VINCENTIAN MESL RESEARCH CENTRE

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Budget 2023

MESL Impact Briefing

KEY POINTS

2022 has seen an exceptional increase in living costs, primarily driven by rising energy and food prices. The latest forecasts indicate that the cost of a MESL will rise by 10% over the full year to 2023. To ensure that social welfare supports maintain their real value they must be adjusted in line with potential changes in minimum living costs.

This budget introduces a set of once-off 'Cost of Living' measures that come into effect in the last quarter of 2022. These supports are welcome and will ease pressure on many households. However, the increase in the cost of a MESL in 2022Q4 is estimated to be greater than the additional income provided by the 'Cost of Living' measures. As a result, income inadequacy is forecast to deepen in the latter part of this year.

Budget 2023 also introduces adjustments to core weekly social welfare rates for 2023, including:

- €12 increase in adult rates (both working age and state pension rates),
- proportionate adjustments to qualified adult rates,
- €2 increase to the qualified child rates for both younger and older children.

The €12 nominal increase to adult personal rates is the largest single year adjustment since 2008. However, it falls short of the recommended €20 increase needed to keep pace with rising minimum living costs.

The €2 nominal increase in Qualified Child rates for children in social welfare dependent households is surprisingly modest. For an older child, the gradual progress made towards adequacy of income supports is likely to reverse in 2023 – the current forecast is a 2.5 percentage point drop in the share of MESL needs met.

The 2023 analysis finds that, for the first time since 2017, neither the Contributory nor Non-Contributory State Pension will provide the basis of an adequate income for an urban older person living alone.

Budget 2023 has retained the Fuel Allowance core rate of €33 per week, despite rising energy costs driving current inflation. An additional €400 top-up lump sum is also to be paid in November 2022. The total value falls €300 short of maintaining the purchasing power of the Fuel Allowance and is forecast to contribute to a notable increase in energy poverty in 2023.

Budget 2023 announced an €0.80 increase to the NMW and adjustments to the Working Family Payment (WFP) income thresholds of €40 for households of all sizes. Adjusting the WFP thresholds in conjunction with the NMW is a welcome step and has ensured that gains from the NMW increase are not offset through reduced WFP.

Budget 2023 also introduces a number of significant permanent measures, which will bring a welcome reduction to aspects of living costs, these include:

- The provision of free schoolbooks to all primary school children from September 2023 is welcome, potentially reducing annual MESL primary school age costs by €159. Extending this programme to children in second level education will be a vital next step.
- The extension of the universal GP Visit Card to 6 and 7 year olds by the end 2022, and an increase in the income threshold for the GP Visit Card to median incomes.

Table 1 Income Adequacy 2022, 2022Q4 and 2023f

Urban MESL expenditure need

Household			Social Welfare 2022	Social Welfare 2022Q4	Social Welfare 2023f	Employed 2022	Employed 2022Q4	Employed 2023f
Two Parent	**Pre & Primary School**	**TP 2a**						
	MESL Expenditure		496.49	522.82	532.60	613.25	640.49	659.31
	Income (Net)		493.69	509.19	517.69	690.82	707.75	730.22
	Adequacy		-2.80	-13.63	-14.91	77.57	67.25	70.91
Two Parent	**Primary & Second Level**	**TP 2b**						
	MESL Expenditure		582.85	611.86	624.82	679.57	709.46	725.46
	Income (Net)		507.17	524.75	531.17	696.30	715.15	735.70
	Adequacy		-75.68	-87.11	-93.65	16.73	5.69	10.24
One Parent	**Pre & Primary School**	**OP 2a**						
	MESL Expenditure		381.54	404.80	410.04	571.53	596.90	616.83
	Income (Net)		383.33	399.54	395.31	702.80	726.66	732.43
	Adequacy		1.79	-5.26	-14.73	131.27	129.77	115.60
One Parent	**Primary & Second Level**	**OP 2b**						
	MESL Expenditure		467.90	493.84	502.26	574.63	599.16	613.21
	Income (Net)		396.96	415.25	408.94	664.48	680.67	687.53
	Adequacy		-70.94	-78.59	-93.32	89.84	81.51	74.32
Single Adult	**Working Age**	**SA**						
	MESL Expenditure		260.31	270.98	279.58	516.47	533.36	542.16
	Income (Net)		208.00	212.00	220.00	365.27	365.27	394.97
	Adequacy		-52.31	-58.98	-59.58	-151.20	-168.09	-147.19
Pensioner	**Living Alone**	**LP**						
	MESL Expenditure		291.84	310.77	318.36			
	Income (Net)		293.67	306.11	301.58			
	Adequacy		1.83	-4.66	-16.78			

The MESL data examined in this briefing, is based on the annual 2022 MESL[1] expenditure data, adjusted MESL costs 2022Q4, and 2023f forecast estimate MESL costs for 2023.

See Notes on page 15 for details of the income scenarios, including revision of 2022Q4 household with children income calculations.

