaw et al, 1993; Child Benefit Review Committee, 1995). A major obstacle to increasing the rate of payment is the cost involved, though this barrier has diminished in recent years with falling child dependency rates.

An ongoing debate in relation to increasing child benefit is whether it could be better targeted at those in greatest need, thereby containing costs. Discussions on targeting of child benefit have taken two main forms. The first of these is to differentiate payments by selected demographic characteristics of children, such as family size or age. The payment of a higher rate for children in larger families has long been justified on the basis of their higher risk of child poverty and because wages are not adjusted to take account of number of child dependants (Commission on Social Welfare, 1986). The importance of the family size adjustment has increased as the threshold for the higher payment has been reduced to the third child. At the same time, the premium for children in larger families has fallen from over 50 per cent of

the basic rate in 1985 to 30 per cent in 2000 (though this may be set to change with adoption of a £100 higher rate target). Recent child poverty data reveal that children in larger families are significantly more likely to be poor than those in small families, especially in terms of a combined poverty and deprivation measure (Nolan, 2000). Numerically, these households account for approximately 40 per cent of poor children. At the same time, there is evidence of savings from having multiple children, though these may not be as relevant where poor children are involved (Conniffe and Keogh, 1988). Another demographic differentiation, age, has never been a feature of child benefit, though one was proposed by the Commission on Social Welfare, in particular to take account of the additional school-related costs of older children. The findings from studies on the costs of a child confirm this (Carney et al, 1994, record a differential of 130 per cent). It would seem that an age differential is more appropriate to child dependent allowances than child benefit.

A second mechanism for targeting child benefit is to restrict the payment to low-income families. This issue has regularly featured in government reports and policy proposals dating back to the introduction of child benefit in the mid 1980s, with two main variants: a means-tested child benefit supplement or a taxable (or integrated) child benefit. Both options pose various administrative, technical and political problems which to-date policy makers have been reluctant to confront (Callan et al, 1995; Child Benefit Review Committee, 1995; Tax/welfare Integration Group, 1996). A restricted child benefit might also undermine popular support for the payment and hasten demands for the re-introduction of child tax reliefs. An alternative approach may lie with recent proposals to restrict the transferability of tax allowances and bands for married couples. The savings could fund an enhanced child benefit payment, as well as eliminate the waste of public resources on households without dependant children (see later discussion on a universal childcare payment).

Finally, the increased reliance on monthly child benefit to provide basic child support introduces money management issues for welfare families, an issue which also arises due to the delayed timeframe for recording annual increases in child benefit.

The Agency proposes the following reforms in child benefit:
- increase child benefit to £13 and £17 per week
- align increases in child benefit with annual changes in tax and social welfare
- pay child benefit on a fortnightly basis, eventually moving to a weekly payment

Introduce a minimally adequate welfare payment for children
Ending child poverty requires the payment of an adequate minimum rate of child income support. The combined value of child support for children in welfare-dependant families is illustrated in table 1. The minimum value of payments is £24.99 (which the majority of children receive) and the maximum is £32.20, the equivalent of

Table 1: Child income support for families on welfare[4]

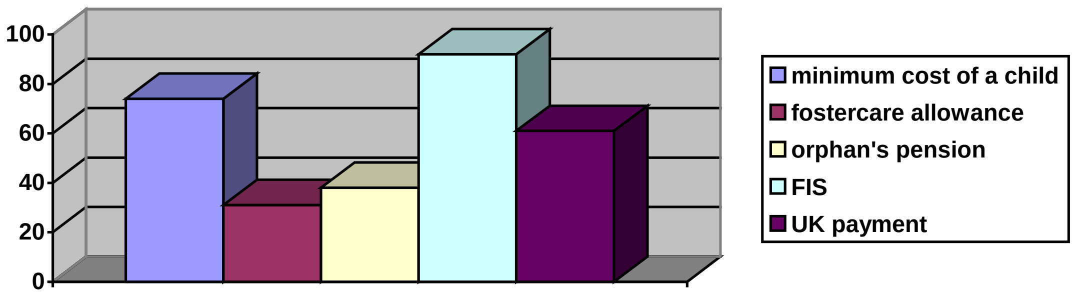
	Minimum	Maximum
Child benefit	£9.80	£12.92
Child dependant allowance	£13.20	£17.00
Clothing and footwear	£1.21	£1.50

[4] The value of the medical card has been excluded because of lack of information on its value and the fact that it is dependent on actual use rather than a standard rate of payment.

School books	£0.30	£0.30
School meals	£0.48	£0.48
Total	**£24.99**	**£32.20**
Adult equivalent	*0.33*	*0.42*

33 and 42 per cent of the lowest adult payment. To what extent can these be considered adequate? Research has been undertaken in order to estimate a minimum payment for children by the Combat Poverty Agency using a budget standards methodology (Carney et al, 1994). Uprated by inflation, this suggests an average minimum cost of a child of almost £34, with a range of between £20 and £46, depending on age. The maximum child welfare payment approximates to the average cost (less than £2 of a difference), while there is £9 of a gap with the minimum payment (equivalent of 74 per cent). The closest official measure of child costs is the allowance paid in respect of children placed in fostercare. The current value of this allowance is £71.55 for under 12s and £85.75 for those aged 12 or over, with child benefit also payable. The combined fostercare allowance/child benefit is three times the minimum child welfare payment, a difference in real terms of £70 per week (equivalent to 31 per cent). An alternative official guide is the rate of orphan's allowance/pension, currently £55.60 (38 per cent). Equally, the average rate of child income support under FIS is £17.44, exceeding even the highest rates of CDA (92 per cent equivalent). It is also interesting to compare the basic Irish rate with that in the UK, where the highest rate of CDA is ST£31.75 or IR£41 (61 per cent equivalent).

