MINIMUM ESSENTIAL BUDGET STANDARDS RESEARCH CENTRE

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Budget 2022

MESL IMPACT BRIEFING

KEY POINTS

Budget 2022 has brought a broad suite of changes, including welcome increases to core social welfare rates, several important adjustments to secondary supports, tax credit and band adjustments, and measures which can contribute to reducing living costs.

It is welcome that Budget 2022 has increased the primary adult social welfare rates by €5 per week. This is the first increase in the core working-age adult and pension rates since Budget 2019. Adjustments to the Qualified Child Increase (QCI), add €2 for under 12's and €3 for children aged 12 and over. The continued development of the new older child rate is welcome

The rate increases may not be sufficient to keep pace with the meet notable rises in living costs. The cost of an MESL is estimated to increase by an average of 3.2% over the course of 2021. Consequently, it is forecast that there will be an increase in the incidence of income inadequacy next year. Cases which were on the edge of inadequacy in 2021, with a marginally adequate income, are at risk of slipping below that threshold in 2022.

Deep income inadequacy will persist in 2022, and it is likely that the incidence will rise amongst households with older children. To make real progress toward achieving the child poverty reduction goals and addressing the multi-faceted consequences of child poverty, it is imperative that substantive steps continue to be taken to enhance supports for families as a whole.

Budget 2022 announced a vital alignment of the income thresholds for the Back to School Clothing & Footwear Allowance, bringing the one parent household threshold up to the two parent level. There is also to be a welcome rate increase of €10.

Increasing the Living Alone Allowance by €3 per week represents an evidence-based approach to improving supports. The combination of increases to State Pension, Fuel Allowance and Living Alone Allowance, will see the social welfare support to an older person living alone increase by 3.9% in 2022.

The Fuel Allowance has been increased by €5 to €33 per week. The 18% increase is a significant improvement in the value of the support and will contribute towards offsetting at least some of the current exceptional increases in household energy costs.

The announced adjustments to the eligibility for Fuel Allowance are also welcome. However, the support remains highly targeted and will be unavailable to many low-income and social welfare reliant households.

The €0.30 increase to the National Minimum Wage in 2022 will bring the rate to €10.50 per hour. This leaves a significant gap between the minimum wage rate and the evidence-based Living Wage rate of €12.90 per hour, which is calculated on the basis of minimum living costs.

Based on the 2022 estimate, a Dublin based single adult would need to work 60 hours of NMW employment per week to afford a socially acceptable minimum standard of living in the coming year.

The adjustments to the NCS are welcome, expanding the universal element (€0.50 per hour subvention) to the care of children under 15, and ending the practice of deducting school hours from NCS hours entitlement. When brought into effect, these changes should provide additional support to households through reducing potential childcare fees.

Table 1 Income Adequacy 2021 and 2022

Urban MESL Expenditure need, 2022 MESL based on adjustments for forecast inflation

Household		Social Welfare 2021	Social Welfare 2022	Employed 2021	Employed 2022
Two Parent	**Pre & Primary School**				
	MESL Expenditure	485.16	499.65	599.55	617.28
	Income (Net)	481.20	493.69	678.23	690.82
	Adequacy	-3.96	-5.95	78.68	73.54
Two Parent	**Primary & Second Level**				
	MESL Expenditure	572.90	589.24	669.39	685.59
	Income (Net)	493.49	507.17	683.52	696.30
	Adequacy	-79.41	-82.07	14.13	10.71
One Parent	**Pre & Primary School**				
	MESL Expenditure	368.37	380.73	551.00	572.66
	Income (Net)	361.58	373.46	682.06	699.44
	Adequacy	-6.79	-7.27	131.06	126.78
One Parent	**Primary & Second Level**				
	MESL Expenditure	456.21	470.33	558.52	576.96
	Income (Net)	373.87	386.94	634.55	660.15
	Adequacy	-82.34	-83.38	76.04	83.19
Single Adult	**Working Age**				
	MESL Expenditure	251.82	259.13	496.88	513.88
	Income (Net)	203.00	208.00	356.90	365.27
	Adequacy	-48.82	-51.13	-139.98	-148.61
Pensioner	**Living Alone**				
	MESL Expenditure	256.67	266.84		
	Income (Net)	273.58	284.27		
	Adequacy	16.90	17.43		

The MESL data examined in this briefing, is based on the 2021 MESL expenditure data and forecast adjusted MESL costs for 2022.[1] This MESL expenditure requirements provides a benchmark for measuring the adequacy of incomes for six household types.

See Notes on page 12 for details of the income scenarios. The 2022 income calculations are based on the information from Budget 2022, as published by the relevant Government Departments at this time.

Introduction

This briefing analyses the impact of Budget 2022, applying the MESL data to examine the potential adequacy of social welfare rates and the minimum wage in 2022, and assessing the degree to which they enable a socially acceptable minimum standard of living in the coming year, for a set of illustrative household types.

The VPSJ aspires for an acceptable minimum standard of living for all, whether dependent on social welfare, in paid employment, or engaged in a caring role. This is a goal that can only be progressively realised through a combination of measures. The annual budget presents the opportunity for taking substantive steps towards achieving a social welfare system that ensures minimum income adequacy and enables a life with dignity.

