

Policy Submission

**Submission to the
Department of Finance
on a Carbon Energy Tax**

October 2003

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1. Introduction

Combat Poverty is a statutory body whose remit is to provide advice on all aspects of social and economic planning in relation to poverty with the aim of preventing and eliminating poverty and social exclusion in Ireland. Combat Poverty welcomes the opportunity to make this submission on the introduction of a carbon tax in Ireland to the Department of Finance.

Combat Poverty understands, in principle, Ireland's commitments under the Kyoto Agreement and how a carbon tax can produce more efficient outcomes in terms of reducing emissions. However, in working towards achieving these outcomes, Combat Poverty is concerned that the implications for those on low income and/or at risk of poverty and exclusion should be taken into account and addressed. Combat Poverty welcomes the Department of Finance's Consultation Paper on the Energy Carbon Tax and in particular the references to ascertaining the impact of the carbon energy tax on low-income households. In addition, we would envisage that the Department of Finance in conjunction with the Department of Environment 'poverty proofs'¹ this major policy proposal. The application of poverty proofing to all major policy proposals is a central aspect of the National Anti-Poverty Strategy and involves indicating clearly the impact of the proposals on groups in poverty or at risk of falling into poverty.

In our submission we address two key issues which are specifically highlighted in the Consultation Paper:

- The impact [of a carbon tax] on households and the appropriate mechanism if low income households were to be compensated; and
- Whether and how any revenue recycling should operate.

¹ Poverty proofing is a commitment under the National Anti-Poverty Strategy whereby 'government departments assess policies and programmes at design and review stages in relation to the likely impact that they will have or have had on poverty and inequalities which are likely to lead to poverty, with a view to poverty reduction'.

This submission provides an analysis of the impact that the proposed carbon tax would have for low-income households. It makes the case for compensation of low-income households as well as providing recommendations on how the carbon tax revenues could be recycled so as to comply with government environmental and social policy objectives.

This submission covers the following:

1. Poverty in Ireland: The policy context and fuel poverty;
2. The implications of introducing a carbon tax for those in low income households; and
3. Options for revenue recycling.

The main recommendations are:

- 1) Combat Poverty recommends that the Department of Finance poverty, gender and rural proof the proposal for the Carbon Tax. Proofing should also include the structuring of any programmes relating to increasing the number of energy efficient households.
- 2) Combat Poverty recommends that the National Fuel Allowance be increased and extended to short-term benefit recipients and families on the family income supplement in order to compensate all further recipients for the increase in fuel due to the Carbon Tax.
- 3) The Combat Poverty Agency recommends a nationwide programme to create more energy efficient homes for low-income households. Particular attention should be given to the social housing sector and areas which do not have access to reticulated gas systems.
- 4) Combat Poverty proposes a that additional revenues from the Carbon Tax (over and above those used to cover the above recommendations) be used to increase the lowest rates of social welfare payments so that it works towards achieving the NAPS target of €150 per week (2002 values) by 2007.

2. Poverty in Ireland

The Overall Poverty Policy Context

The National Anti-Poverty Strategy (NAPS) is the Government plan with for reducing and preventing poverty. This strategy defines poverty as follows: *‘People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society’.*²

Two measures of poverty are generally used in Ireland: relative income poverty and consistent poverty. Relative income poverty is measured by income alone. This measure of poverty defines the proportion of the population falling below a certain income level. The EU poverty line is 60% of median disposable income. In 2001, 60% of the median disposable income was €156 per week³. Relative income poverty increased from 20% in 1998 to 22% in 2001. This reflects increasing income inequality in Ireland and consequently the likelihood of a less socially cohesive society.

Consistent poverty is when an individual experiences relative income poverty and an enforced lack of one or more items on a basic deprivation index⁴, such as a lack of heating or not being able to pay everyday household expenses without falling into debt. In 2001, 5.2% of the population were living in poverty

² Government of Ireland (1997) *Sharing in Progress – National Anti-Poverty Strategy* Dublin: Stationary Office

³ Nolan, B., Gannon, B., Layte, R., Watson, D., Whelan, C., and Williams, J. (2002) *Monitoring Poverty Trends in Ireland: Results from the 2000 Living in Ireland Survey*. Dublin:ESRI

⁴ The deprivation indicators for consistent poverty are:

- One substantial meal each day
- Chicken, meat, fish, or its equivalent every second day
- A “roast” or its equivalent once a week
- Two pairs of strong shoes
- A warm, waterproof coat
- New, rather than second hand clothes
- Lack of heating
- Being able to pay everyday household expenses without falling in to debt

as per this definition⁵. In 1998 the rate of consistent poverty was 8.2%. This definition of consistent poverty was formulated in 1987 and is based on standards and expectations of living conditions prevalent at that time. The ESRI (2002) have argued that it would now be appropriate to revise the indicators used in this measure to reflect new and emerging social needs.