Child income support as a proportion of various adequacy measures



An alternative way of assessing the adequacy of child welfare payments is to calculate the additional amount need to bridge the gap between current payments and the 50 per cent income poverty line (table 2). The gap can be analysed at two levels: households and children, and taking different types of families. For a lone parent with one child in receipt of the one-parent family payment, their combined income is £102.50 per week. The estimated equivalent 50 per cent poverty threshold is £153.65 per week, leaving a considerable deficit of £51.15 or 33 per cent before that family can escape poverty. Just looking at the child component, the gap is £13.12 per week or 34 per cent of the poverty threshold. For a long-term unemployed couple with three children, their combined income is £196.60, as compared to an estimated equivalent 50 per cent poverty threshold of £306.15. This gives a shortfall of £109.55 or 36 per cent of the poverty threshold. Taking children only, the gap is a massive £42.27 or 37 per cent of the poverty threshold. Ending child poverty for families not in work depends on reducing these deficits through higher child income

support. Increasing payments in line with or slightly above inflation will not reduce these deficits at a time when incomes are increasing by double digit amounts. An explicit strategy of income distribution in favour of low-income families is required. How has welfare policy addressed this challenge in recent years?

Table 2: The child poverty gap 2000

	welfare payment	***50% poverty threshold[5]***	***gap (%)***
Lone parent with one child	£102.50	£153.65	£51.15 (33%)
Child component	£25	£38.12	£13.12 (34%)
Couple with three children	£196.60	£306.15	£109.55 (36%)
Children component	£72.10	£114.37	£42.27 (37%)

Since 1994, improvements in child income support for welfare families have been almost exclusively channelled through child benefit. Having reached the interim benchmark set down by the Commission, CDA rates have been allowed to slowly devalue in line with inflation. Consequently, while the total value of payments (CDA and CB) has increased by between 15 and 20 per cent in real terms since 1994, this has not been sufficient to maintain their relative value compared to adult welfare rates or average earnings. This has minimised the improvement in the financial position of children in recent times. Further improvements in the value of child income support for welfare-dependent families are now dependent on the rate of increase in child benefit. Because of the costs involved in increasing child benefit, a significant improvement in the rate of payment is extremely expensive. For example, the record £100 million expenditure in child benefit in Budget 2000, though representing a 23 per cent rise in child benefit, only delivered an increase of 8.7 per cent in the combined CDA/CB package. This compares with the increase in adult welfare rates in the budget of between 4 and 9 per cent.

Other issues relating to an adequate child welfare payment is the continued absence of an age variation to take account of the higher costs of older children, as illustrated in the costs of a child study and Conniffe and Keogh (1988) (though the differentiated clothing and footwear allowance can be seen as a partial acknowledgement of this). There also remains a difference of up to 30 per cent in CDA rates based on the welfare status of recipient, with children of unemployed families getting the lowest payment. Yet, such children face the highest poverty of all labour market categories (Nolan, 2000).

The Agency proposes the following measures:

---

[5] This is calculated by uprating the average weekly household equivalent income in the 1998 Living in Ireland to 2000 by the annual rate of increase in personal disposable income (10.6% and 11.8%). The equivalence scale used is 0.66 for an additional adult and 0.33 for each child).

- Set out a target minimum payment for children in welfare-dependent families and a timeframe for meeting this minimum amount;
- Increase and restructure CDAs on an age-related basis, with £14 for children aged 0-11 years and £18 for children aged 12+. (Together with the recommended increase in child benefit, this would give a combined minimum child income of £27 to £31 per week, an improvement of up to £8 on what is currently paid.)

Enhance education-related supports for low-income families

The importance of education as a route out of poverty is widely accepted. However, there is widespread evidence of poorer children do not benefit to the same extent as better-off children. One contributory factor to this underachievement may lie with the costs associated with education. Education, while nominally free, has always assumed a significant parental contribution. This is evident in the various participation costs associated with attending school: uniforms, books, meals, transport, extra-curricular activities; as well as the obligatory 'voluntary contribution' to the operating costs of schools. Various bodies, including the Agency, have sought to measure the financial impact of education on low-income families.[6] These reveal quite significant expenditure demands, both in absolute and percentage terms, on already tight family budgets. For example, an Agency study suggests that education expenditure represent 8 and 16 per cent of the weekly minimum costs of rearing a child. The burden that education imposes on the budgets of low-income families is illustrated in research by the PAUL Partnership, while an Agency study highlights school-related costs as being a important factor in people's use of moneylenders as a stop-gap income supplement.[7]

The costs of education are likely to have intensified in recent years for four reasons:

- **increased expense in attending school**
  Higher school costs derive from three sources: increases in the basic costs of school uniforms, shoes, lunches; expansion of the school curriculum, requiring more books and other school materials (such as computers) to be purchased by parents; and the growth of extra-curricular activities, such as sports, drama, arts, most of which are funded through parental contributions.