The MESL research provides an evidence base to inform policy decisions. Based on the 2021 analysis of minimum expenditure and income needs, the VPSJ presented a suite of policy recommendations for the Budget. The analysis identified household types with the greatest level of income inadequacy and systemic issues in the social welfare system which contribute to persistent income inadequacy. The measures outlined were vital steps towards progressively ensuring an adequate income for an acceptable standard of living, in the medium term.

The Programme for Government[2] made a welcome commitment to protecting core weekly social welfare rates and recognising the importance of secondary benefits and supports. It also commits to the implementation of the Roadmap for Social Inclusion[3] to 'improve outcomes for those who are struggling on low incomes' (2020: 75). The Roadmap defines social inclusion as 'having access to sufficient income, resources and services to enable [people] to play an active part in their communities and participate in activities that are considered the norm for people in society generally' (2020: 5).

Budget 2022 has brought welcome increases to core social welfare rates, introduced several important adjustments to secondary supports, and announced measures which could reduce living costs. However, the broad suite of changes does not demonstrate consistent evidence-based targeting of resources to those facing the greatest challenges with low and inadequate income. It is regrettable that the Budget decisions do not mark out a clear commitment towards achieving a sufficient or adequate income at a minimum level which would enable people to live with dignity, provide for wellbeing, and foster social inclusion.

Area	MESL Recommendations	Budget 2022 Measures
Working Age Personal Rates	Increase by €9.80 to €212.80 per week	Increased by €5.00
Qualified Adult	Maintain current nominal rate	Increased by €3.30
Qualified Child (under 12)	Increase by €2.10 to €40.10 per week	Increased by €2.00
Qualified Child (12 and over)	Increase by €10.00 to €55.00 per week	Increased by €3.00
Jobseekers: 18 to 24-year olds	Restore full rate for 23 & 24 year olds Interim rate of €150 for 18 to 22 year olds	Reduced rate for 18 to 24 year olds retained, increased by €5 to €117.70
Fuel Allowance	Retain €28 per week rate, re-instate 32-week season; equates to €896 a year	Weekly rate increased to €33, 28-week season retained; equates to €924 a year
Working Family Payment	Adjust income thresholds for all households, including families with more than 3 children	Increase income thresholds by €10 for all household sizes
Pensions, Personal & QA	Retain current rate	Increased by €5 per week
Pensions, Living Alone	Focus on services	Increased by €3 per week
National Minimum Wage	Evidence based rate, progressive realisation towards the Living Wage	Minimum wage increased by €0.30 to €10.50 per hour

Minimum Essential Standard of Living

The VPSJ's MESL is decided on by members of the public, working together in deliberative focus groups to reach consensus on what is the minimum people need to live and partake in Irish society. It is a standard of living which people agree no one should be expected to live below. It represents the minimum required to meet physical, social and psychological needs, and enable a life with dignity.

The research is iterative, working through multiple phases of deliberative groups, to establishes a negotiated social consensus on what people regard as essential for households to have a minimum, but socially acceptable, standard of living.

In this way the MESL is a tangible measure, grounded in lived experience and derived from social consensus, of what is required for participation, dignity and avoiding poverty. It operationalises the concepts which underpin the Irish Government definition of poverty, the human right to an adequate standard of living, and the key principle set out in the European Pillar of Social Rights that all have a right to an adequate minimum income which enables a life with dignity.

The MESL translates these concepts and ideals into a practical benchmark, as it specifies the average weekly cost of the goods and services deemed necessary to enable a socially acceptable minimum standard of living. In effect it operationalises a direct measure of poverty and a life with dignity; providing an evidence-based benchmark for assessing income adequacy.

Inflation and changes in minimum living costs

There has been an exceptional level of price increases in 2021 to date. The Dept. of Finance note that as of August annual HICP had reached 3%, the highest annual level since 2008[4]. The Central Bank also note that "consumer price inflation has increased substantially", highlighting the role of rising energy costs and pandemic related factors[5].

The Central Bank and ESRI[6] analysis both make the caveat that the current high inflation rates should be seen in the context of pandemic restrictions in 2020 leading to deflation and a low point in prices. They also note that a factor in the current inflation is the re-opening of various sectors and pent-up demand responding to renewed availability.

The Central Bank are forecasting HICP inflation of 2.1% over 2021, and 2.9% in 2022. The Department of Finance estimates HICP inflation of 2.3% for 2021, and 2.2% in 2022. The ESRI estimates CPI inflation of 2.3% for 2021, and 2.5% for 2022. The estimates indicate the potential for cumulative change in average prices of between 4.6% (DoF) and 5.1% (CB) by the end of 2022.

Across the analysis of inflation trends, rising energy prices are consistently highlighted as a primary driver of inflation in 2021 and forecast to continue into 2022. With both the Central Bank and ESRI analysis pointing to the more than doubling of energy products, including oil and natural gas. The ESRI also notes a 250% annual increase in electricity prices, stating that "the latest increases have far surpassed pre-pandemic price levels" (2021: 51).

While the forecasts for inflation over the whole of 2021 and into 2022 point to the likely waning of the pandemic related factors, the ongoing volatility in energy prices remains a cause for concern.

This is of particular concern due to the disproportionate impact of increased energy prices on lower income households, as noted by the Central Bank.