Should the trend in relative income poverty continue this will eventually result in greater consistent poverty as the deprivation measures are adjusted to reflect more contemporary living standards and expectations. In order to prevent an increasing number of households at risk of poverty the policy implication is that the taxation/welfare system will need to redistribute more resources between the better off and poorer groups.

In examining poverty in Ireland certain groups are at a greater risk of poverty than others. The revised National Anti-Poverty Strategy identifies a number of groups that are at high risk of poverty. They are: *'Travellers, women and children in low income households, people with disabilities and members of other ethnic minorities, many of whom are early school leavers...individuals and families living in disadvantaged urban areas or in peripheral rural areas'*⁶. While there are limited data available on the risk of poverty for some of these vulnerable groups, the 2000 Living in Ireland Survey (ESRI, 2002) showed the following;

- Households where the household reference person was unemployed had a 18% risk of being in poverty (below 60% of the median income line) however as a proportion of all households below the poverty line this risk has fallen over the 1990s;
- Households where the household reference person was ill or disabled had a 22.5% risk and this risk has increased since 1998;
- One adult households had a risk of poverty (by household composition type) in 2000 of 49%. This had increased from only 7% in 1994. These

⁵ Nolan, B., Gannon, B., Layte, R., Watson, D., Whelan, C., and Williams, J. (2002) *Monitoring Poverty Trends in Ireland: Results from the 2000 Living in Ireland Survey*. Dublin:ESRI

⁶ Goodbody Economic Consultants *Review of the National Anti-Poverty Strategy* p50

are likely to be mainly elderly people (over 65 years+) and in particular women;

- Households comprising two adults and four or more children had a 10% risk and this had marginally increased since 1994; and
- Households with a single adult with children had a risk of 24%.

The NAPS, *Building an Inclusive Society* (2002) contains targets for poverty reduction within a five-year time period, 2002 – 2007. The overall target is to:

Reduce the numbers of those who are “consistently poor” below 2% and, if possible, eliminate consistent poverty, under the current definition of consistent poverty (Department of Social, Community and Family Affairs, 2002).

In addition the NAPS (2002) also set out targets under the following five key themes:

- Income adequacy;
- Employment/unemployment;
- Education;
- Health; and
- Housing/accommodation.

Income adequacy refers to a key element of the Government’s National Anti-Poverty Strategy which ensures that *‘the net effect of all policies in impacting on income levels in the community (e.g. employment, tax, social welfare, pensions) is such as to provide sufficient income for a person to move out of poverty and live in a manner compatible with human dignity’*⁷. In achieving income adequacy a key objective is to bring the minimum social welfare payment rates up to €150 per week (this rate is in terms of 2002 values). In the recently (August 2003) published National Action Plan against Poverty and Social Inclusion (NAPSincl.) a summary of progress to these targets was

⁷ Government of Ireland (2002) *Building an Inclusive Society – Review of the National Anti-Poverty Strategy under the Programme for Prosperity and Fairness* Dublin: Department of Social, Community and Family Affairs

presented. Of particular relevance under the income adequacy target was that there was still some progress to be made in attaining the target of €150 a week (2002 prices) for the lowest rates of social welfare. The current level is €124.80 per week.

Fuel Poverty

Fuel poverty has been defined as “ the inability to heat the home to an adequate (safe and comfortable) temperature owing to low income and poor (energy inefficient) housing”⁸. Sustainable Energy Ireland⁹ estimates that 62,000 households were in fuel poverty in 2002. It means paying substantially more than the national average for fuel and energy, living in temperatures lower than 18 degrees Celsius in winter, confining one’s activities to only one or two rooms, the inability to install or run efficient means of heating, inability to afford energy saving items in the home, and lack of central heating.

Fuel poverty results from a combination of factors:

- low incomes,
- energy inefficient housing,
- a reliance upon expensive heating appliances and/or expensive fuels,
- a greater need for warmth due to ill health, disability, old age or simply because of spending longer periods at home, for example due to unemployment or caring responsibilities.