The 2023 income calculations are based on the information from Budget 2023, as published by the relevant Government Departments at this time.

Introduction

This briefing analyses the impact of Budget 2023, applying the MESL data to examine the impact of the announced measures on income adequacy. Assessing the degree to which changes to incomes and services have protected the real value of supports in the face of rising living costs, and if they will enable a socially acceptable minimum standard of living in the coming year.

The Programme for Government[2] committed to protecting core weekly social welfare rates and recognised the importance of secondary benefits and supports. It also committed to the Roadmap for Social Inclusion[3] goal 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).

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 towards this goal.

Based on the 2022 analysis of the MESL minimum expenditure and income needs a set of policy recommendations were presented for the Budget. The analysis identified household types with the greatest level of income inadequacy, systemic issues which contribute to persistent income inadequacy, and household types under greatest pressure from rising living costs. The measures outlined were vital to protect the real value of core rates, and to protect the progress made towards ensuring an adequate income for an acceptable minimum standard of living.

Budget 2023 has not protected core social welfare rates. The nominal increases in rates do not keep pace with rising living costs, and so are a cut in real terms. However, there are welcome adjustments to conditions for supports such as changes to the Fuel Allowance means test and the increased

Area	MESL Recommendations	Budget 2023 Measures
Working Age Personal Rates	Increase by €20 to €228 per week	Increased by €12 per week
Qualified Adult	Maintain current nominal rate	Increased by €8 per week
Qualified Child (under 12)	Increase by €7 to €47 per week	Increased by €2 per week
Qualified Child (12 and over)	Increase by €12 to €60 per week	Increased by €2 per week
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 €12 to €129.70
Fuel Allowance	Re-instate the 32-week season. Increase weekly rate by €15 to €48 per week	Weekly rate of €33 and 28 week season retained. €400 lump sum to be paid in November
Working Family Payment	Adjust income thresholds for all household sizes in line with forecast salary changes	Increase income thresholds by €40 for all household sizes
Pensions, Personal & QA	Retain current rate	Increased by €12 per week
Pensions, Living Alone	Increase by €12 per week	Current rate, €22, retained
National Minimum Wage	Evidence based rate, progressive realisation of the real Living Wage	Minimum wage increased by €0.80 to €11.30 per hour

Working Family Payment threshold. Moreover, there are significant permanent measures to reduce living costs, including the introduction of free school books for primary school age children, adjustments to the National Childcare Scheme and widening of the GP Visit Card eligibility up to median incomes.

This budget has also introduced a suite of once off 'Cost of Living' measures that will come into effect in the last quarter of 2022. These are an exceptional intervention in the face of an extreme rise in living costs.

It is welcome that many of the additional supports are targeted and being provided to the majority of social welfare dependent households, and are being made available in October and November of this year. These include a 'Cost of Living Support' double payment to all weekly welfare schemes, additional once off lump sum payments to recipients of several other targeted supports including Living Alone Allowance, Fuel Allowance, Working Family Payment, Disability Allowance, Blind Pension, Invalidity Pension and Carer's Support Grant. There are also a number of one off payments to recipients of student supports. In addition, there will be a double Child Benefit payment to all recipients in November. The total cost of these measures is €1.01 billion.

Budget 2023 also announces three further €200 electricity credits to be paid to all households, at a cost of €1.2 billion. The untargeted nature of the previous electricity credit has been critiqued as an inefficient route to support those most effected by the significant increases in energy costs[4].

It is regrettable that a more targeted approach focusing a greater share of available resources on low income households was not taken. Whether through permanent rate adjustments, or if necessary, further one-off measures. The same funds could have gone towards supporting the real value of the Fuel Allowance and core social welfare rates.

The once off nature of the 'Cost of Living' measures will not make up for the inadequate adjustments to core social welfare rates in 2023. Furthermore, the failure to adjust the base rate of the Living Alone and Fuel Allowances shows a lack of evidence-based targeting of resources to the households facing the greatest challenges.

The analysis in this briefing finds that there is likely to be a deepening of income inadequacy for social welfare dependent households in 2023. With a return of income inadequacy for older people living alone, and the emergence of significant fuel poverty for the social welfare dependent household types examined.

The external factors driving the exceptional increases in the cost-of-living are well documented and presented unprecedented challenges in Budget 2023. However rising living costs are also all too apparent for the households on low and fixed incomes being pushed further into income inadequacy and poverty.

The issue of income inadequacy is not new and the gap between incomes and the cost of a Minimum Essential Standard of Living will likely grow in 2023, as the policy response from the Budget does not adequately invest in our social protection system to ensure more people are not pulled into poverty and pushed deeper into hardship.

In order 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 potential changes in minimum living costs.

It is regrettable that the Budget decisions do not mark out a clear commitment towards protecting the real value of income supports, nor 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.

Minimum Essential Standard of Living

The 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

2022 has been an exceptional year, with extreme increases in living costs primarily driven by rising energy and food prices. In previous years the MESL has often found minor fluctuations in prices, with increases in some basket areas being largely offset by decreases in others.