The MESL research has previously highlighted issues regarding the appropriateness of standard inflation rates in measuring the change in the cost of a minimum basket of goods and services. Changes in prices effect the overall cost of an MESL differently from the national average measured by inflation rates.

The MESL baskets are more sensitive to price changes in essentials such as food, energy and transport [7]. This is due to differences in the composition of the MESL basket and the average basket.

In the 2021 MESL household energy accounts for an average of 6.5% of overall minimum expenditure need, for social welfare dependent household scenarios. Within the CPI and HICP household energy accounts for 4.2% and 4.4% respectively.

MESL 2022 Forecast

The MESL data examined in this briefing is based on the 2021 MESL annual update to the baskets. The 2021 MESL is based on a blend of direct pricing (March and April) and inflation adjusted estimates (March), presenting the cost of the minimum basket at that point in time.

To enable analysis of the Budget measures an estimate of the potential MESL costs in 2022 is applied. In previous editions of this analysis forecast inflation were used to produce to project the current year MESL costs forward.

Given the exceptional increases in household energy prices, an additional step has been taken in preparing the 2022 forecast. The Central Bank forecast HICP inflation rate excluding energy costs (1.2% on all non-energy consumer prices for the whole 2021) is applied to the MESL baskets, except for household energy.

The 2021 MESL annual update household energy costs from March have been repriced, to take account of the exceptional increase in prices over the intervening months. This has found a 25% increase in energy prices for urban households and 15% for rural households, between March and October 2021.

The updated energy prices (without further adjustment) are incorporated into the 2022 forecast MESL. The analysis finds that the MESL costs, for social welfare dependent households, are forecast to increase by an average of 3.2% over the course of 2021.

Maintaining Real Value

To ensure that social welfare supports, and minimum rates of pay, maintain their real value it is imperative that they are adjusted in line with changes in minimum living costs. Current projections show the potential for a 5% average increase by the end of 2022.

Given the greater vulnerability of low-income households to increases in living costs, adjustments which exceed forecast inflation were warranted. Particularly for households most at risk of poverty.

The €5 increase in core adult social welfare rates is not enough to keep pace with the forecast change in minimum expenditure needs. As such the purchasing power of the primary rates are likely to decrease.

The improvements in net income from social welfare supports for an older person living alone is forecast to exceed the change in MESL costs, resulting in an increase to the real value of these supports. This is due to the cumulative increases to the State Pension rate, Living Alone Allowance, and Fuel Allowance.

The potential position of a set of illustrative household types in 2022, is examined below.

Households with greatest need

In 2021 the MESL assessment of social welfare income adequacy again identified households with older children and households headed by one adult (i.e. single working-age adult and lone parent households) as consistently demonstrating the greatest risk and depth of income inadequacy.

The concentration of deep income inadequacy in these household types is due to the current structures of the social welfare system underestimating the minimum needs and costs for one adult headed household relative to two adult headed households, and older children relative to younger children.

The vulnerability of these household types is also demonstrated in the SILC data. It similarly finds that households with older children and one adult headed households demonstrate greater 'at risk of poverty rates' than other household types.

15.3% of children in Ireland are 'at risk of poverty' and children represent almost a third (30.4%) of people living 'at risk of poverty'. The 'at risk of poverty' rate among children is above the national average, and the rate is higher for older children (ages 12 – 17) than for younger age-groups.[8]

Households with children comprise over half (61.0%) of those 'at risk of poverty' and over two-thirds (71.3%) of those in consistent poverty.

Over a quarter (28.8%) of working-age single adults are at 'risk of poverty', as is the case for lone parent households (29.7%). Both significantly above the national rate of 12.8%.

Conversely, older adult couples (aged 65+) and two parent households have 'at risk of poverty' and consistent poverty rates below the national average. Older people living alone have a higher risk than older couples, 17.6% compared to 6.1%.[9]

Social Welfare Adequacy Trends

Current position, 2021

In 2021 the MESL analysis demonstrated that social welfare fell short of providing an adequate income in 147 of 214 cases examined. Within the inadequate cases 78 show deep income inadequacy, with social welfare providing less than 90% of minimum need.

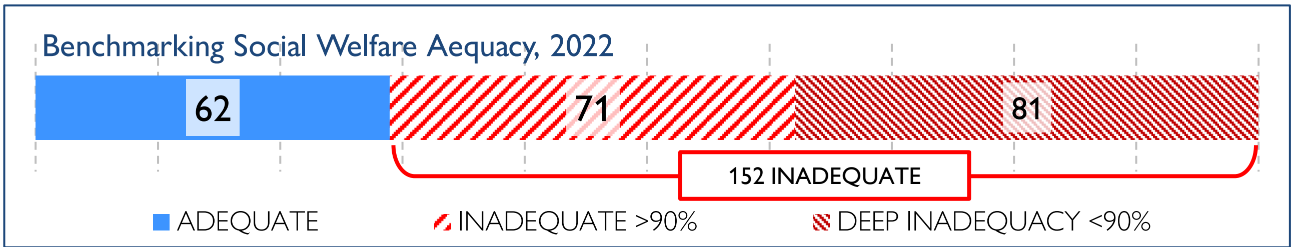
In 2021 deep income inadequacy continues to be concentrated in households with older children (aged 12 and over) and one adult headed households, i.e. lone parent households and single working-age adult households. This is consistent with the findings of the MESL analysis in previous years.