Energy consumption is largely income inelastic. This means that households demand energy regardless of income. Using data from the Irish Household Budget Survey 1999-2000, the ESRI¹⁰ documents that on average over 7% of average household income is spent on fuels. For those in the four lowest income deciles this increases to around 10% of their income, and this increases to over 15% for those in the lowest decile.

⁸ Clinch, J.P. and Healy, J.D. (1999). Alleviating fuel poverty in Ireland: a program for the 21st Century. *International Journal for Housing Science*; 23(4): 203-15

⁹ Formerly known as the Irish Energy Centre, Sustainable Energy Ireland is the national energy authority. Primarily it promotes energy efficiency and the use of renewable sources of energy along with reducing the environmental impact of energy emissions.

Contributing factors of the lack of energy efficient homes include a housing stock with the following characteristics: a high proportion of single storey detached residences, a significant number of houses built before the Draft Irish Building Regulations in 1976 and insulation levels amongst the lowest in Northern Europe¹¹. The income required to heat these homes, on average, is three times higher than that which is spent on fuel by average Irish households¹². Also relevant is that all households do not have access to more energy efficient heating systems such as with gas central heating. This is because gas reticulated systems are only found in the main urban areas and mainly in the newer housing stock.

A recent study (Healy, 2003)¹³ identified the social groups in Ireland at greatest risk of fuel poverty. This found that households containing lone parents (with all children under 16 years) are more likely to suffer fuel poverty than any other group with almost 20% in chronic fuel poverty¹⁴. Other households with lone parents (with at least one child aged 16 or more) suffered the second highest incidence of chronic fuel poverty. The third highest group then was households containing men over 65 years who had a risk of fuel poverty of almost 12%. Ireland, closely followed by the UK, has the highest incidence of fuel poverty amongst sole parents and is significantly higher than in much colder countries such as Austria, Denmark and Germany. These countries are likely to have better housing standards, in particular in their social housing sectors. In Ireland, a remarkable 72% of fuel poor lone parents live in social housing. The report concludes that *these findings are particularly damning and indicate that affordable warmth is not being achieved in the social housing sector.*

¹⁰ Scott, S & Eakins, J. (2002), *Carbon Taxes: Which households gain or lose?* Dublin: ESRI

¹¹ See Clinch, J.P. and Healy, J.D. (1999). "Alleviating Fuel Poverty in Ireland: A program for the 21st Century". *International Journal for Housing Science*, 23 (4): 203 - 215

¹² Brophy, V., Clinch, J.P., Convery, F.J., Healy, J.D., King, C. and Lewis, J.O. (1999) *Homes for the 21st Century: The Costs and Benefits of Comfortable Housing in Ireland*. Dublin: Energy Action Ltd and University College Dublin

¹³ Healy, J.D.(2002) Lone Parent Fuel Poverty In Ireland. For One Parent Exchange Network (OPEN), Dublin. To be published in November 2003.

¹⁴ Chronic fuel poverty refers to participants in the study who when asked about their ability to heat their home answered that they were 'usually unable' or not at all'.

Research undertaken by Healy and Clinch (1999) notes that those in low-income households *'buy dearer, dirtier and less efficient fuels'*¹⁵. In contrast, they found that those in higher income households purchase cleaner more efficient fuels such as gas. These fuels are cheaper to burn than those used by lower income households. A prime illustration of this was the finding that a household in the lowest income decile spent 28% of their fuel budget on coal and slack in contrast to only 7% spent on this fuel by those in the highest income decile.

The effect of fuel poverty ranges from uncomfortable living conditions to negative impacts such as *'poor physical / mental health, increased debt, and a decline in the physical state of their home'*¹⁶. The reality of fuel poverty was highlighted in Combat Poverty's study *Against All Odds*¹⁷, which examined the experience of family life on a low income. One of the mothers noted *'I remember one night that I just happened to wake up and I picked up one of the children. He was only a few weeks' old. The child was freezing'*¹⁸ and another mother also talked of her children having to go out on a periodic basis to collect firewood. Healy (2003)¹⁹ reveals even more harrowing statistics when he points out that there is a strong correlation between fuel poverty, the standard of housing and the 2,000 excess winter deaths which occur each year. Healy's work found that Ireland has the second highest excess winter deaths amongst a sample of countries.

