

BUDGET 2016: MINIMUM ESSENTIAL BUDGET STANDARDS IMPACT BRIEFING

Key Points

- The €5.00 per month increase in Child Benefit is a welcome measure, and repeats the €5.00 increase of Budget 2015. This increase will improve the income of a two child social welfare dependent household by slightly over 1% in 2016, compared to 2014.
 - The Christmas Bonus increase to 75% in December 2016 will be a source of additional income for households which are long term social welfare recipients. The extension of the ECCE scheme and the additional Community Childcare Subvention places are also noted.
 - Budget 2016 has increased the State Pension and Fuel Allowance for the first time since 2009. These measures are welcome. Unfortunately inflation in household energy prices will continue to erode the value of the payment.
 - The increase in the National Minimum Wage, to €9.15 per hour is welcome. This is the first increase of the rate, above its current €8.65, since the NMW was set at this rate in July 2007. The new rate of €9.15, while remaining significantly below the Living Wage rate of €11.50 per hour, and the low pay threshold of two-thirds median hourly earnings, is progress towards the goal of making work pay.
 - The cost of a Minimum Essential Standard of Living is higher in 2015 than at any point during the recession, and the cost has risen at a greater rate than CPI inflation (0.9 percentage points greater). Furthermore, inflation is forecast to be 1.5% in the next year.
 - Prices initially fell during the recession, but have risen since 2010, and CPI data shows average prices in 2015 are 5.37% higher than in 2010. Primary social welfare rates were brought to current levels by 2011, and have been maintained at that point since. During a period of rising prices, the failure to at least increase payments in line with inflation is in effect a cut in the real value of the payment.
 - VPSJ analysis of social welfare adequacy in 2015 found that social welfare did not provide an adequate income for a Minimum Essential Standard of Living for 191 of 214 urban cases examined. This situation is forecast to worsen in 2016, as 7 household compositions with children move from adequacy to inadequacy as social welfare incomes do not keep pace with rising costs. In 2016 social welfare is forecast to be inadequate in 198 of 214 urban cases.
 - Budget 2016 has not addressed Rent Supplement / Housing Assistance Payment limits, nor the supply of social housing. The lack of access to quality affordable housing will continue to drive the cost of a Minimum Essential Standard of Living.
 - Budget 2016 is brought forward at a time of growing poverty and deprivation. The most recent CSO EU-SILC¹ data shows that the 'at risk of poverty' rate has risen to 15.2% (from 14.4% in 2008), the deprivation rate has increased to 30.5% (from 13.7% in 2008), and consistent poverty has almost doubled to 8.2% (from 4.2% in 2008). Furthermore, data shows the vital role of social welfare, as half the population (49.8%) would be at risk of poverty without social transfers.
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INTRODUCTION

This briefing analyses the impact of Budget 2016 in the context of the VPSJ Minimum Essential Standard of Living (MESL) research. This research establishes the expenditure required by specific household types to afford a socially acceptable minimum standard of living. The model also examines the Minimum Income Standard (MIS) needed in specific income scenarios for households to afford an MESL.

A MESL is derived from a negotiated social consensus on what people believe is a minimum. Through exhaustive work with many focus groups, detailed baskets of the goods and services vital to a household type's minimum needs, are compiled. These baskets are comprised of over 2,000 goods & services and define the minimum needs for households to live at a socially acceptable level. The cost of these baskets is adjusted annually by appropriate CPI sub-rates.

The 2015 MESL costs presented here have been adjusted to March 2015. The 2015 costs are projected forward to 2016 using the CPI forecast inflation rate, published by the Central Bank in October 2015². The

2016 income calculations are based on the available information from Budget 2016 as published by the relevant Government Departments at this time.

This impact briefing focuses on a set of illustrative household types. The income scenarios examined here focus on broadly applicable situations. Therefore, the employed scenarios are not specific to return to work situations which may include limited term retention of secondary benefits, e.g. the Back to Work Family Dividend. Similarly the unemployed scenarios do not include supports which are conditional on being a long-term social welfare recipient, e.g. Fuel Allowance and the Christmas Bonus.

Further details of the Minimum Essential Standard of Living expenditure budgets and income analysis are available through the VPSJ budgeting website: www.budgeting.ie. The Minimum Income Standard and expenditure needs of a greater range of households for 2015 may also be calculated using the Minimum Income Standard calculator at www.MISc.ie.