The current social welfare personal rate (€203) is inadequate to meet the MESL costs of a single adult of working-age and does not provide the basis of an adequate income for the majority of one parent household compositions examined.

This is due to the current structures of the social welfare system underestimating the minimum needs and costs for one adult headed household relative to two adult headed households, and older children relative to younger children.

One parent household compositions demonstrate the greatest rate of deep income inadequacy, and the highest rate of older child deep income inadequacy. One Parent household compositions also show a greater depth of income inadequacy. In all cases examined, comparing equivalent compositions of child age and household size, One Parent households demonstrate a deeper level of income inadequacy than an equivalent Two Parent composition.

The 2021 analysis has found that the position of social welfare dependent households with children has improved over recent years. Adjustments to the QCI rates for both younger and older children improved the level of income support. However, the impact was limited as the standard adult Personal Rate had stood at €203 for three years. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are considered.



2022 Forecast

The adjustments to both adult and child social welfare rates announced in Budget 2022 are welcome. However, the limited nature of these increases cannot adequately meet notable rises in living costs, nor makeup the loss of three years progress towards achieving adequate levels of social welfare support.

It is forecast that in 2022 there will be an increase in the incidence of income inadequacy. Cases which in 2021 were on the threshold, slightly above deep inadequacy or with marginally adequate income, are forecast to slip below that threshold in 2022.

In 2022 social welfare will potentially fail to provide an adequate income in 152 of the 214 cases examined. Within the inadequate cases, 81 cases are forecast to demonstrate deep inadequacy.

The analysis finds that deep income inadequacy will continue to be concentrated in households with older children and one adult headed households. One Parent household compositions will also continue to demonstrate the greatest rate and depth on income inadequacy.

Recent years have shown a trend of reducing incidence of deep income inadequacy amongst household compositions with older children. 2022 could break this trend, with an increase in the incidence of deep income inadequacy for cases with older children.

Benchmarking Social Welfare Adequacy

The following section examines the new social welfare measures announced on a household by household basis. These are summarised in Table 1 for six household types which illustrate varying aspects of vulnerability to income inadequacy when reliant on social welfare. An assessment of income adequacy is presented for the coming year, based on the current urban MESL expenditure need and income rates as announced in the Budget.

The following household types and social welfare income scenarios examined:

- Two Parent household, (one Jobseeker and one Stay-at-Home parent)
- One Parent household (in receipt of One-Parent Family Payment / Jobseeker's Transitional),
- Single Adult, unemployed (in receipt a Jobseeker's payment and Rent Supplement)
- Pensioner living alone (Non-Contributory Pension).

In all cases the household types are eligible for a full Medical Card. Housing costs are based on social housing differential rents, except for the working-age single adult. In the unemployed scenario the single adult housing costs are based on renting at the Rent Supplement ceiling in the Dublin area, and receiving Rent Supplement.

Social Welfare measures in Budget 2022

It is welcome that Budget 2022 has adjusted the primary adult rates. This is the first increase in the core working-age adult and pension rates since Budget 2019. However, the €5 per week increase cannot address both the three-year gap in rate adjustments and the exceptional increase in minimum living costs which has occurred through 2021 and is forecast to continue into 2022.

The accompanying adjustments to the Qualified Child Increase (QCI), add €2 for under 12's and €3 for children aged 12 and over, are also welcome. The QCI rate for older children was introduced as a response to the higher risk of income inadequacy and poverty amongst this age-group. It is positive that it continues to be developed to build towards income adequacy for this age-group. However, it is regrettable that this falls short of the recommended increase of €10.

It is welcome that the €5 increase also applies the lower rate of Jobseeker's Allowance (JA) for young adults, aged 18 – 24 years old. However, it is regrettable that there were no further measures to progress towards restoring young adults' entitlement to the full adult rate of JA.

The €5 per week increase to the Fuel Allowance (FA) was a crucial step to address rising home energy costs. It is most welcome that this measure comes into effect immediately, it should offer some buffer against the current exceptional inflation in fuel costs, to qualifying households.

There also marginal adjustments to the eligibility for FA. The FA is available to long-term social welfare recipients. Recipients of Jobseeker's Allowance are currently eligible for the FA after 15 months, this requirement is to be reduced to 12 months. The implementation of this measure is delayed until September 2022, and as such will not increase eligibility in the coming winter. There is also a €20 increase to the means threshold (Jan. 2022).

The Budget also announced a welcome increase to the Back to School Clothing & Footwear Allowance of €10. Additionally, the income threshold for one parent households is to be increased to align with that of Two Parent households.

These adjustments will see household income increase by 2.5% to 3.5% (depending on household composition).

Income inadequacy and child poverty can only be fully addressed when the minimum needs of the entire household are considered. Budget 2022 has again missed the opportunity to make substantive steps towards ensuring an adequately benchmarked primary social welfare rate for working-age adults.

Additionally, the ever-widening gap between market rents and rent limits for HAP recipients will precipitate greater cost increases for households reliant on this housing support.