- **children are longer in the school system**
  Longer participation is apparent at both ends of the education spectrum. Attendance at pre-school education is increasingly the norm, a pattern recognised in recent government policy reports, such as the White Paper on Early Childhood Education and the Commission on the Family. At the other end of the education spectrum, children are staying longer in school, with participation in the senior cycle of secondary school is now close to 90 per cent. Again, this pattern has been endorsed by policy, including raising the mandatory school-leaving age to 16 years. There has also been a huge increase in participation in post-leaving certificate education, both certificate courses and third-level colleges. The longer time spent in school is already recognised by the retention

---

[6] National Parents Council (Primary) (1990*), The cost of free education: a survey in the cost to parents of free primary education in Ireland*, Dublin: author.
O'Donoghue, M, *Educational costs and welfare provision for low income families*, Limerick: PAUL Partnership Limerick.
Carney, C, Fitzgerald, E , Kiely, G and Quinn, P (1994), *The cost of a child*, Dublin: Combat Poverty Agency

[7] Daly, M and Walsh, J (1988), *Moneylending and low income families*, Dublin: Combat Poverty Agency

of child dependent allowances for children attending education up to age 22 years.

- **higher opportunity costs associated with education**
  This derives from the increase in employment opportunities for young people. Many of these new jobs require minimal qualifications and pay reasonably well. There are especially attractive to school-going children from low-income backgrounds, where parents are unable to provide spending money. The result is that the income foregone in attending school has increased.

- **limited value and low take-up of school-related income supports**
  The spiralling costs of education have increased the financial burden on low-income households with school-going children and made the provision of welfare support of even greater importance. However, the value of various school-going subventions has not kept pace with the rise in costs (including the higher education grant), thereby worsening the position of low-income families. Another problem is the low take-up of these benefits due to unclear eligibility criteria, limited awareness, restricted availability and inadequate content.

There is little evidence that the costs of education directly stop children from attending school. It is more likely that the increased financial pressures on families to make ends meet intensify their deprivation of basic necessities and activities, including a gradual withdrawal from participation in education. For example, lack of adequate food and nutritional intake can inhibit children's capacity to learn and make them listless and disruptive in school. The importance of school welfare benefits in tackling educational disadvantage is recognised in the National Anti-Poverty Strategy, where ‘increased support towards the cost of participation in education for welfare dependent and low income families' is seen as a means of eliminating barriers to education.[8] Already a large number of school-related schemes exist.[9] However, serious questions can be raised about the adequacy of provision, the coverage of need and the take-up of entitlement under these schemes. In addition, the penchant for smaller labelled schemes acting as 'top-ups' to mainline provision runs counter to the rationalisation of schemes advocated by the Commission on Social Welfare and, more recently, the Comptroller and Auditor General.

The Agency recommends the following actions to increase the value of education-related benefits for low-income families:

- improve the coverage and take-up of benefits through a welfare rights approach;
- enhance the value of benefits so as to fully meet minimal costs;
- strengthen the linkages between benefits and wider school policies to as to maximise the added value of these schemes in terms of educational attainment.

---

[8] Government of Ireland (1997), Page 10

[9] This package includes:

- school clothing and footwear scheme
- school meals scheme
- school books scheme
- school transport scheme
- exemption from exam fees
- SWA exceptional needs payments for First Communion and Confirmation
- higher education grant.

Provide a childcare subsidy for all children aged less than five years

There is a growing case for the public subvention of childcare as part of policy to assist with child-rearing costs for all families. The main support for childcare is the transfer of allowances and bands for one-earner married couples within the tax system, which indirectly subvents the childcare provided by a parent in the home (Fahey, 1998; Commission on the Family, 1998). However, this tax break is poorly targeted in that it does not benefit families outside the tax net, non-married families or families who purchase childcare services. A similar assessment can be made of the new home carer's tax allowance. The Commission on the Family examined the role of income support policies in relation to the 'unacknowledged hidden costs of rearing children'. It identified the limited assistance with the care of pre-school children as a significant gap in policy, especially when compared with provision for older children:

> *In relation to childcare, the state assumes a significant element of the care responsibility for children when they are old enough to attend school through the education system. It is in the younger age groups that childcare responsibilities are most costly. In particular, it is in the years before entry into school that the issue of parents withdrawing (fully or partially) from the paid labour force to care for children, or incurring substantial childcare costs, arises most sharply.* (p63)

The Commission advocated an annual financial investment of £260 million for families with younger children in order to ensure equitable treatment with school-going children. In considering how to allocate this money, the Commission emphasised the importance of supporting parents' choice in relation to how they care for their children. In addition, the Commission explicitly rejected the introduction of tax allowances as a means of supporting childcare costs as inequitable and potentially divisive between one and two-earner families. The Commission suggested a childcare allowance, either per parent (£30) or per child (£20), for the care of children up to the age of 3. The Commission identified a restriction on the transfer of married couples' tax allowances and bands as a way of funding its childcare proposals.