Compared to 2021, the core cost of a MESL has increased by an average of 5% for urban households and 14% for rural households.

Given the exceptional volatility in prices over the course of 2022 it is inevitable that the cost of a MESL has continued to rise. Current estimates indicate the MESL basket price has increased by a further 6 percentage points to August 2022.

This increase is being primarily driven by rising prices in the areas of home energy and food, which makeup a greater proportion of the minimum MESL basket compared to the CPI average household basket.

Both the Central Bank[5] and ESRI[6] are predicting continued inflation over 2022, being driven by rising energy prices and the knock-on effect in other areas, particularly food.

The Department of Finance's estimate for inflation at the time of Budget 2023[7], expects an average of 8.5% over the course of 2022, with core inflation (excluding energy and unprocessed food) of 5.3%. Inflation is predicted to continue at 7.1% over 2023.

The Central Bank, estimate that over 2022 the average inflation in consumer energy prices will be 41.6%, with 6.8% inflation in food prices.

Applying these forecasts indicates that the cost of a MESL is likely to increase by at least 10% into 2023.

MESL exposure to food and energy price increases

The composition of the MESL basket is different from the average consumption basket used to measure inflation. Basics such as food and household energy make up a larger share of the minimum basket. They comprise 29.4% of the MESL basket, almost double the weight given in the CPI basket (16.1%).

Consequently, a minimum basket of goods and services is significantly more vulnerable to changes in food and energy costs.

CSO[8] analysis of CPI trends supports the findings of the MESL. In the twelve months to March 2022, households in the lower income deciles, single adult and one parent households, and rural households have experienced higher rates of inflation, than the average CPI rate. Conversely, below average inflation was experienced by households in the upper four income deciles.

These findings align with findings from MESL analysis of the change in minimum costs from 2021 to 2022.

MESL 2023 forecast

The MESL data examined in this briefing is based on the 2022 MESL annual update to the baskets. The 2022 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 2023 is applied.

Given the exceptional increases in household energy prices, the 2022 MESL energy prices are adjusted applying the Central Bank forecast for inflation in consumer energy prices (41.6%). The announced electricity credits for 2023 are also applied.

The most recent Department of Finance forecast for core HICP inflation (5.3%), which excludes energy costs, is applied to the rest of the MESL basket categories.

The analysis finds that the MESL costs, for urban households, are forecast to increase by an average of 10.1% from 2022 to 2023.

Households with greatest need

In 2022 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.

13.6% of children in Ireland are 'at risk of poverty' and children represent over a quarter (28.2%) of people living 'at risk of poverty'. The 'at risk of poverty' rate among children is above the national average, and older children (ages 12 – 17) have the highest rate at 18.5%.[9]

Households with children comprise over half of those 'at risk of poverty' (53.3%) and experiencing consistent poverty (54.9%).

Over a quarter (28.8%) of working-age single adults are at 'risk of poverty', and over a fifth of lone parent households (22.8%). Significantly above the national rate of 11.6%.

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, 21.5% compared to 8.9%.[10]

Once off measures in 2022

This budget has introduced a suite of once-off 'Cost of Living' measures that will come into effect in the last quarter of 2022. These are a reaction to the extreme rise in living costs that has occurred over the course of the year.

The measures assessed[11] include:

- Autumn Cost of Living Double Payment, payable to majority of weekly social welfare recipients, including those in receipt of Jobseekers, One-Parent Family Payment, and the State Pension.
- Child Benefit, a double payment.
- Fuel Allowance, additional payment of €400 to all recipients.
- Living Alone Allowance, additional payment of €200 to all recipients.
- Working Family Payment, additional €500 payment to all recipients.

The payment of the full Christmas Bonus to those in receipt of a long-term social welfare payment was also confirmed for 2022. This is included in the applicable scenarios.

It is exceptional for an annual budget to introduce additional income supports for the current year. To measure the impact of these measures, they are benchmarked against an estimate of 2022 MESL for the fourth quarter[12]. The 2022 Q4 MESL estimate indicates that core minimum living costs have increased by 5.6% from March to August 2022.

Method

The MESL presents the weekly cost of a household's minimum expenditure needs, averaged across a full year. As such seasonal costs, such as expenditure related to 'back to school', or a household's varying energy needs over the course of 12 months, are presented as a weekly average cost.

When assessing the adequacy of income supports the same method is followed. For instance, the value of Fuel Allowance (paid for part of the year only) or the Back to School Clothing & Footwear Allowance (a single annual payment), are averaged across the 52 weeks of the year.

To measure the efficacy of the 'Cost of Living' lump sum and double payments the same method is followed. The average weekly value of the payments is included the net household income and assessed against the average weekly MESL expenditure need estimate for 2022 Q4.

Social welfare adequacy

The increase in the cost of a MESL is greater than the additional income provided by the 'Cost of Living' measures, for the set of six household compositions examined. Consequently, income inadequacy is forecast to deepen in the latter part of the year.