Increasing the Living Alone Allowance by €3 per week represents an evidence-based approach to improving supports. The Living Alone Allowance makes a vital contribution towards supporting the group of older people which have a higher risk of poverty and have tended to demonstrate income inadequacy.

The combination of increases to State Pension, Fuel Allowance and Living Alone Allowance, will see the social welfare support to an older person living alone increase by 3.9% in 2022.

The Budget 2020 extension of free GP Care to under 8's did not come into effect. Budget 2022 has now again committed to the implementation of this measure in the coming year.

While beyond the scope of this analysis, the adjustments to the supports for carers and people with a disability are welcome. The increase to core rates will also assist recipients of these supports, and people with a disability may be may be eligible for Fuel Allowance and Living Alone Allowance, both of which are. However, it is regrettable that no further measures to specifically recognise the additional and different needs of people with a disability were introduced.

Single Adult of Working Age

The standard working-age personal rate for social welfare payments such as Jobseekers is increased by €5 per week in Budget 2022. This first increase in three years represents a 2.5% upwards adjustment in the rate.

Working-age single adult household types consistently demonstrate deep income inadequacy when reliant on a Jobseekers payment. For an unemployed adult living alone in urban private rented accommodation, the combination of a full Job Seekers payment and Rent Supplement was deeply inadequate in 2021, meeting 81% of MESL need.

It is forecast that in 2022 the cost of an MESL for this household type will increase by approximately €7.30 per week (2.9%), income support is increasing by €5 per week. Consequently, income inadequacy is likely to deepen.

The above is based on the household living in private rented housing within the current Rent Supplement (RS) limits for Dublin, the housing cost is based on the tenant contribution required under RS (€32 per week in this case). When in a Housing Assistance Payment (HAP) tenancy the tenant can be required to pay a top-up to bridge the gap between the rent limit and market rents.

In a HAP scenario housing costs add an additional €125 to this household type's 2022 MESL costs.

In 2022 a working-age single adult living in Dublin, in receipt of HAP and a full Jobseekers payment is forecast to have an income shortfall of €175 per week. Social welfare would meet only 54% of the cost of essential needs.

If in receipt of a long-term Jobseekers payment, this household would be eligible for both the Fuel Allowance and 'Christmas Bonus'. The Fuel Allowance, increased by €5 per week in Budget 2022, equates to an average weekly value of €17.77. The 'Christmas Bonus' of 100% equates to an average of an additional €4.00 per week for an eligible unemployed adult without dependents.

The combination of the 'Christmas Bonus' and Fuel Allowance would reduce the level of inadequacy, to a shortfall of €29 per week in the RS scenario, meeting 89% of MESL need. However, in the HAP scenario with these additional supports a weekly shortfall of €153 would remain.

Households with Children

The MESL research has consistently identified older children as having additional and different needs distinct from children in younger age-groups. The cost of an MESL is highest for older children, aged 12 and over. The MESL needs of older children cost €133 per week, 60% more than the minimum needs of younger children.

Deep income inadequacy, where social welfare meets less than 90% of MESL need, is found most frequently in household compositions with older children. Older children in one parent households are additionally impacted due to the additional deep inadequacy risk faced by one adult headed households.

The improved QCI rates and Back to School allowance announced in Budget 2022 will see social welfare supports meet 64% of the MESL costs for an older child, compared to meeting at least 89% of MESL costs of younger children.

In recognition of older children's additional needs, a higher rate of Qualified Child Increase (QCI) for children aged 12 and over was introduced. Budget 2022 continues to build towards adequacy for this age-group, increasing the higher QCI rate by €3 per week. There is also a welcome adjustment of €2 to the QCI for younger children.

This is a positive development and represents the type of evidence-based policy response which is required to address income inadequacy and poverty generally.

However, these increases fall short of the rates recommended in the VPSJ's Pre-Budget Submission, which set out the interim steps required for social welfare rates to reach adequacy by 2026. Furthermore, it is regrettable that the increases in the QCI rates are not accompanied by an adequate increase in the adult personal rate. Child poverty and income inadequacy can only be fully addressed when the minimum needs of the entire household are considered.

For the two parent household scenarios examined net income from social welfare will increase by 2.6% for the composition with younger children and 2.8% for the composition with an older child.

For the one parent household scenarios examined, it is assumed that the household will be eligible for Fuel Allowance (FA) (as a longer-term social welfare recipient, unlike the Two Parent scenarios examined). The combined increases from QCI and FA will result in household income increasing by 3.3% to 3.5%.

For the Two Parent and One Parent household composition with younger children, social welfare supports provide 99.2% and 98.2% of MESL need in 2021. Due to rising costs the position of these household types is forecast to worsen in 2022, despite the increased income supports, with social welfare meeting 98.8% and 98.1% of MESL need respectively. The inclusion of the 'Christmas Bonus' (CB) in the calculation brings the One Parent household composition's average weekly income to 99.6% of MESL need. For the Two Parent household composition, if the household were eligible for FA and the CB, household income would be adequate in 2022.

Social welfare supports for the household compositions with an older child are predicted to continue to demonstrate deep income inadequacy in 2022 for both the Two Parent (86.1%) and One Parent (82.3%) compositions. The addition of the CB is not sufficient to address the deep inadequacy for the One Parent composition. In the Two Parent case, if eligible for both FA and the CB social welfare would meet 90.5% of MESL need.