RISE IN THE COST OF A MINIMUM ESSENTIAL STANDARD OF LIVING

The cost of living is rising; inflation is forecast to be 1.5% in the next year². In the year from March 2014 to March 2015 inflation declined by 0.6%. While the cost of essentials such as food (-2.7%) and clothing (-4.1%) decreased in this period, the cost of other essentials increased e.g. childcare (2.4%) and electricity (0.7%).

The MESL household expenditure budget is more concentrated on basics such as food, electricity and home heating, than that of the average household. Consequently, the cost of a MESL changes at a different rate than that indicated by the average CPI rate.

The VPSJ's research on the changing cost of a MESL has found that the core cost of an MESL was 0.35% higher in 2015 than in 2008, and was 5.4% higher than the low point of 2010.³

If the trend of recent years continues then the cost of a Minimum Essential Standard of Living will rise by more than the forecast inflation rate of 1.5% in the coming year.

In the period from 2008 to 2014 social welfare supports were reduced. The Job Seeker Personal Rate was reduced by 8%, from a high of €204.30 to

€188.00. Reductions were also implemented in other social welfare payments, including Child Benefit, Back to School Clothing and Footwear Allowance, and the Fuel Allowance. The combined impact of these reductions in the rates of payment has resulted in a 5% cut to household income for social welfare dependent households with children³.

Budget 2016's increases in the State Pension rates, the Fuel Allowance, Christmas Bonus and Child Benefit do not go far enough to address the gap that has been allowed to deepen, between social welfare rates and the cost of a Minimum Essential Standard of Living.

When social welfare rates do not at least keep track with inflation the effective value of the payment declines. The fact that the cost of a Minimum Essential Standard of Living has been rising at a faster rate than inflation, and in the same period social welfare supports have reduced, has resulted in the gap between social welfare income and households minimum needs widening.

The measures introduced in Budget 2016 do little to address this situation, as the gap between social welfare income and MESL expenditure need continues to widen.

Table 1 MESL Expenditure and Incomes 2015 & 2016⁴, for Social Welfare Dependent Households⁵

	Two Parent 3 & 10	Two Parent 10 & 15	One Parent Baby	One Parent 3 & 10	Single Adult Living Alone	Pensioner Living Alone	
2015	Expenditure	477.00	557.72	312.24	358.72	340.68	254.07
	Income	436.63	440.48	258.95	321.83	276.00	238.00
	Shortfall	-40.36	-117.25	-53.29	-36.89	-64.68	-16.07
2016	Expenditure	486.39	568.33	317.77	364.89	345.20	259.95
	Income	438.94	442.78	261.36	325.39	276.00	242.25
	Shortfall	-47.45	-125.55	-56.41	-39.51	-69.20	-17.70

SOCIAL WELFARE – INCOME ADEQUACY

Budget 2016 maintains the weekly rate of payment for the majority of primary social welfare payments. However, this results in the real value of payments falling as they do not keep pace with the increasing cost of a minimum essential standard of living. The failure to at least increase social welfare rates in line with inflation results in an effective cut in the value of social welfare payments to households trying to attain a minimum standard of living.

The rate of Child Benefit has been increased by €5.00 per month for all children. The State Pension (Contributory & Non-Contributory) has also been increased, the first since 2009, by €3.00 per week, with accompanying increases for associated Qualified Adult payments.

Table 1 details the expenditure needs and social welfare income entitlements for Two Parent household types (one Job Seeker and one Stay At Home parent), One Parent household types (dependent on OFP), unemployed Single Adult household types, and a Pensioner living alone household type (in receipt of a Non-Contributory Pension).

The adequacy of social welfare payments are tested against the minimum expenditure needs of each household. In all cases the household types are eligible for a full Medical Card, and housing costs are based on local authority rents (with the exception of the single adult⁶). The VPSJ MESL research consistently demonstrates these household types as vulnerable to income inadequacy.

In all the cases detailed above social welfare failed to provide an adequate income to these household types in 2015. The analysis above demonstrates that under this Budget income from social welfare will increase marginally, however the cumulative effect of inflation and the rising cost of an MESL since 2010 has eroded the real value of social welfare.

Therefore, in each case the shortfall in weekly income is set to grow in 2016. (see Table 1, Shortfall line)

ADULT OF WORKING AGE, LIVING ALONE

The primary rate of Job Seeker's payment has not been changed in this Budget. For an unemployed adult living alone in urban private rented accommodation, the combination of a full Job Seekers payment and Rent Supplement was inadequate in 2015, and this inadequacy will increase in 2016.

The Job Seeker's personal rate was reduced to €188 in 2011, and has remained at that level since. The core cost of a MESL (excluding housing) increased by 3.6% in this period.