Since then, the Working Group on the tax/welfare treatment of households has further developed the Commission's ideas (1999). The working group approached the issue of child income support from a somewhat different perspective: the consistent and equitable treatment of different household types (married, cohabiting and single parent). It saw enhanced support for children as a means of overcoming present anomalies in the treatment of families. It put forward two policy options based on a redirection of the resources involved in the transfer of tax bands between married couples (giving an estimated revenue yield of £367 million in 1998/9).[10] Option one was a general increase in child benefit of £32.50 per month (£7.50 per week) and option two was a package including a £30 weekly allowance for parents working full-time in the home, a weekly £20 pre-school education subsidy and an additional £16.50 on child benefit (£3.80 per week). Positive redistributive effects were associated with both options: from non-child households to households with children, from better-off to low-income families, from fathers to mothers and from earning to non-earning households. The first option also significantly improved work incentives for second earners (mainly women) by reducing marginal tax rates, though these would be negated if a 'parent-in-the-home allowance' was the chosen option. A stumbling block to the implementation of either option recorded by the working group was funding, with the Department of Finance and the Revenue Commissioners

[10] The working group also considered a third option, a general decrease in income tax, but this is not considered here as it has no relationship to the provision of a childcare subvention.

stating that the elimination of tax transferabilty would introduce an 'unjustifiable discrimination against one-earner couples'. However, in the light of the tax individualisation reform introduced in Budget 2000, these qualifications no longer hold the same policy weight.

A quite different approach to childcare subvention was adopted by the Expert Working Group on Childcare (1999), based on labour market concerns. Interestingly, its preferred option was to provide a universal childcare subsidy by increasing child benefit. It favoured child benefit on the basis that it goes to all families regardless of employment status or how childcare is provided, removes disincentives to work and 'offers women a genuine choice' (*ibid;* 63). The group suggested a supplementary payment of £20 per week for all children under 13 years as a meaningful contribution to childcare costs. However, at an estimated cost of £728 million, the group rejected this option as too expensive and as not guaranteeing an increase in the provision and quality of (commercial) childcare. As an alternative, the working group proposed a complex package of means-tested subsidies, income disregards under in-work welfare benefits, personal tax relief and tax exemptions for subsidised workplace childcare.

Tax relief was justified by the group on the basis of the disincentives faced by married women in taking up employment. However, these are more effectively addressed by individualisation of tax bands and allowances. Also, it is among low-income parents that the greatest disincentives occur due to a combination of welfare loss, taxation and childcare costs (Expert Working Group on the integration of the tax and social welfare systems, 1996). From an equity perspective, the primary beneficiaries of the proposed £30m expenditure on tax reliefs would be better-off, two-earner households already in work, contrary to the stated expectation of the working group that low-income families would benefit to the greatest extent (p69). Meanwhile, the additional impact on employment of tax relief would be marginal, as the initial beneficiaries would already be in employment. Finally, the exclusion of parents caring for children at home or using informal childcare is contrary to the equitable treatment of households and limits the choice afforded to parents in caring for their children.

The Agency proposes the following changes in the subvention of childcare costs:
- Give a general supplement for all children under 5 of £10 per child per week as part of child benefit or introduce a parental payment for all families with a child under 5 of £20 per week (cost £133m).
- Restrict the transferability of tax bands between married couples over a four year basis or, alternatively, reduce the value of this relief to the standard rate of tax.

These proposals offer a more inclusive approach to childcare support, with a payment going to all children/families regardless either of income or method of providing childcare. This universal approach would complement current policy direction in favour of a single transparent cash payment targeted at the needs of children. Both proposals are quite expensive and involve a broad-brush allocation of resources. These drawbacks would be substantially ameliorated by abolishing the transfer of tax bands as proposed by the Commission on the Family and the Working Group on the Tax/welfare Treatment of Households. Administratively, these two options could be delivered in conjunction with child benefit, bring paid initially every fortnight and eventually on a weekly basis. Neither option has a requirement for receipted childcare expenditure as this would exclude a large number of families. The payment is ring-fenced for the care of children and is payable to mothers as the primary caregivers.

The proposals represent a choice between a per child payment of a flat family payment. The child benefit supplement links the level of support with the number of children being cared for. By contrast, the proposal for a parental benefit provides a flat rate of payment for families irrespective of the number of children. As such, it would confer a greater benefit on smaller families. It also offers explicit recognition of the role of parents in caring for children, a particular concern of the Commission on the Family, and extends the principle behind the home carer's tax allowance to all carers of children, regardless of tax/income status or type of childcare provided. Logically, the home carer's allowance (as it relates to childcare) should be abolished under option 4, thereby reducing the costs of this proposal by over a half. A parental payment also recognises the up-front costs of caring for a child in the home in terms of earnings foregone.[11] The Agency strongly advises against a tax relief as a means of general childcare support. UK research demonstrates that childcare tax relief confers the greatest benefit to those at the higher end of the income distribution, with the largest gains going to two-earner couples already in employment (Duncan and Giles, 1996). In addition, these families have been the main beneficiaries of recent budgetary tax/welfare changes, to the detriment of low-income families.