Policy Responses to fuel poverty

The main policy commitment to eliminating fuel poverty in the NAPS is found in the NAPS Framework Document²⁰ and relates to having adequate heating systems in all local authority rented dwellings by 2010. It also notes that the

¹⁵ Clinch, J.P. and Healy, J.D. (1999). "Alleviating Fuel Poverty in Ireland: A program for the 21st Century". *International Journal for Housing Science*, 23 (4): 203 - 215

¹⁶ Sustainable Energy Ireland *Low Income Housing Programme Strategy 2002-2006*

¹⁷ Daly, M. & Leonard, M. (2002) *Against All Odds* Dublin: IPA

¹⁸ Daly, M. & Leonard, M. (2002) *Against All Odds* Dublin: IPA

¹⁹ Healy, J.D. (2003). "Excess Winter Mortality in Europe: A Cross-Country Analysis identifying Key Risk Factors". *Journal of Epidemiology & Community Health*, 57 (10): 784 - 789

²⁰ Goodbody Economic Consultants, (2001), *Review of the National Anti-Poverty Strategy*, Dublin.

adequacy of the National Fuel Allowance Scheme should be kept under review. Combat Poverty believes that fuel poverty should be addressed through the *'provision of adequate heating systems, adequate insulation and damp-free environment'*²¹.

Sustainable Energy Ireland under the current NDP programme have commenced a programme aimed at increasing energy efficiency for low income households. The purpose of their Low Income Housing Programme is to assist with the establishment of a national plan of action to address fuel poverty in low-income households in Ireland. Within this programme there is a specific grant scheme - The Extended Funding Programme (Euro 7.6 m) - to provide funding to community-based organisations to install energy efficiency measures in the homes of low-income households. Over the period of the programme (coincides with the current NDP) the target is that up to 18,000 low-income households will benefit from the improvements carried out to their homes. The focus is on properties in the private rented and home-ownership sectors where the household is experiencing fuel poverty. There is no parallel programme in the social housing sector – rather it is the responsibility of the local authority. The voluntary body, Energy Action, is funding some community based organisations to undertake work to increase energy efficiency in social housing in some areas of Dublin.

There are three social welfare payments available to assist households with fuel costs: 1) The National Fuel Scheme and 2) the Smokeless Fuel Allowance and 3) The Household Benefits Package. The National Fuel Scheme assists households in receipt of long term social welfare payments and those in receipt of health board payments with the provision of heating needs. The allowance, which is means-tested and is a household payment (not an individual), is currently €9 per week during the winter period. This has only increased from €6.40 since 1988 – an increase of 28.8% over a 15 year period. The National Fuel Allowance Scheme does not apply to shorter term welfare schemes such as unemployment or disability benefit.

²¹ Combat Poverty Agency (2001) *A Summary of Proposals to the National Anti-Poverty Strategy Review* Dublin: Combat Poverty Agency

The second payment is the Smokeless Fuel Allowance. This allowance is supplementary to the National Fuel Scheme and payment is awarded to those living in parts of the country where there is a ban on bituminous (smoke causing) fuel. It is awarded in respect of the additional cost of this fuel. Households who receive payment from the National Fuel Scheme qualify for this additional payment if they live in areas where smokeless fuel must be burned. The weekly rate of payment for this allowance is €3.50. Both of these payments are awarded for a 29 week period from the start of October until the middle of April. Current estimates are that the schemes cost about €82million a year.

The Household Benefits Package which is made up a three allowances, one of which is the electricity/gas allowance. This again is available mainly to households in receipt of long term welfare payments.

For those individuals living on the lowest social welfare payment rate, that is on €124.80 per week, the fuel allowance scheme represents only 7.2% of their income. This figure decreases more for households where there is more than one earner. On average, it is likely that this does not cover the fuel bill as we know from the Household Budget Survey, that low income households spend in excess of 10% of their income on fuel.

3. The case for recycling revenues to low income households

The likely impact of carbon taxes on low income households

The introduction of a carbon tax in Ireland will have both a direct and indirect impact on low-income households. The direct impact arises from an increase in the cost of all fuels. However, because the tax will be apportioned in relation to the carbon content of the fuel, the prices of certain high carbon content fuels will rise more. There will be an impact on all households but there will be a disproportionate greater impact on low-income households for three reasons:

1. They spend a higher proportion of their income on fuels;
2. They live in less energy efficient houses; and
3. They are more likely to consume certain fuels such as peat, coal and oil which have higher carbon content.