In all cases, when reliant on social welfare household income is inadequate despite the additional supports to be introduced in the last quarter of 2022, as illustrated in Graph 2. For the two parent households, the Autumn Cost of Living Payment and double Child Benefit increase average weekly income by approximately 3.3%. However, the increase in living costs exceeds this, and income inadequacy will worsen in both cases.

In the case of the one parent households examined, the scenarios are based on receiving a long-term social welfare support and thereby qualifying for Fuel Allowance. However, this additional support and further once-off payment are not enough to offset the rising cost of a MESL.

In early 2022 a one parent household with a pre-school and primary school aged child (OP 2a) had a marginally adequate income. Minimum living costs, in this household scenario, are forecast to increase by 6%, greater the rate of the change in income (4%) from the additional 'Cost of Living' measures.

An urban older person living alone also demonstrated precariously marginal income adequacy in early 2022, when in receipt of the Non-Contributory State Pension. This household type will receive the Autumn Cost of Living Double Payment, additional Fuel Allowance lump sum and the Living Alone Allowance additional payment of €200. Of the household compositions examined, this is the highest rate of increased support at 4.2%. This household scenario has demonstrated income adequacy since 2017, however it is now forecast that this household scenario will demonstrate income inadequacy in 2022Q4.

Employed households

The position of the five working-age household compositions when in minimum wage employment is also assessed.

For the two parent household compositions examined, the double Child Benefit payment and the additional €500 payment to Working Family Payment (WFP) recipients are applicable. These will contribute an approximately 2.5% increase to net income.

In addition to the double Child Benefit payment, the one parent household compositions examined will qualify for the 'Autumn Cost of Living' double social welfare payment and the Fuel Allowance lump sum. In the case of the household with younger children, the household receives both One-Parent Family Payment and WFP, thereby qualifying for the WFP additional lump sum also.

The one parent household composition with older children, receives Jobseeker's Transitional and so cannot qualify for the WFP or the associated once off lump sum. Of the four family households examined this case receives the lowest proportional increase in support from the 'Cost of Living' measures, with net income rising by 2.4%.

The working-age single adult household type, in full-time minimum wage employment, does not qualify for any of the additional 'Cost of Living' payment measures.

Adequacy trends

The MESL analysis examines trends in social welfare adequacy for a set of 214 test household cases[13]. The analysis identifies trends in income inadequacy with a focus on deep income inadequacy (income <90% MESL need). Patterns of income inadequacy are highlighted, identifying household characteristics and needs which are not properly supported by the structures of the current social welfare system.

2022 MESL analysis

The 2022 MESL Annual Update found that social welfare did not provide the basis of an adequate income in 148 of 214 test cases examined.

This was a slight increase in the number of cases demonstrating inadequacy. From 2021 to 2022 the rising cost of a MESL exceeded the changes in social welfare supports, pushing several cases below the adequacy threshold.

The overarching trend remains consistent with the findings in previous years. 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.

Deep income inadequacy in family household compositions was primarily limited to households with older children. There were 5 cases of household compositions with only younger children demonstrating deep inadequacy, and these were all one parent compositions.

2022 Q4

Previous analysis[14] found that the potential continuing rise in living costs over 2022 could result in a ballooning of income inadequacy if measures were not taken to address costs and income supports.

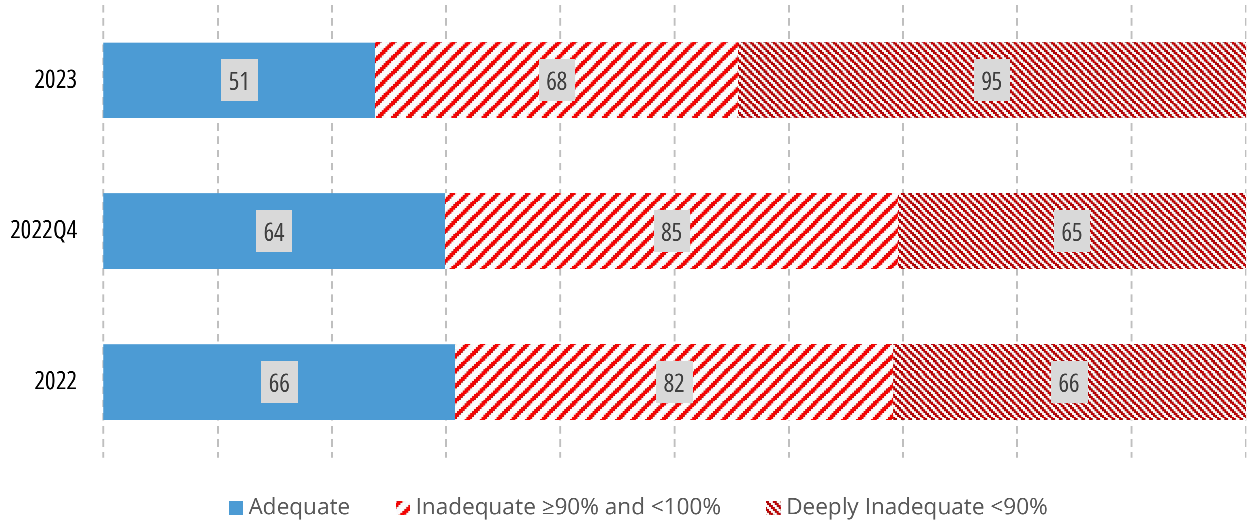
The announced once off 'Cost of Living' measures for the last quarter of 2022 have the potential to mitigate the severity of this expanding inadequacy.