Assist low-income families with childcare and pre-school costs

Assistance with childcare costs should be seen as part of government policy for tackling child poverty, as set out in the National Anti-Poverty Strategy. The profile of children affected by poverty indicates that parental unemployment is the major cause of child poverty (Nolan, 2000). For younger children the connection is even stronger as their presence has a particularly marked impact on reducing the labour market participation of mothers, thereby reducing family income (Callan and Farrell, 1991. This helps to explain why younger children face a higher risk of poverty than older children (Child Benefit Review Group, 1995; Hill and Jenkins, 1999). The importance of unemployment in terms of child poverty is further illustrated by the finding that Ireland has twice the OECD average of households with children in which no one has paid work (UNICEF, 2000). This reflects both the extent of inactivity among working-age adults (including those out of work due to illness, disability, education and home duties) and the concentration of worklessness (ie multiple unemployment) in certain households (Nolan, 2000; p31).

Recent policy has prioritised reform of income support to facilitate families moving from welfare to work (Expert Working Group on the integration of the tax and social welfare systems, 1996). Government has provided a number of measures to help families back to work, including an enhanced family income supplement and temporary retention of child dependant allowances. However, only one measure, the one parent family payment, incorporates a specific childcare dimension. This scheme allows working lone parents to retain a proportion of their welfare payment up to an earnings threshold of £12,000, in recognition of the childcare and other work-related costs for lone parents. Its success in encouraging lone parents into employment, as well as concerns about its inequitable nature vis-à-vis two-parent families, suggest that the disregard should be extended to all low-paid working families. Targeted support for childcare costs would also improve the labour market opportunities for unemployed mothers, who carry the main responsibility for childcare. Enhancing the economic position of women could be especially beneficial in terms of directing additional expenditure on the needs of children in poor families.

[11] If such general support was not provided, there should be consideration of targeting childcare support for families with high housing costs, including first-time buyers.

One particular form of childcare is pre-school education, which warrants additional policy support. There would be major benefits in terms of the life chances of poor children if their access to early childhood education was enhanced. To-date, early education is mainly associated with middle class childhood. From an equity perspective, it would be important to ensure that poor children are not disadvantaged at this early stage in their education development. Furthermore, research indicates that early education can be particularly beneficial in preventing incipient educational disadvantage (Department of Education, 1999). Improving access to pre-school education is therefore cost-effective as compared to interventions when children are older. Current provision for poor children is extremely haphazard, with one national scheme catering for 1,500 pupils and a small number of locally-funded projects. Introducing a programme of financial assistance for low-income families would improve their take-up of private pre-school provision. Such support would complement the focus on improving provision for disadvantaged groups in the government's white paper on early childhood education (*ibid*). It would also be in keeping with the Commission on the Family's proposal for a universal pre-school subsidy, albeit with an emphasis on targeting those in greatest need.

The Agency proposes:

- Include a childcare disregard (or equivalent cash supplement) of £40 (one child) or £60 (two children) for under 5s as part of the family income supplement where both parents are working (including those on community employment). This would be similar to the disregard available to lone parents under the one parent family benefit. This would be an automatic benefit and not dependent on the production of receipted childcare.
- Provide parents attending state training or education programmes with a free childcare service as part of these activities.
- Introduce a means-tested pre-school allowance of £30 (one child) or £45 (two children) for all children aged 3 and 4 years attending pre-school or in childcare for specific child development purposes (eg health board referral). The allowance would only be payable for receipted attendance at pre-school and should be administered as part of the mainline social welfare system.

Part 3: general tax/welfare proposals

Uprate welfare payments in line with earnings

Having achieved the minimum payment rates recommended by the Commission on Social Welfare, recent government policy has reverted to an inflation-plus approach to welfare payments, though with significantly higher increases for the elderly. This has widened the differential between those on welfare and those in paid employment. The way forward here is to increase welfare payments in line with personal incomes. This implies a rise of 10.8 per cent in welfare payments or £8.40 per week in the lowest adult rate. However, this figure should be seen as a minimum: further improvements may be warranted depending on the scale of tax changes introduced in Budget 2001 over and above that need to keep in line with the rise in incomes. The key principle should be to ensure a similar gains for those on welfare as provided for taxpayers.

An even higher increase in required in the adult dependant payment to bring it up to 70 per cent of the adult rate, which is required for a minimum living standard. There is also a need to compensate welfare recipients for the higher than expected rate of inflation in 2000, which has resulted in a decline in the real value of welfare incomes by almost 3 per cent. An exceptional payment of this value should be made

immediately after the Budget, which would be additional to general welfare increases. This could be a cash payment or take the form of a savings bond.

Reduce the tax burden on the low-paid

The benchmark for the increase in tax allowances/credits is the proposed minimum wage. Under the current tax structure, this basic wage would be liable for income tax (and PRSI). Given the expense involved in increasing tax allowances to the required amount, this will take a few years to achieve. The forthcoming Budget should commence the process of meeting this goal by increasing personal allowances by £800, plus a £200 increase in the PAYE allowance (total cost £365m). This focus on personal allowances means that there should be no change in either tax bands or tax rates. However, by raising allowances, the point at which workers enter the 46 per cent rate is also increased by an equivalent amount. The Agency sees no basis for a cut in the top rate of taxation, as this exclusively benefits the better-off.

There should also be scope to reform the system of PRSI and levies. The application of PRSI and the health levy to the income schedule is illustrated below. There are two major anomalies with the current system: the exemption of PRSI from earned annual income above £25,400 and the poverty trap arising under the health levy when income exceeds £11,250 per annum. We advocate that the PRSI threshold be abolished and a tapered rate be introduced (eg 2 per cent). The additional resources generated by this could be used to increase the PRSI allowance in line with the increase in personal/PAYE allowances (ie c£120 pw).