The combination of these three factors are such that the carbon tax will be a regressive tax – that means that people on low incomes pay a higher proportion of their incomes than those on higher incomes. Research from the ESRI²² shows that the carbon tax could be equivalent to just under 3% of disposable income for households in the lowest income decile whilst it is only about 0.4% of disposable income for those on highest income decile. What this implies is that if low income households are not compensated for the carbon tax then poverty will increase following the introduction of the carbon tax.

Along with the direct implications of the tax, there are likely to be indirect impacts which will again disproportionately impact on low-income households. Bergin, Fitzgerald and Kennedy (2002) argue that the economic effects of the carbon tax are dependent on whether it is introduced just in Ireland or throughout Europe. They outline that should the tax be introduced unilaterally

²² Scott, S & Eakins, J. (2002), “Carbon Taxes: Which Households Gain or Lose?” Dublin.

there would be ‘a loss of profitability and lower output’²³ within sectors which trade overseas. As these sectors in Ireland are “price takers”, they will not be able to pass on the increased costs, and companies on the margin may close and unemployment could increase. Over time this loss of competitiveness may be mollified as other countries introduce carbon taxes and/or Irish companies reduce their energy related costs, through the introduction of more energy efficient technologies.

In general, there could be a rise in prices as companies pass on the increases in their costs (mainly energy and transport) which will arise because of the carbon tax and emissions trading. This would again have a greater impact on low-income households as these households consume a higher proportion of their incomes than higher income households. Higher income households have a greater saving power than those in lower income households.

The submission has noted that fuel poverty is found to be a contributing factor towards high winter mortality rates. With an increase in the cost of fuel due to the carbon tax, households in fuel poverty will be further affected in terms of ill health and consequently there may be an increase in mortality rates, which are already high. An increase in fuel prices could also result in an increase in the number of people experiencing fuel poverty.

The Polluter Pays Principle

Central to the introduction of a carbon tax is the ‘polluter pays’ principle. The implementation of this principle means that the onus is on the polluter to pay for emitting greenhouse gases into the atmosphere. Underlying the principle is the objective that payment (in this case a carbon tax) will, over time, modify people’s behaviour in respect of carbon consumption and consequently lead to a reduction in emissions. The carbon tax can bring about a more efficient allocation of resources as people will now have to cover the costs on the environment of undertaking their activities.

²³ Bergin, A., Fitzgerald, J. & Kearney, I (2002) “The Macro-economic Effects of Using Fiscal Instruments to Reduce Greenhouse Gas Emissions” - Paper read at ESRI conference: *The sky’s the limit – Efficient and fair policies on global warming*

However, the polluter pays principle is not consistent with the equity principles of taxation as it does not take into account people's ability to pay. In general, taxes are considered to be "fair" if persons with the same ability to pay, pay the same amount of tax (horizontal equity); and if persons with greater ability to pay, pay more than persons with less ability to pay (vertical equity). The carbon tax is unlikely to be compatible with either of these principles, in particular vertical equity given that the carbon tax is regressive.

National Climate Change Strategy (NCCS).

In order to achieve the targets as set out in the Kyoto Protocol, the Irish Government has drawn up the National Climate Change Strategy (NCCS). The Strategy outlines a number of measures to be implemented in order to achieve the reduction in emissions required. Included in this are market-based instruments such as taxation (carbon taxes) and emission trading within the EU. There are also more specific measures for sectors such as agriculture, transport and forestry. Included in these are measures to reduce the projected livestock rates, the sequestration of forestry land and an increase in fuel efficiency. Within the residential sector there will be an effort to increase the energy efficiency of homes, particularly for those in fuel poverty.

The NCCS indicates that all measures implemented to reduce greenhouse gas emissions must be in accordance with *'achieving social justice and overcoming social exclusion'*²⁴. Furthermore, the strategy acknowledges that should any of the measures be in contrast to the National Anti-Poverty Strategy *'compensatory approaches will be sought to offset or overcome these effects, and where appropriate, to support the overall objectives of the NAPS'*²⁵. This can be achieved by targeting the following groups *'households that are on low income that receive payments that qualify them for fuel allowances, and / or that are in possession of one or more Medical Cards, that receive Family Income Supplement and that receive Unemployment Benefit*

²⁴ Department of the Environment and Local Government, (2000) *National Climate Change Strategy* Dublin: The Stationery Office

²⁵ Department of the Environment and Local Government, (2000) *National Climate Change Strategy* Dublin: The Stationery Office

*and so forth. Those that pay non-zero income tax are also targetable, through reductions in income tax*²⁶.