Taking account of the new 'Cost of Living' measures, Graph 1 includes analysis of the position of households in 2022 Q4. The findings show a slight decrease in cases demonstrating adequacy (64), and an increase in income inadequacy (150).

One adult headed households and households with older children continue to show the greatest incidence and depth of deep income inadequacy.

Income inadequacy is also found in the case of an older person living in an urban area. The non-contributory state pension and secondary supports is found to meet 98.5% of MESL needs.

Graph 1 Social welfare income adequacy, 214 urban test cases



2023 Forecast

The adjustments to social welfare rates for 2023 do not keep pace with increases in living costs. Consequently, these represent a cut in real terms and result in a significant widening of income inadequacy.

Based on current MESL forecasts, only 51 cases will demonstrate adequacy in 2023, while a total of 163 cases will demonstrate income inadequacy. Within that, is a potential ballooning of deep income inadequacy to 95 cases (from 66 in 2022).

Households with older children continue to make up the majority of cases demonstrating deep income inadequacy. For 2023 there are 71 older child cases of deep inadequacy found, however there are also a further 22 cases from household compositions with younger children only. Of these, 13 are one parent and 9 are two parent compositions.

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.

An older person, living alone, is also found to show income inadequacy when reliant on either the Contributory or Non-Contributory State Pension in 2023.

This demonstrates that the spiral of increasing living costs has the potential to push the cost of a MESL significantly above the level of social welfare support provided, as the real value of core rates and secondary supports are not protected in Budget 2023.

Graph 2 MESL need & social welfare adequacy, 6 illustrative household compositions, € per week

Social Welfare measures for 2023

Budget 2023 has introduced a limited set of adjustments to core social welfare rates. These include:

- €12 increase to working-age Personal Rates
- €8 increase to working-age Qualified Adult rates
- €2 increase to Qualified Child Increase for both age-groups
- €12 increase to the State Pension rates, and proportional increases to Qualified Adult rates

There are also notable adjustments to the Fuel Allowance means test, the earnings disregard for Disability Allowance and Blind Pension, and a significant €40 increase to the Working Family Payment earnings thresholds.

However, the absence of any adjustment to the core rate of Fuel Allowance or Living Alone Allowance is remarkable. Furthermore, the €2 increase in the QCI rates is surprisingly modest in its ambition – particularly in the context of rising living costs and child poverty reduction targets.

Single adult of working age

The standard working-age personal rate for social welfare payments such as Jobseekers is increased by €12 per week in Budget 2023. This is a significant 5.8% increase but falls short of the recommended €20 increase required to keep pace with rising minimum living costs.

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 Jobseekers payment and Rent Supplement was deeply inadequate in 2022, meeting 79.9% of MESL need.

It is forecast that by 2023 the cost of a MESL for this household type will have increased by approximately €20 per week, income support is increasing by €12 per week. Consequently, income inadequacy is likely to deepen in 2023, with social welfare providing for 78.7% of MESL need.

If in receipt of a long-term Jobseekers payment, this household would be eligible for both the Fuel Allowance and 'Christmas Bonus'. In 2023, these would provide an additional average weekly income of €22.00, bringing social welfare supports to 86.6% of MESL need.

Households with children

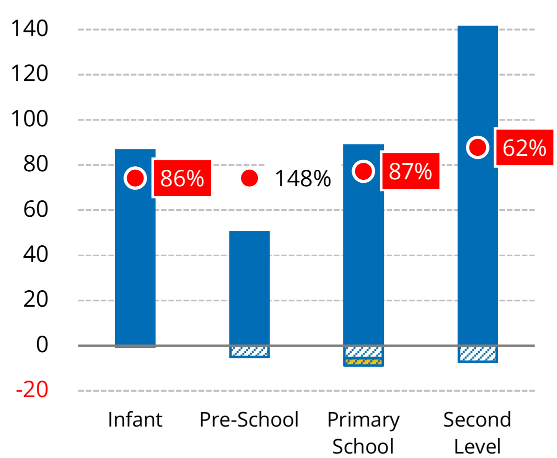
Deep income inadequacy is found most frequently in household compositions with older children. Older children in one parent households are further impacted due to the additional deep inadequacy risk faced by one adult headed households.

The MESL research has consistently identified older children as having additional and different needs distinct from children in younger age-groups. The MESL cost is highest for older children, aged 12 and over; €133 per week in 2022, 60% more than the MESL needs of younger age-groups.