Turning to the health levy, this imposes a flat rate tax of 2 per cent on all income. Thus, the levy lacks the progressivity of the tax system, though is not quite as regressive as PRSI due to its income ceiling. The levy does incorporate an exemption on earnings below £11,250 or £217 per week. However, once income passes this threshold, then the levy is applied retrospectively on all income, leading to marginal tax rates of over 100 per cent. This anomaly should be urgently addressed, as it particularly affects those on lower incomes. There are a number of options for reform here: the levy could be incorporated into general taxation or a flat rate allowance could be provided or a transitional marginal rate of 5 per cent for those slightly over the exemption threshold could be introduced.

<u>Make the tax system more equitable</u>

Individual treatment under the tax and social welfare code was considered by the working group on the fiscal treatment of households.[12] Particular issues arise due to the differential treatment of cohabiting couples under the two codes. They are treated in the same way as married couples in the social welfare code and as individuals in the tax code. This results in anomalies of treatment, in particular for people moving between the two codes. It can also result in an increased risk of poverty in some instances, which is of particular concern to the Agency, especially where children are involved. In the context of social change, and to reduce anomalies, the working group considered a number of tax reform options for cohabiting couples. The Agency presents two of these for implementation in Budget 2000.

Currently, cohabiting couples - with or without children - are exclusively treated as single people for income tax purposes (unlike married couples who have the option of transferring their allowances/bands). Each partner is allowed his/her own personal

[12] Government of Ireland (1999), *op cit*

allowances etc, but these cannot be transferred to the other partner, nor can one partner share unused allowances and bands of the other. For low and middle income cohabiting couples in particular, this can be a disincentive to the establishment of a formal relationship. The Agency proposes extending the transferability of tax allowances to cohabiting couples. It does not propose extending the transferability of tax bands as it is recommending the restriction of the transferability of tax bands for married couples, as outlined in the previous section of this submission. The cost of extending transferability of tax allowances is estimated to be in the region of £8-15m.[13] Implementation of this proposal would bring about a more equitable and consistent treatment of married and cohabiting couples within the tax code and between the tax and social welfare codes. A requirement for some form of registration or court recognition of the cohabiting relationship may be necessary. International examples of how this can be done are cited in the household review group report.[14]

Another anomaly in the tax treatment of cohabiting couples relates to capital taxation. This especially arises where cohabiting couples seek to the transfer of their principal residence from one partner to the other. Cohabiting couples are treated as strangers for the purposes of capital taxation. The transfer of a principal private residence between a cohabiting couple would generally give rise to (i) Capital Acquisitions Tax (CAT) in the case of both gifts and inheritances, (ii) stamp duty and (iii) probate tax. The Agency proposes that relief should be provided for cohabitees living together for a number of years. The scale of the relief would be to exempt the principal private residence from gift and inheritance tax. This would meet the objective that cohabiting people would have no CAT to pay on their shared residence. This relief could be conditional on the two individuals having lived together for a minimum period and the surviving individual not owning or having an interest in any other residence. This proposal should be applied to all cohabiting arrangements, including siblings and same sex couples. This would be equitable across household types, reduce financial hardship and be relatively easy to administer. Its estimated cost is £5 million.[15]

There have been a number of disturbing revelations in recent times about the opportunities for tax evasion for people in the financial sector. The differential investigation and subsequent treatment of this fraudalent activity, as compared to welfare abuse, is particularly notable. It is a core principle of a socially cohesive society that all members pay their fair share of taxes and claim only their legitimate entitlements. Recent behaviour has cast a cloud over this principle, and every effort should be made to remedy the perception of differential treatment of those with large amounts of wealth as compared to low and middle income earners.

The fiscal treatment of pensions and housing has come under review recently. In the absence of a system of property tax and given the high level of home ownership, the continuation of mortgage interest relief should be reviewed. Possible options here are to reduce the rate of relief and/or to curtail it to the first mortgage only. In the long-term, the abolition of mortgage interest relief could be considered. The standard rating of personal allowances and mortgage and health insurance reliefs, together with the overall reduction in the tax burden, has created question marks about the continued application of 46 per cent rate in other forms of tax relief. This situation results in a topsy-turvy system of benefits for those who are better. The Agency

---

[13] For estimates of costings see *ibid*. Estimates vary because the number of cohabiting couples is not precisely known.
[14] *Ibid*, chapter 9
[15] This is the cost estimate provided by the Department of Finance, see *ibid*.

advocates that all reliefs should be only applicable at the standard rate of personal taxation.

Finally, the government has indicated a policy objective of reducing corporation tax to 12.5 per cent. This will confer major benefit on the business sector, at the same time as profits in this sector are spiralling. The Agency feels that the long-term implications of this reduction should be reconsidered, or else the introduction of a clawback tax, especially in non-traded sectors, might be examined. Another clawback would be to abolish the income ceiling on employers PRSI. Finally, the Agency supports the introduction of environmental and other forms of 'polluter-pays' taxes.
Ireland has recently introduced a minimum wage of £4.40 per hour. The impact of this measure on low wages is diluted by the low threshold for paying income tax and related levies. Increasing PRSI and personal tax allowances should therefore be the priority on the tax side of the Budget. Of course, these measures will benefit all taxpayers, but will be of greatest value to low-paid workers. By comparison, cuts in income tax rates and widening tax bands are skewed towards the better-off.