²⁶ Scott, S & Eakins, J (2002) "Carbon Taxes: which households gain or lost?" paper read at ESRI conference: *The sky's the limit – Efficient and fair policies on global warming*

4. Recycling of Revenues

General

The revenue which will be raised by the tax will be substantial as set out in the Department's of Finance's Consultation Paper, for example, if the tax rate was Euro 25 per tonne of carbon then the potential revenues could be about Euro 625m. This potential new source of tax revenue provides the Government, especially at a time of restricted public finances, with additional resources for much needed social and economic development. Combat Poverty advocates within the recycling approach the following two broad components:

1. Compensatory measures: specific provision is made to directly support low income households; and
2. Preventative measures: support for low-income households to uptake energy efficient technology.

Recommendation 1

The Combat Poverty Agency recommends that the Department of Finance poverty, gender and rural proof the proposal for the Carbon Tax. Proofing should also include the structuring of any programmes relating to increasing the number of energy efficient households.

Rationale

It is Government policy to poverty proof major policy proposals such as the Carbon Tax. Gender and rural proofing are also relevant here given the likely high proportion of women-headed households in fuel poverty and the fact that certain urban and all rural areas are especially disadvantaged as they do not have access to gas reticulated systems.

Specific Provision is made directly to low income households

This submission has clearly set out the case for compensation for low-income households. The question then remains how best to target these groups in the most efficient and equitable manner.

Recommendation 2

The Combat Poverty Agency recommends that the National Fuel Allowance be increased and extended to short-term benefit recipients and families on the family income supplement in order to compensate all further recipients for the increase in fuel due to the Carbon Tax.

Rationale:

As already stated this Allowance is only available to all households in receipt of long term welfare payments. Within this group the National Fuel Allowance is means tested and therefore is targeted towards low-income households. Such recycling of carbon tax revenue would be administratively straightforward (as a scheme already operates). However, it does not cover all low-income households. The National Fuel Allowance does not apply to households in receipt of shorter-term welfare payments nor to low-income households in the labourforce²⁷.

The National Fuel Allowance has only increased by a very small amount since its introduction in 1987 and its level does not currently cover the cost of fuel in low-income households. The carbon tax will exacerbate this situation facing those in fuel poverty. In order to compensate low-income groups the current rate should be increased. Further investigation is required as to how much it should be increased in order to compensate low-income households for higher costs arising from the carbon tax.

Preventative measures

Recommendation 3

The Combat Poverty Agency recommends a nationwide programme to create more energy efficient homes for low-income households. Particular attention should be given to the social housing sector and areas which do not have access to reticulated gas systems.

²⁷ The Living in Ireland Survey (2000) found that even though the risk of poverty was the lowest for households in employment the risk of poverty for this group the proportion of households in this category had increased since 1994.

Rationale:

There are a number of schemes operating at the moment in both the private and social housing sectors. However, these are piecemeal, are in the main confined to urban areas and favour the private housing sector. Targets were set in the NAPS Framework Document for reducing fuel poverty in the social housing sector. However, there is no dedicated programme across all housing authorities and therefore it is not clear to what extent progress has been made to meeting these targets.

The Carbon Tax presents an opportunity to increasing the number of energy efficiency homes in general and for a systematic rollout of work in the social housing sector.

*Further Recommendation***Recommendation 4**

Combat Poverty proposes a that additional revenues from the Carbon Tax (over and above those used to cover the above recommendations) be used to increase the lowest rates of social welfare payments so that it works towards achieving the NAPS target of €150 per week (2002 values) by 2007.

Rationale:

Obviously, the carbon tax revenues would only go some way in achieving this rate. The increase in the rate is primarily a budgetary matter, to be funded from general government revenue. However, slow progress has been made to date on this. Therefore, some of the resources from the Carbon Tax could be used for this. However, together with likely increases in social welfare rates in Budget 2004 and 2005, significant progress could be made in meeting this crucial policy commitment by 2007.

There are some clear benefits to increasing minimum social welfare rates to €150. In particular, it supports the government's policy objectives in relation to the elimination of poverty. From an administrative point of view this is a

relatively straightforward means of recycling the revenue raised through the imposition of the carbon tax. The coverage of low-income households could be greater than say for example if the revenues were recycled into the National Fuel Allowance.