The continued development of the new older child rate is welcome. However, the predicted persistence of deep income inadequacy in 2022 demonstrates that to make real progress toward achieving the child poverty reduction goals and addressing the multi-faceted consequences of child poverty, it is imperative that substantive steps continue to be taken to enhance supports for families as a whole.

Older People

Increases in State Pension rates up to 2019 improved the position of all pensioner household types examined in the MESL analysis. Additional evidence-based adjustments to the Living Alone Allowance, in recent years, focused supports to cohort of older people which have demonstrated the greater risk of income inadequacy.

While pensioner couple households tend to demonstrate income adequacy when reliant on the state pension, a pensioner living alone has tended to show greater vulnerability to income inadequacy.

Budget 2022 implements both an increase to the core State Pension rates and a further increase to the Living Alone Allowance, increasing by €3 per week to €22.

In 2017 an urban pensioner living alone household type moved to income adequacy when reliant on the Non-Contributory Pension and living in social housing; for the first time since 2010. Deep income inadequacy has persisted for the pensioner living alone household type when in a rural area, due to additional needs when living in a rural area, primarily transport.

In 2022 the non-contributory State Pension (and secondary supports) are forecast to meet only 85.2% of MESL costs for a rural older person living alone, leaving a shortfall of €49. This is a minor improvement from 2021 where income currently meets 84.7% off MESL needs.

An urban based pensioner household can utilise the free travel pass to meet most of their minimum transport needs on public transport, supplemented by the occasional use of a taxi. For rural households a car is a necessity due to the inadequacy of public transport. The need for a car adds an additional €70 per week to the MESL budget for a lone pensioner in a rural area in 2022.

The increase to the Living Alone Allowance is welcome, however the primary driver of income inadequacy for rural older people living alone is related to lack of public transport and the need for a car. Consequently, services to reduce these costs are needed in order to address the underlying factors contributing to this inadequacy.

Home Energy

As discussed above, increasing home energy costs are a primary factor driving the high levels of inflation and increasing living costs experienced so far in 2021, and projected to continue into 2022.

In the 2021 MESL annual update Home Energy was repriced, at March prices. At that point there had been a notable annual increase in the cost of home heating oil, electricity costs had also increased in the 12 months to March 2021, while natural gas prices had reduced.

As the year has progressed there have been exceptional increases in household energy prices. To take account of this in forecasting the potential MESL need in 2022, the MESL energy basket has been repriced at October 2021 prices. This has found a 25% increase in energy prices for urban households and 15% for rural households, between March and October 2021.

Carbon Tax

Carbon Tax is currently charged at the rate of €33.50 per tonne of CO_2 emitted. Budget 2022 announced a €7.50 increase in the Carbon Tax to €41.00 per tonne of CO_2 emitted. While the increase applies to vehicle fuels (e.g. petrol and diesel) immediately, it will apply to home energy from May 2022.

In terms of household energy costs, the 2021 rate of carbon tax equates to a rate of 0.69 cents per unit (kWh) of natural gas consumed. The increased rate in 2022 will equate to a rate of approximately 0.84 cents per unit (kWh) of natural gas consumed.

In 2021 Carbon Tax on natural gas contributes €92 to the annual household energy costs in the urban MESL budgets. The increase in carbon tax will see this rise to approximately €112 per year.

The amount of Carbon Tax payable on fuels with higher carbon emissions are greater. In 2021 Carbon Tax on home heating oil contributed approximately €121 to the annual household energy costs in the rural MESL budgets. The increase in carbon tax will see this rise to approximately €148 per year in 2022.[10]

Households living in a poorly insulated home can need to consume more fuel to achieve the same level of warmth, in such cases the increased Carbon Tax will have a greater impact.

Fuel Allowance

The Fuel Allowance (FA) has been increased from €28.00 per week to €33.00 per week. This is a €5.00 increase in the weekly rate, bringing the nominal annual value of the support to €924.

Based on analysis of changes of fuel prices to March 2021, the FA would have required an annual value of €825 to restore its purchasing power. Given the volatility in energy prices the VPSJ had recommended an increase to above this level to provide a buffer against further energy price increases. Retaining the €28.00 weekly rate and re-instating the 32-week season, would have resulted in an annual value of €896.

The announced increase of 18% is a significant and very welcome improvement in the value of the support. This measure will undoubtedly contribute towards mitigating against rising prices. However, the continuing inflation in 2021 has already resulted in the announced rate falling short of restoring the purchasing power of the Fuel Allowance.

The announced adjustments to the eligibility for FA are also welcome. The FA is available to long-term social welfare recipients. Those in receipt of Jobseeker's Allowance are currently eligible for the FA after 15 months, this requirement is reducing to 12 months (from Sept. 2022). There will also be a €20 increase to the means threshold (from Jan. 2022).

While the expansion of eligibility to this important support is welcome, it remains highly targeted. Fuel Allowance continues to be unavailable to many low-income and social welfare reliant households. Many will not qualify for this support but will still face the exceptional increase in energy costs and be subject to the increases in Carbon Tax.

Income Adequacy in Employment

Employment should enable people to have a MESL for themselves and their families. Having an income below this standard of living means doing without goods and services which are vital for taking part in everyday life.