Housing costs for this household type are based on living in private rented accommodation and receiving the Rent Supplement. The cost of a one bedroom private rented dwelling in Dublin has increased by 9.2% in the last year⁷, while Rent Supplement (RS) limits have not kept pace with rising rents. Recent research found no currently available for rent within RS limits in any city centre in Ireland⁸.

The additional Christmas Bonus payment applies to a household of this type when in receipt of a long term Job Seeker's payment, and is not included in the figures outlined in Table 1. The full Christmas Bonus of 75% equates to an average of an additional €2.70 per week for an eligible unemployed adult without dependents. Over a full year, this equates to an average weekly increase of 1.4%. The Christmas Bonus would reduce this household type's income inadequacy from €69.20 per week to €66.50.

HOUSEHOLDS WITH CHILDREN

For households with children Budget 2016 has increased Child Benefit and adjusted the Family Income Supplement thresholds, it also maintained the current rates for other income supports, including the:

- Qualified Child Increase
- Back to School Clothing and Footwear Allowance

Social welfare dependent households with children have seen an overall reduction in income of 4% between 2008 and 2016. While the increase in Child Benefit is welcome, this measure alone does not offset

the cumulative impact of cuts over recent years, nor does it address the widening gap between expenditure need and social welfare income for households with children.

CHILD BENEFIT

The increase in Child Benefit brings an increase in household income of €1.15 per child per week; an increase of 0.5% for the Two Parent and Two Child household compositions detailed in Table 1. Combined with the increase in 2015, this adjustment will increase the income of a two child social welfare dependent household by slightly over 1% in 2016 compared to 2014.

This increase is inadequate to meet rising costs in the coming year, consequently 7 household compositions with children which could marginally afford a MESL in 2015, when dependent on social welfare, will have an inadequate income in 2016.

Budget 2016 failed to adjust the Qualified Child Increase, and thus missed an opportunity to make a greater, focused improvement in the position of social welfare dependent households with children.

COST OF AN ADOLESCENT

MESL research has found that household types with an adolescent, reliant on social welfare, have consistently faced income inadequacy. Budget 2016 does not acknowledge the additional costs of an adolescent, and has failed to introduce a higher rate of Qualified Child Increase for social welfare dependent households with an adolescent.

ONE PARENT HOUSEHOLD TYPE

This household type benefits from both the increase in Child Benefit and the Fuel Allowance, as this household type is in receipt of a long-term social welfare payment (i.e. the One-Parent Family Payment) the household is eligible for the Fuel Allowance.

The combination of these supports will increase household income by 1% for both of the One Parent household compositions examined in Table 1.

Analysis of the MESL expenditure needs of 69 urban one parent household compositions (with 1 to 4 children), finds that in 2016 none will be able to afford a MESL when reliant on social welfare.

UNEMPLOYED ADULTS, UNDER 26

Budget 2016 retains the reduced rate of Job Seeker's Allowance for younger adults, maintaining the €100 rate for adults aged 18 to 24 years, and the €144 rate for 25 year olds. As demonstrated in Table 1 the full rate of Job Seeker's payment of €188 per week is inadequate for a single adult living alone.

The cost of an MESL for an unemployed young adult living in the family is forecast to be €177 per week in 2016. This cost is based on a young adult living as part of the parental household, and qualifying for a full medical card. It is clear that the reduced rates of Job Seeker's Allowance fall short of providing for a MESL.

OLDER PEOPLE

Budget 2016 increases the State Pension (Contributory and Non-Contributory) by €3.00 per week, with accompanying increases in the associated Qualified Adult payments. This is the first increase in pension rates since 2009, and represents an increase of 1.3%.

FUEL ALLOWANCE

The increase in Fuel Allowance is welcome, but it is noted that this increase does not restore the payment to its 2009 value nor adequately address the ongoing price inflation in household energy.

In 2009 the Fuel Allowance had an annual value of €640, this was reduced to €520 in 2012. The overall inflation in household energy has been 21% since 2009, for the Fuel Allowance to have maintained its 2009 value it would currently need to be paid at €30.00 per week for 26 weeks of the year.

The adjustment of €2.50 per week is a 12.5% increase in the payment (inflation for 2016 is forecast to be 1.5%). This increase will potentially start to close the gap between the current rate of payment, and the rate required to retain the 2009 purchasing power.

PENSIONER LIVING ALONE

The MESL research has found that Pensioner Couple households may be able to afford a Minimum Essential Standard of Living when residing in urban social housing, and reliant on a State Pension. However, Pensioners Living Alone face income inadequacy, when reliant on a Non-Contributory or Contributory State Pension.