Part 4: other proposals to tackle social exclusion

Promoting integrated development in disadvantaged localities

The Agency has previously highlighted the need for a strategic focus on the regeneration of disadvantaged urban and rural neighbourhoods. The Agency believes that the socio-spatial patterns associated with social exclusion in urban areas are different to those in rural areas and require a targeted response. These patterns should be a priority for the national development plan through the promotion of a radical investment strategy for disadvantaged areas. This approach would be in keeping with recent EU and OECD policy statements, which are reflected in the new round of structural funds.

A particular focus on urban disadvantage is warranted for two reasons:

- the concentration of half of all poor households in such areas, reflecting the exceptionally high risk of poverty for households in public housing, estimated at 42 percent, as compared to 9 per cent in other housing tenures;[16]

- the inferior living conditions experience in public housing estates, as reflected in the quality of housing and the general social and physical environment, including the growth of drugs/crime;[17]

There is also a need to recognise the particular dimensions of poverty and disadvantage in rural areas, especially those relating to physical isolation and demographic dependence. Thus, it is important to ensure that strategies are developed with regard to the provision of services in rural areas, especially those concerned with educational disadvantage, unemployment and income adequacy.

The Agency advocates that Budget 2001 establishes an urban regeneration social investment fund of £50m targeted at local authority estates. (This could be one strand

[16] B Nolan et al, 1999, *Where are poor households*, Dublin: Oak Tree Press in association with the Combat Poverty Agency

[17] T Fahey (ed), 1999, *Social housing in Ireland*, Dublin: Oak Tree Press in association with the Combat Poverty Agency and the Katharine Howard Foundation

of a wider radical social investment strategy for disadvantaged areas.[18]) This fund would be available to support infrastructural projects, in particular projects which complimented the objectives of integrated area plans under the 1999 urban renewal scheme.

Combat the drugs menace

A strong and evolving community and voluntary sector is an asset to Government in terms of tackling many aspects of social exclusion – particularly in relation to drugs as has been show by the many community groups involved. Closer working between statutory and community bodies and training in community development processes needs to be resourced. Running local organisations/programmes for sharing experience and sharing expertise

To enhance the capacity and experience of groups to analyse, reflect and consider the policy implications of locally based activity in response to the drugs issue. (£10m)

As social partnership grows and new initiatives develop such as the NDP, Local Government Reform, the New Deal in Education, the NAPS, it is clear that there is an increasing role for policy considerations at a local level. It is important that the work done on the ground by local community groups can feed into the variety of anti-poverty strategies – particularly in relation to drugs. Local groups can identify particular policy gaps and strategic approaches in relation to the drugs issues from a local perspective while also bringing a broader, cross community understanding and knowledge – if funded. Local experience can be used by Government to develop more effective national policy. However, this means there is a clear need for resourced support and learning around policy issues at a local level by local groups so that they can link their experience into the broader picture and provide information and learning as to what works well and what isn't successful.

The Agency supported a small Drugs programme involving 7 local groups from which 3 major pieces of research emerged which identified specific needs of clients. Research carried out by community groups is focused and enables groups to identify clearly their role and direction. It therefore enables groups to respond positively to the needs identified in the research and therefore to the needs of the clients.

Strengthen the voluntary and community sector

There has been a significant increase in the volume and range of community development and voluntary activity in recent years. Coupled with this there has been an increase in state funding to this sector, which is very welcome. This growth has created increased needs for support and training for community and voluntary organisations to help them be effective and efficient. Unfortunately, these back up supports have not kept pace with the rate of development in the sector and action and funding is required to address this deficit. This view is reflected in the White Paper on voluntary activity. While some progress has been made in developing local and regional supports, the Agency is particularly concerned about the increasing need to develop national level supports.[19] These supports include technical supports, for example, financial management and legal issues, management and organisational development supports, community development standards and

[18] Combat Poverty Agency (1999) *Poverty and policy. Proposals for a successor to Partnership 2000.*

[19] See Combat Poverty Agency submission on "Supporting Voluntary Activity: A Green Paper on Community & Voluntary Activity & it's relationship with the State."

methodological supports, resource materials, policy supports and evaluation supports. The supports need to be delivered through various methods, for example, training, information and advice and publications. While the Agency has a statutory remit to provide such support to the community development and voluntary sector, it has been significantly hampered in fulfilling this remit because of lack of resources. The Agency is also particularly keen to develop a range of training modules and programmes for statutory personnel on community development and anti-poverty work.

The Agency is committed to working with other national level providers, ie ADM and Comhairle, to enhance and develop the range of supports available to the sector. This process needs to be backed up with additional resources. The Agency recommends that £1.2m be made available to it to develop a significant band of support work for the sector (this would fund four additional programme staff.)

The government White Paper on the voluntary activity proposes a number of changes and developments to current funding and support to the community and voluntary sector. The Agency believes that the budget should set aside monies to begin implementation of key provisions of the White Paper. We recommend an initial budget of £5m for this purpose.