Setting an appropriate wage floor is essential, to address the needs of those without dependent children, and to set a reasonable floor for other social support mechanisms to work from. Decent work, providing an adequate rate of pay and secure hours, is crucial to enabling income adequacy in employment.

Minimum rates of pay cannot provide for income adequacy in isolation. There is a fundamental role for social supports to smooth out the varying additional and different needs of households with children. Well designed in-work income supports (operating with the tax system) and services which reduce living costs (e.g. affordable childcare and access to adequate affordable housing) need to work effectively in conjunction with an appropriate minimum wage rate, to enable all households to achieve an MESL when in employment.

Table 1 summarises the minimum wage employment scenarios for five working age household compositions. The adequacy of net household income when in minimum wage employment is assessed, taking account of tax liabilities and relevant social welfare entitlements.

The €0.30 increase to the minimum wage in 2022 gives a rise in the rate, to €10.50 per hour. There remains a significant gap between the minimum wage rate and the evidence-based Living Wage rate, €12.90 per hour, which is calculated on the basis of minimum living costs.

It is regrettable that Budget 2022 did not make substantive steps towards a Living Wage, given the programme for government commitment. However, the setting of terms of reference by the Low Pay Commission to study how this commitment can be met was a welcome development.

Single Adult

The net income from minimum wage (NMW) employment will increase in 2022, due to the €0.30 (2.9%) increase in the NMW rate, Universal Social Charge (USC) band change, and increased Tax Credits.

For an individual in full-time (37.5 hour) minimum wage employment, gross salary will increase by €11.25 per week, while net income will increase by €8.37 per week, a 2.3% increase. Without the personal tax credit and USC changes in Budget 2022 the net salary increase would be €1.92 lower.

In 2022 income inadequacy will likely deepen for a single adult household in full-time NMW employment, due to increasing minimum living costs, and ongoing rising rents.

It is estimated that a standard full-time minimum wage salary will meet 71% of MESL needs, falling over €148 short per week, for a single person living alone and renting a one-bedroom dwelling in the Dublin area.

Based on the 2022 estimate, a single adult would need to work 60 hours of NMW employment per week to afford an MESL in Dublin in the coming year.

Households with Children

Table 1 summarises the position of four household compositions with children, when the adults are in minimum wage employment. Housing costs are based on paying a differential rent (social housing) and childcare costs are net of supports from the NCS or ECCE.[11]

The households with children demonstrate income adequacy in these scenarios, when paying a differential rent in social housing and receiving support for childcare.

The increased National Minimum Wage and adjustments to in-work social welfare supports will result in a 1.9% to 4.0% increase in net household income.

Budget 2022 brings a €10 increase to the income thresholds for Working Family Payment (WFP). For the first time since 2016 the threshold increase includes families with more than three children.

In the scenarios illustrated, the Two Parent household compositions will see an increase in net household income of 1.9%. Due to the increase in NMW, net salary will increase. The households will also qualify for WFP of €45 per week in 2022. While this is a slight reduction (€2) on the level received in 2021, if the WFP thresholds had not been increased the 2022 level would have reduced to €39. This demonstrates the importance of maintaining income thresholds for all households in line with adjustments to NMW.

The One Parent household composition with younger children will benefit from the improvement in the adult

Personal Rate and Qualified Child Increase, as the household qualifies for a partial One-Parent Family Payment (OFP). The adjustment to the WFP income threshold and increased Fuel Allowance also contribute to increasing the household income in 2022.

In the case of the One Parent household composition with older children, household income is primarily based on NMW employment and the Jobseeker's Transitional (JST) payment. The increased NMW, increased Personal and Qualified Child rates, and improved Fuel Allowance contribute to increasing household income in 2022.

The Back to School Clothing and Footwear Allowance (BSCFA) has an income threshold to determine eligibility, this threshold is currently lower for One Parent households than Two Parent households. Budget 2022 announced that the thresholds will be equalised, bringing the one parent household's in line with the two parents.

In 2021, when in full-time NMW employment the One Parent household compositions, examined here, had an income which exceeded the threshold for BSCFA and did not qualify. However, the Two Parent compositions, examined here, did qualify under the higher threshold.

In 2022, the equalised threshold will see the One Parent household compositions qualify for the BSCFA. This will provide welcome additional supports to these households.

Because of the changes to NMW, supports outlined above, and the BSCFA, household income will increase by 2.5% for the One Parent household composition with younger children and by 4.0% for the One Parent household composition with an older child.

The income adequacy for these four household types is demonstrated in the context of living in social housing, paying a differential rent. If in a HAP tenancy housing costs would be higher, and net household income is forecast to be inadequate for both the one and two parent compositions with an older child.

Importance of Services

In-work income supports, when working in tandem with services, can provide income adequacy, as demonstrated in the scenarios above. Services can limit the expenditure and income required for a socially acceptable minimum standard of living.

Housing supports are particularly important. The adequacy demonstrated here for households with children is contingent on access to a differential rent, making housing affordable at lower incomes. Similarly supports with childcare costs are vital to ensure that employment can provide an adequate income and improve a household's position.