The costs for children of all age-groups are forecast to increase over the course of the year into 2023. Core MESL costs for older children, aged 12 and over, show the greatest increase, 6.4%. While core MESL costs at primary school age show the lowest increase, 2.8%, benefiting from the announced introduction of free school books.

The second level child, aged 12 and over, shows the deepest inadequacy with a significant gap between MESL needs and social welfare supports. In recognition of older children's additional needs, a higher rate of Qualified Child Increase (QCI) for this age-group was introduced in 2019. This was built on in subsequent years, and the increases to the QCI for older children have contributed to a progressive improvement in the level of MESL need met, from 58.6% in 2020 to 64.7% in 2022.

Graph 3 2023 MESL[15] by child age-group & child related social welfare adequacy, € per week



The €2 nominal increase to the QCI rate for older children, is a 4.2% adjustment and as such is a reduction in support in real terms. Consequently, the gradual progress towards adequacy in income supports for older children is likely to reverse in 2023. The current forecast is for a 2.5 percentage point drop, with social welfare supports meeting 62.2% of MESL needs.

The combined adjustment to core adult and child social welfare rates for 2023 represent a nominal increase of 5.5%, to the households with children in Graph 2. However, this falls short of the likely increase in MESL expenditure need into 2023.

For the household compositions with older children (TP 2b and OP 2b), social welfare supports provided for less than 90% of MESL need in 2022. This deep inadequacy is set to continue in 2023, and the level of inadequacy is forecast to deepen.

A one parent household with two younger children (OP 2a) had a marginally adequate income from social welfare in 2022. Average weekly income exceeded MESL costs by €1.79 per week. This adequacy buffer had eroded by 2022 Q4 to a €9 per week shortfall. The adjusted social welfare rates in 2023 will not keep pace with rising costs, pushing this household type further into income inadequacy. Social welfare income is forecast to be €15 short per week, meeting 96.4% of MESL need.

Older people

Older couple households tend to demonstrate income adequacy when reliant on the state pension, however an older person living alone has tended to show greater vulnerability to income inadequacy. 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.

As noted above, income inadequacy is forecast to return for an urban pensioner living alone household type in 2022 Q4. The pre-budget recommendations for this household type emphasised the importance of the Living Alone Allowance and Fuel Allowance.

The €12 increase to the State Pension rate matches the recommended adjustment to the Living Alone Allowance. Unfortunately, it is not accompanied by rate adjustments to supports targeted to households of this type, e.g., Living Alone Allowance or Telephone Support Allowance.

Furthermore, the Fuel Allowance core rate is not increasing in 2023; despite rising energy costs driving current inflation levels.

An urban older person living alone, in receipt of the Non-Contributory Pension is forecast to face an income shortfall of approximately €17 per week in 2023. Social welfare supports will meet 94.7% of MESL needs. The Contributory Pension is also forecast to be inadequate for this household situation in 2023, with social welfare supports meeting 97.8% of MESL needs.

Household energy costs

Graph 4 MESL Household Energy costs as a percentage of social welfare income, 2022 - 2023

Household Energy was the MESL category with the largest increased cost in the 2022 MESL update. In the MESL basket urban home energy costs (based on the use of natural gas and electricity) increased by an average of 32%. This rate of increase is net of the €200 electricity credit provided to all households in the first half of 2022.

Energy prices have continued to rise over the course of the year. Currently inflation in home energy prices is forecast to average 41.6% over 2022, reducing to 7.6% in 2023.[16]

Entering the fourth quarter of 2022, the MESL household energy basket had increased by a further 35% since March 2022. The November €200 electricity credit will offset a proportion of the rising costs, and is forecast to bring the average increase to approximately 25%.

The core rate of Fuel Allowance for the 2021/22 season was increased in Budget 2022. Additionally, in the first half of 2022 two lump sum top-up payments, totalling €225, were made to the Fuel Allowance. The combination of these measures maintained the real value of Fuel Allowance relative to home energy inflation to March 2022.

Budget 2023 has retained the Fuel Allowance rate of €33 per week. An additional €400 top-up lump sum is also to be paid in November 2022. This will represent a €300 cut in the purchasing power of the Fuel Allowance for 2022/23, due to the retention of the previous rate and inadequacy of the top-up lump sum announced.

In 2023 the household energy costs in the MESL basket are forecast to have increased at a greater rate than income supports, despite the announced electricity credits and lump sum payments.

Graph 4 illustrates MESL household energy as a percentage of social welfare income, for six urban household types.

Home energy needs costing more than 10% of a household's net income is a standard indicator of energy poverty. The analysis finds that the failure of supports to keep pace with energy prices will have pushed each of the households examined into energy poverty by 2023.

Income adequacy in employment

Employment should enable people to have a Minimum Essential Standard of Living for themselves and their families. Having an income below this standard of living means doing without goods and services which are seen as vital for taking part in the norms of 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. Well designed in-work income supports (operating in tandem 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 a 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 Low Pay Commission's recommendation of a €0.80 increase to the minimum wage in 2023 represents a 7.6% increase in the gross rate. This nominal increase is below both the rate of headline inflation and the greater rate experienced by low income households.