The MESL research has repeatedly demonstrated the inadequacy of the Living Alone Allowance, and the ongoing income inadequacy faced by Pensioner Living Alone household types as a result.

It is regrettable that Budget 2016 did not build on the 2015 increase in the Living Alone Allowance, the first increase since 1996. The Living Alone Allowance is €9.00 in 2015, and will remain at this level in 2016. To maintain the real value of the allowance, when first introduced in 1996, it would now need to be paid at the rate of €11.40 in 2015, and is forecast to rise to €11.60 in 2016.

Table 2 MESL Expenditure and Minimum Income Standard 2015 & 2016, for Employed Households⁹

		Two Parent 3 & 10	Two Parent 10 & 15	One Parent Baby	One Parent 3 & 10	Single Adult Living Alone
2015	Expenditure	600.45	605.36	581.94	653.12	422.69
	Gross Salary	488.73	488.73	624.38	650.63	496.88
	- TAX	6.73	6.73	71.83	79.03	73.47
	+ SW	137.23	141.08	31.15	82.31	0.00
	Net Income	619.22	623.07	583.70	653.90	423.41
2016	Expenditure	612.48	658.99	591.84	664.24	427.36
	Gross Salary	516.98	567.83	630.00	658.13	496.88
	- TAX	5.67	14.35	70.23	77.80	68.85
	+ SW	127.54	106.38	32.31	84.62	0.00
	Net Income	638.84	659.86	592.08	664.94	428.02

EMPLOYED – NATIONAL MINIMUM WAGE & MINIMUM INCOME STANDARD

Table 2 examines the income needs of these household types in employment. The Minimum Income Standard⁹ is calculated for each household type, as it stands now in 2015 and under the measures to be introduced in 2016. Total household income is calculated, taking account of tax liabilities and social welfare entitlements.

ADULT OF WORKING AGE, LIVING ALONE

In 2015 a single adult working full-time (37.5 hours) earning the National Minimum Wage (NMW) would earn a net salary of €316 per week. This met 78% of the cost of a MESL when living in Dublin.

Budget 2016 introduces adjustments to USC, increases the NMW to €9.15 per hour, and addresses the PRSI step effect. In 2016 a single adult earning a full-time minimum wage will have a net salary of €332, an improvement of €16 per week. The full-time NMW salary in 2016 will meet 81% of the cost of a MESL.

In 2015, a single adult household type renting in Dublin needed to earn a gross salary of €496 per week to afford an MESL. With inflation the cost of an MESL is expected to rise in 2016. However, the Minimum Income Standard for a Single Adult is not forecast to increase in 2016, as the changes to USC (increasing net salary) will offset the increased cost of an MESL.

Housing costs increased by 9.2% for this household type between 2014 and 2015, if this trend continues in 2016 a greater MIS will be required.

HOUSEHOLDS WITH CHILDREN

Budget 2016 has increased the rate of Child Benefit by €5.00 per child, an additional €60 per annum. It also increased the Family Income Supplement (FIS) income thresholds by €5.00 for each of the first two children in a household.

TWO PARENT HOUSEHOLD TYPES

In 2015 the NMW provided the basis of an adequate household income for the two household

compositions examined when one adult is employed full-time and one part-time, and living in social housing.

In 2016, the effect of the NMW increase, USC & PRSI adjustments, and Child Benefit increase, will combine to increase net household income by €19 per week, for both household compositions when earning the NMW (1 full-time and 1 part-time).

In the case of the household with a 3 & 10 year old, childcare costs continue to account for 15% of minimum expenditure need, despite the ECCE. However, social welfare supports including FIS and a full medical card, in conjunction with the NMW provide an income which meets the cost of a MESL.

In the case of the household with a 10 & 15 year old, the increased NMW income will make the household ineligible for a full medical card, under the current HSE guidelines. If the guidelines are not updated in 2016, this household type will incur additional health costs thereby increasing the cost of an MESL and requiring a gross salary which is 9% above the new NMW rate.

ONE PARENT

In 2015 the NMW did not provide the basis for an adequate income for either of the One Parent household compositions examined, when employed full-time and living in social housing. The NMW in conjunction with Child Benefit, FIS and the One-Parent Family Payment (OFP) provided for 90 to 95% of the cost of a MESL.

The cost of a MESL will increase for these household compositions in 2016. The new NMW and Child Benefit rates in conjunction with the USC and FIS adjustments will increase net income for this household composition next year. However, the NMW will not provide the basis of an adequate net household income in 2016.