The White Paper consultation process raised, on a number of occasions, concerns about the lack of information and research on the community and voluntary sector, particularly given the rate of development in recent years. The Agency agrees with the recommendation that a research fund should be established and research programme be developed to address gaps in our knowledge and understanding of the issues, nature, scope and trends within the sector and particularly to reflect the connection between the sector and public policy. Therefore, the Agency recommends that a research fund be established with initial state support of £250,000 per annum. The Agency would be happy to provide additional ideas on the establishment and operation of this fund.

Establish a mainstream programme to support national anti--poverty networks

In the *Programme for Prosperity and Fairness*, the government made a commitment to developing and expanding the national anti-poverty networks programme. In response to this, the Department of Social Community and Family Affairs requested the Agency to design a long-term programme of support for the national anti-poverty networks from January 2001. The Agency has now approved a programme which proposes to place the funding of the existing networks on a secure footing, and allows for further expansion and development of the programme on a long-term basis. The proposed costs of the new programme are £1 million in the first year.

As part of its commitments in the strategic plan 1993-1995, the Agency ran a pilot programme with anti-poverty networks between late 1993 and 1995. Four networks were included in that programme: the Irish National Organisation of the Unemployed, The Community Worker's Co-Operative, Irish Rural Link and the European Anti-Poverty Network. In 1995, the Irish Traveller Movement was included in the programme and subsequently the Forum of People with Disabilities and One Parent Exchange Network have also been funded by the Agency.

The aim of the programme has been to assist in the development of an independent voice for people who are excluded from being heard, and their representatives. There have been very significant developments in recent years which offer opportunities at

local, regional and national levels to local and national anti-poverty organisations to represent the interests of groups which are generally excluded.

The Agency, in line with the Department of Social, Community and Family Affairs, believes that in addition to the existing networks it is now timely to expand the programme to include the voices of other groups who have been identified as being at risk of poverty and social exclusion. It is important that the identified groups are enabled to participate in the public policy arena through the programme and contribute their insights regionally and nationally. The Agency believes that in addition to the existing seven, an additional three organisations be included in the programme, in line with the recommendations in the White Paper on voluntary activity. Admission to the programme would be subject to the fulfilment of specified criteria and would be supported and managed by the Agency.

In addition to the expansion of the Programme, the Agency believes that the funding of the existing National Anti-Poverty Networks should be put on a secure footing. Up to this financial year, funding for the existing National Anti-Poverty Networks has been on a year to year basis. Such a funding arrangement inhibits long-term planning and thus the Agency believes that Networks within the programme should be funded on a long-term basis.

The Agency also recommends that a support budget for the national anti-poverty networks is introduced. It is envisaged that this would be used in two ways:

- to make additional funds available to well-established and larger networks
- to support national networking activities in smaller organisations which fulfil certain criteria in line with the national programme.

Improve services to tackle educational disadvantage

The Agency has been running a demonstration programme to combat educational disadvantaged over the last five years. The programme has demonstrated the value of having an autonomous local network comprising a broad range of interests who have a concern about and a role in tackling educational disadvantage as a way of developing effective, integrated strategies in response to educational disadvantage. The CPA programme funded a network co-ordinator in each of the four areas included in the programme. This role has proved central to the success of the network in bringing people together, establishing areas of common concern and developing shared strategies to tackle issues locally. It is recommended that £1.5m is made available to develop and expand this approach to 30 areas around the country.

The experience of the programme has been that greater collaboration between the formal (school) sector and informal (non-school) sectors has resulted in some very imaginative and valuable outcomes for young people and personnel of both sectors.. There needs to be a significant investment in the non-formal/youth sector to enable qualified youth workers to deliver these type of programmes in schools. This investment is not only critical in terms of increasing the number of youth workers in the sector, it is critical in enabling/pushing the formal sector to recognise the role of youth work in addressing the needs of young people experiencing educational disadvantage. The 8 –15 ESLI is pushing this process forward in the 17 selected areas. A youth worker should be employed in each of the 30 areas suggested above.

The programme developed new practice with regard to the involvement of parents in education at the local level. Financial support is required if there is to be real

substance to developing these strategies further. Support enables parents to share information, develop skills and provide advice and support with their peers. However, if there isn't sufficient investment in parents, then there is a danger of paying mere lip-service to the notion of parental involvement. A comparator is the annual investment on preparatory and in-service teacher training. While this investment is essential, a failure to invest similar amounts in parents leaves quite an imbalance. This is particularly true in areas of high disadvantage where there isn't a level playing field in the first instance.

The Agency animated the programme by offering technical assistance, providing opportunities for training and networking, undertaking research and evaluation and developing links with other programmes, initiatives and policy developments. This role ensured that the programme could draw on best practice and share its experience with others – either at local or national levels. Similar support is essential to developing, on a more extended basis, an approach which uses local, broadly based networks to develop integrated strategies to local educational disadvantage.

Conclusion

Our increased national affluence poses challenges as well as opportunities for government in meeting its poverty-reduction targets under the National Anti-Poverty Strategy. A continuation of current policy will see a modest improvement in the living standards of poor households along with a reduction in severe poverty. However, it will make little or no impact on Ireland's high level of relative income poverty, including poor children. A more radical redistribution strategy is called for based on the policy options outlined above. Cost is no longer the issue, it's a question of choosing how resources are shared out through the tax/welfare systems.