Consequently, there remains a significant gap between the minimum wage rate and the evidence-based Living Wage rate which is calculated on the basis of minimum living costs.

Single adult

The net income from minimum wage employment will increase in 2023, due to the €0.80 increase in the National Minimum Wage (NMW) rate and related adjustment to the Universal Social Charge (USC).

The new Rent Tax Credit, €500, will reduce the PAYE payable on a full-time minimum wage salary for an employee in the private rented sector and not in receipt of any housing support e.g., HAP.

Net income for a single adult in full-time (37.5 hour) NMW (if in private rented housing and eligible to claim the Rent Tax Credit), will increase by €29.70 per week, an 8.1% increase.

If not eligible for the Rent Tax Credit, net income from full-time NMW employment will increase by €20.08 per week, a 5.5% increase from 2022.

It is estimated that a standard full-time NMW salary will meet 72.9% of MESL needs. Falling over €145 short per week, for a single person living alone and renting a one-bedroom dwelling in the Dublin area.

Based on the 2023 estimate, a single adult would need to work over 58 hours of NMW employment per week to afford a MESL in Dublin in the coming year.

Households with children

Table 1 summarises the position of four household compositions with children, when the adult(s) are engaged 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.

In addition to the increase in the National Minimum Wage (NMW), the Working Family Payment (WFP) income thresholds are being adjusted by €40 per week, ensuring they are maintained relative to the NMW. It is welcome that this measure applies to households of all sizes and is being introduced from the start of 2023.

In the scenarios illustrated, the two parent household compositions will see an increase in net household income of 5.7%. Net salary will increase due to the adjustments to the NMW. The households will also qualify for WFP of €46 per week in 2023; a €1 increase from 2022. If the WFP thresholds had not been increased, the WFP support would have reduced to €22 per week due to the higher net salary in 2023.

Maintaining the relative value of the WFP thresholds has ensured that WFP support is retained in 2023, at previous levels. As a result, the Marginal Effective Tax Rate (METR) on the change in the NMW is 12.8% for the two parent households examined. Without the adjustment to WFP thresholds, the METR would be 66%.

This demonstrates the importance of maintaining income thresholds for all households in line with adjustments to NMW.

The one parent household compositions examined are in receipt of either the One-Parent Family Payment or Jobseeker's Transitional (JST), and as such will receive an increase in support due to the adjustment to the adult and qualified child rates.

It is regrettable that Budget 2023 has not reviewed the age limits for JST. It remains, that a one parent household will lose eligibility to JST when the youngest child reaches 14. In such a scenario, moving to WFP will continue to be accompanied by a notable drop in net income – 10% for a two-child household, due to loss of JST and Fuel Allowance.

Finally, 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. In this scenario net household income is forecast to be inadequate for the two parent household composition with an older child.

Importance of services

The MESL research also demonstrates the importance of services in limiting the expenditure and income required for a socially acceptable minimum standard of living.

Housing supports are particularly vital. 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 also essential to ensure that employment can provide an adequate income and improve a household's position.

Child costs

School books

The provision of free schoolbooks to all primary school children from September 2023 is welcomed. The 2022 MESL budget for a primary school child includes a cost of €3.05 weekly, €158.60 annually, for schoolbooks.

The national expansion of the pilot programme, which provided 102 Primary DEIS schools with free school books for the 2020/2021 and 2021/2022 school years, will eliminate these costs and significantly reduce the education costs experienced by households containing primary school aged children.

As the programme has not been extended to include children in secondary school, it will not help to reduce the significant costs which come with having an older child in a household. The 2022 MESL budget for a secondary school child includes a cost of €2.63 weekly, €136.76 annually for schoolbooks.

National Childcare Scheme

Further expansion of the National Childcare Scheme is welcome as it reduces the considerable cost of childcare experienced by households with children. The scheme's universal subsidy levels will increase significantly, from €0.50 per hour to €1.40 per hour for early learning and childcare from January 2023. Alongside this, in August 2022, universal subsidies under the National Childcare Scheme were extended to include all children under the age of 15, which expanded the cohort of children and families able to avail of the scheme.

Free GP Care for children

The universal provision of a GP Visit card for children under the age of six demonstrated how effective services can reduce minimum living costs.

It was announced in Budget 2020 that following the success of the Under 6's GP card scheme, that the age limit for free GP care was to be extended.

Budget 2023 has re-iterated this commitment, with the extension of the provision of the GP Visit Card to 6 and 7 year olds by quarter four of 2022. This will be beneficial in reducing the health costs faced by households with children of this age group.

Living costs

The expansion of entitlement for a GP Visit Card to households earning below the median income, €46,000, from April 2023 is a positive initiative to help to reduce Health costs for households who previously did not qualify for a GP Visit Card or Medical card.