Budget 2022 brings forward several measures which have the potential to reduce living costs. These include the extension of free GP care to children aged six and seven, the introduction of free contraception for women aged 17 – 25, a reduction in public transport costs for young adults (19 – 23), and adjustments to the National Childcare Scheme.

All such measures which contribute towards reducing living costs and making a socially acceptable minimum standard of living more affordable are welcome.

Childcare

There are two changes announced which should have a direct effect on the cost of childcare to households.

The universal aspect of the National Childcare Scheme (NCS) provides a subvention of €0.50 per hour towards childcare costs for all children who have not yet started the ECCE pre-school programme. Budget 2022 has announced that this universal subvention is now to be extended for the care of children under 15. The measure is not due to be introduced until September 2022.

The second change in the NCS regards the treatment of the hours a child is in pre-school or school. Currently, these hours are deducted from the number of NCS hours a household is deemed to be entitled to. Budget 2022 has announced that this practice will end during the course of 2022, making the full hours entitlement available during both term and non-term time. An implementation date for this has yet to be decided.

These measures are welcome and should provide additional support to households through reducing potential childcare fees. However, as the timeframe for the implementation of these measures is either the latter part of 2022, or not yet determined, the effect of these new measures is not included in the 2022 scenarios presented here.

Notes

Social Welfare Scenario Notes

Housing costs based on social housing (differential rent), except for the Single Adult which is based on Private Rented and receiving Rent Supplement.

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

Two Parents	JS Personal Rate + Qualified Adult + Qualified Child, Child Benefit, Back to School Clothing & Footwear
One Parent	One-Parent Family Payment / Jobseeker's Transition + Qualified Child, Child Benefit, Back to School Clothing & Footwear, Fuel Allowance
Single Adult	JS Personal Rate, Rent Supplement
Pensioner	Non-Contributory Pension + Living Alone Increase, Fuel Allowance, Telephone Support Allowance, Household Benefits Package

Assumed all social welfare dependent households are eligible for a full medical card.

Employed Scenario Notes

Housing costs based on social housing (differential rent), except for the Single Adult which is based on 90% of average Dublin rent for a one-bedroom dwelling.

Childcare costs included in MESL expenditure need, as appropriate. Cost is net of the NCS or ECCE scheme as appropriate for child age and household eligibility.

Two Parent households based on 1 adult in full-time (37.5 hours) employment and 1 in part-time (19 hours), One Parent & Single Adult households based on 1 adult in full-time (37.5 hours) employment.

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.

Income is net household income, after tax (PAYE, PRSI & USC), and includes applicable social welfare supports e.g. Child Benefit. Means tested social welfare supports included for households with children, e.g. Working Family Payment, One-Parent Family Payment, are included as applicable.

Medical card means test applied in each scenario, following HSE Medical Card guidelines.

Endnotes

1 Details of the 2021 MESL expenditure data and income scenarios are available at:
www.budgeting.ie/publications/mesl-2021/

2 Programme for Government: Our Shared Future, published 2020
https://assets.gov.ie/130911/fe93e24e-dfe0-40ff-9934-def2b44b7b52.pdf

3 Government of Ireland (2020). Roadmap for Social Inclusion 2020 – 2025.
https://www.gov.ie/pdf/?file=https://assets.gov.ie/46557/bf7011904ede4562b925f98b15c4f1b5.pdf

4 Dept. of Finance (2021) Budget 2022: Economic & Fiscal Outlook.
assets.gov.ie/201250/f0886750-a25f-4bf4-9d1d-2918347495f0.pdf

5 Central Bank (2021) Quarterly Bulletin: QB4 – October 2021.
www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2021/quarterly-bulletin-q4-2021.pdf

6 ESRI (2021) Quarterly Economic Commentary, Autumn 2021.
https://doi.org/10.26504/qec2021aut

7 For an examination of the difference between changes in the cost of the MESL basket and CPI, see
Thornton, R. and Boylan, H. (2021) MESL Working Paper: Examining the accuracy of inflation adjustment and quantifying the impact of basket changes.
www.budgeting.ie/publications/examining-the-accuracy-of-inflation-adjustment-and/

8 From SILC 2019 data, the national AROP rate is 12.8%, the rate for children (0 – 17) is 15.3%. The rate for older children (12 – 17) is higher than for younger age-groups (19.1% compared to 15.0% and 10.7% for younger age-groups).
CSO (2020) Survey on Income and Living Conditions (SILC). Online data. Breakdown by age-group from Table SIA48

9 CSO (2020) SILC 2019.
https://www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2019/

10 The MESL budget for Older People and for Households with Children is based on living in a standard sized family home (approx. 100 m^2) with a C2 energy rating.

When in urban areas the budget includes 13,300 units of natural gas per annum to adequately heat the home.

When in rural areas the budget is based on home heating oil, with the household requiring approx. 1,260 litres per annum.

11 For the Two Parent household compositions with one parent in full-time employment and the other in part-time employment, childcare costs are based on the use of a formal provider for a pre-school age child and informal care from a relative/friend for the primary school age child.

For the One Parent household compositions childcare costs are based on the use of a formal provider for both pre-school and primary school age children, when the adult is in full-time employment.

In both cases the subvention for costs from the NCS or ECCE are included where applicable. As Budget 2022 changes to the NCS are not due to come into effect until the latter part of the year, they are not included in the current forecast for 2022.