To afford the cost of a MESL in 2016 both household compositions require a MIS gross salary rate which is significantly above the National Minimum Wage. At these salary rates neither household composition is eligible for support from the OFP, and only the two child household composition will qualify FIS.

The cost of full-time childcare drives up the MIS salary needs of these household compositions. Consequently in 2016 the MIS gross salary need is almost 1 ½ times the new NMW rate for each of the two compositions examined in Table 2.

CHILDCARE

The lack of access to affordable childcare imposes a significant burden on family household compositions, where parents are in employment. Childcare costs in Ireland are consistently found to be among the highest in the EU and OECD, and act as a significant barrier to work, particularly for women¹⁰.

The MESL cost of full-time childcare ranges from €215 to €54 per week in 2015 (for an infant and primary school age child respectively), and these costs account for a significant proportion of overall cost of a household's MESL.

A VPSJ working paper demonstrated that childcare costs can more than quadruple the cost of a child's direct Minimum Essential Standard of Living. Moreover, these very costs are the single most significant driver of the MIS salary needs of households with children, as the NMW would be adequate if these costs did not have to be met directly by low income families.¹⁰

The extension of the ECCE scheme announced in Budget 2016 is welcome. The ECCE scheme provides for a free pre-school place, 3 hours per day for 38 weeks of the year. The extension of the scheme provides an average of additional 23 weeks. The nature of the ECCE is the provision of a free pre-school place and not full-time childcare. Consequently, this measure alone will not address the unaffordable cost of childcare for those on lower incomes.

The additional places in the Community Childcare Subvention programme are also welcome. These places are to be available through both community and private providers. If this scheme continues to be developed, and becomes widely available it has the potential to reduce the burden of childcare costs for lower income families.

NOTES

¹ CSO. (2015) *Survey on Income and Living Conditions 2013*

² Central Bank (2015) *Quarterly Bulletin No.4 2015*
www.centralbank.ie/publications/Documents/Quarterly%20Bulletin%20No.%204%202015.pdf

³ VPSJ, 2015. *Minimum Essential Standard of Living Update 2015*.
www.budgeting.ie/images/stories/Publications/MESL_Update_Paper/VPSJ_2015_Minimum_Essential_Standard_of_Living.pdf

⁴ 2015 expenditure is based on the VPSJ MESL baskets adjusted to March 2015. 2016 expenditure is adjusted by forecast CPI inflation. Incomes calculations for 2016 are based on the available information from Budget 2016 as published at the time of writing.

⁵ The social welfare income scenarios assume full entitlement to payments relevant to the household scenario:

Two Parents JSB Personal Rate + Qualified Adult + Qualified Child, Child Benefit, Back to School Clothing & Footwear

One Parent One-Parent Family Payment + Qualified Child, Child Benefit, Back to School Clothing & Footwear, Fuel Allowance

Single Adult JSB Personal Rate, Rent Supplement

Pensioner Non-Contributory Pension + Living Alone Increase, Fuel Allowance, Household Benefits Package

⁶ The Single Adult household type MESL expenditure need is based on living in private rented housing.

In the unemployed scenario the costs are based on renting at the Rent Supplement ceiling in Dublin City, and receiving Rent Supplement.

In the employed scenario the costs are based on the average cost of a private rented one bedroom dwelling in Dublin.

⁷ Change in average rent of a one bedroom dwelling type in Dublin from 2013 Q4 to 2014 Q4, data from PRTB Rent Index

⁸ Simon Community (2015) *Locked Out of the Markey II*.

⁹ The Minimum Income Standard (MIS) is the gross salary necessary for a household's total income to adequately meet the cost of a MESL. The MIS calculations take account of tax liabilities, PRSI, USC and potential social welfare entitlements (including Child Benefit, FIS, OFP, BTSCFA, Fuel Allowance, and Medical Card) and are based on the following scenarios:

Two Parents one adult employed full-time and one part-time

One Parent adult employed full-time

Single Adult adult employed full-time

Housing costs are based on social housing for households with children. Housing costs for the single adult household type are based on 90% of the average cost of a private rented one bedroom dwelling in Dublin in Q4 2014 [€783.13 per month] (Source: PRTB Rent Index).

¹⁰ For further discussion see the following working paper:

VPSJ (2015) *Minimum Income Standard and The Cost of Childcare*
www.budgeting.ie/images/stories/Publications/Papers/VPSJ_2015_MIS_-_Cost_of_Childcare.pdf