The further extension of the free contraception scheme which was introduced in Budget 2022 to include all women and people with a uterus between the ages of 16 and 30 is a welcome step to reduce the prescription costs faced by those in this cohort. Also, the reduction in the VAT rate on period products from 9% to 0% will help to reduce the Personal Care costs experienced by those who require these products.

The continuation of the 20% fare discount on public transport until the end of 2023 is a welcome step to reduce Transport costs. However, people living in rural areas who cannot rely on the public transport services in their area do not benefit equally from this measure.

The extension of the excise duty cut on petrol and diesel, as well as the VAT rate cut on electricity and gas until the end of February 2023 is also a necessary step given the current uncertainty relating to fuel and energy prices.

Carers and disability

The budget measures introduced to support carers and people with disabilities are welcomed. These include the once off double social welfare payment in October and the €500 lump sum for those in receipt of disability payments and the Carer's Support Grant in November. Also, the €12 weekly increase in the rate of Disability payments, Carer's Allowance and Carer's Benefit, the €20 increase in the monthly Domiciliary Care Allowance, and that half-rate Carer's allowance will be disregarded in the means assessment for Fuel Allowance from 2023.

These measures acknowledge the significant additional costs that come with caring for someone with a disability and the additional support needed, which was highlighted in the VPSJ report with Family Carers Ireland "Care at Home: Costs of Care Arising from Disability." However, the failure to introduce a targeted weekly Cost of Disability payment to support people with disabilities and those caring for them, which has long been recommended by stake holders and has been under consideration by the Department, is disappointing. A Cost of Disability payment would provide long term, sustained support for people with disabilities and their households to address the additional costs associated with disability.

The increased funding for disability services, such as additional respite, day service and residential places, as well as funding to address the assessment of need backlog is also welcomed. The report "Care at home: Costs of care arising from Disability" showed that the inequality and inadequacy in the provision of services and supports across the country greatly impacted the expenditure patterns, and therefore the standard of living, of households caring for someone with a disability. Specific information on the details of this funding has not yet been outlined, however, its effective use could help to alleviate some of the additional costs experienced by these households.

Notes

Revision note

This revised version corrects an error in the 2022Q4 income calculations. The original version incorrectly calculated the value of the double Child Benefit payment for Nov 2022.

Social welfare scenarios

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 scenarios

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.

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

Childcare costs are net of the NCS or ECCE scheme as appropriate for child age and household eligibility.

Childcare costs, for a two parent household in a full and part-time employment scenario, 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.

Childcare costs, for a one parent household, 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.

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 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

[1] 2022 MESL Annual Update, available at: www.budgeting.ie/publications/mesl-2022/

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

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

[4] Barrett, M., Farrell, N., and Roantree, B. (2022). *Energy Poverty and* Deprivation *in Ireland*, Research Series Number 144. Dublin: ESRI. doi.org/10.26504/

[5] Central Bank of Ireland (2022) Quarterly Bulletin 03. www.centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-q3-2022

[6] ESRI (2022). *Quarterly Economic Commentary, Summer 2022*. doi.org/10.26504/qec2022sum

[7] Department of Finance (2022) Budget 2023: Economic & Fiscal Outlook. assets.gov.ie/235721/53370477-b198-4540-913a-422b745d058a.pdf

[8] CSO (2022) *Estimated Inflation by Household Characteristics March 2022*. www.cso.ie/en/releasesandpublications/frp/frp-eihc/estimatedinflationbyhouseholdcharacteristicsmarch2022/

[9] From SILC 2021 data, the national AROP rate is 11.6%, the rate for children (0 – 17) is 13.6%. The rate for older children (12 – 17 years) is 18.5%, for younger age-groups it is 8.4% (0 – 5 years) and 13.3% (6 – 11 years)
CSO (2022) Survey on Income and Living Conditions (SILC). Online data. Breakdown by age-group from Table SIA69

[10] CSO (2022) SILC 2021. www.cso.ie/en/releasesandpublications/ep/p-silc/surveyonincomeandlivingconditionssilc2021/

[11] A once-off additional €500 payment to recipients of Disability Allowance, Blind Pension, Invalidity Pension and Carer's Support Grant, was also announced. These supports do not apply to the scenarios assessed here.

[12] The 2022 MESL data is based on a blend of direct pricing in early 2022 and inflation adjustments to March 2022.

The basket costs have been adjusted at the item level using the latest CPI data for August 2022, to provide an estimate of MESL costs in the latter part of the year.

All relevant policy measures which reduce potential household expenditure are included in the 2022Q4 estimate, e.g., the November €200 electricity credit.

[13] For a breakdown of the 214 test cases, see the 2022 MESL Annual Update report, page 15.

[14] MESL Pre-Budget 2023 Submission. Available at: www.budgeting.ie/publications/budget-2023/

[15] Cost of a child's MESL, excluding childcare, adjusted for full Medical Card

[16] Central Bank of Ireland (2022) Quarterly Bulletin 03. https://www.centralbank.ie/publication/quarterly-bulletins/quarterly-bulletin-q3-2022