

Introduction

The **Vincentian Partnership for Social Justice (VPSJ)** welcomes the opportunity to make this submission to the Department of Employment Affairs and Social Protection, presenting evidence from the VPSJ's Minimum Essential Standard of Living research for consideration in the discussion regarding social welfare adequacy, benchmarking and indexation.

The VPSJ's budget standards research works with members of the public to reach agreement on the minimum needed to live and partake in the social and economic norms of everyday life. The research identifies the cost of what is required to enable a life with dignity, at a minimum but acceptable standard — the **Minimum Essential Standard of Living** — a standard that people have agreed nobody should be expected to live below.

The VPSJ aspires for an acceptable minimum standard of living for all, with an income that adequately meets minimum needs and enables a life with dignity. It is recognised that this is a goal that can only be realised progressively through a combination of measures, which firstly ensure the adequacy of income supports (in terms of rates of payment and addressing systemic issues which contribute to gaps in current provision) and secondly reducing minimum living costs through robust affordable services.

The MESL analysis has demonstrated a reduction in the adequacy gap between social welfare rates and the cost of an MESL, in recent years. However, the majority of household situations examined continue to demonstrate income inadequacy, with deep income inadequacy being a persistent issue for one adult headed households and households with older children.

The discussion on defining adequacy is timely, with the forthcoming publication of the next National Action Plan for Social Inclusion setting of new goals for poverty reduction by 2024. These considerations coinciding with the formulation of the next NAPSinc provide an opportunity for setting a timeframe for the progressive realisation of adequate social welfare supports.

This submission aims to outline the appropriateness of the MESL data as an adequacy benchmark, demonstrating the current usage of the data and the wide acceptance of the MESL as a credible measure of adequacy. Furthermore, the practical steps required to apply the MESL as a benchmark for determining appropriate social welfare rates will be laid out.

Income Adequacy & Budget Standards

A primary recommendation from the Commission of Social Welfareⁱ was that social welfare should provide a minimally adequate income. A subsequent ESRIⁱⁱ review and analysis of this recommendation examined multiple approaches to establishing an adequacy benchmark.

This review considered the potential of budget standards research, acknowledging the transparency of the approach and the how the method ‘can tap into common understanding of what adequacy means’ (Callan, et al, 1996: 58). While expressing reservations about the potential for subjective judgements to be incorporated into the consumption basket, the authors found that budget standards (while time and resource intensive) could play a role in contributing to assessing adequacy of social welfare rates.

The main potential of budget standards is not to define what constitutes an adequate standard of living, but rather to outline the financial consequences of a specified and defined living standard and thus provide a point of reference in assessing the adequacy of current income support rates.

(Callan, et al, 1996: 141)

It is argued that defining ‘income adequacy’ will reflect judgements, values and attitudes, and that while research and evidence cannot be substituted for these judgements, it can inform them (Callan, et al, 1996). The 1997 NAPS re-iterated this point, recognising that consideration must be given to the appropriate indicators and reference points to properly inform policy debate and political decisions on adequacy.

Subsequently the *Social Welfare Benchmarking and Indexation Group* discussed adequacy in terms of enough ‘to provide every person with sufficient income to live life with dignity’ (Kennedy, 2001: 6). Their deliberations reached the conclusion that there was a potential for consensual budget standards research establishing the cost of actual living standards, and ascertaining ‘what people see as the minimally decent levels of living’ (Kennedy, 2001: 17).ⁱⁱⁱ

It is in this context that VPSJ’s MESL consensual budget standards work was undertaken, and continues to contribute a unique indicator to the ongoing debate on what constitutes a socially acceptable minimum level for a life with dignity. The research provides a unique vein of evidence to shine a light on what is needed to avoid poverty, enable participation and inclusion; and to inform debate on where the appropriate level of a minimally adequate income may lie.

MESL Research Background & Context

The VPSJ's Minimum Essential Standard of Living (MESL) budget standards research works with members of the public to reach agreement on the minimum needed to live and partake in the social and economic norms of life in contemporary Ireland.

Through working through multiple phases of deliberative focus groups, iterative in-depth discussions with members of the public produce a negotiated consensus on what people regard as essential for a socially acceptable minimum standard of living. The research places an emphasis on 'needs, not wants', and produces comprehensive, transparent, itemised lists (of over 2,000 items, goods and services) detailing what is required to meet minimum needs and enable an acceptable minimum standard of living.

This understanding of an acceptable minimum standard of living, embodies the concepts which underpin the human right to an adequate standard of living, and reflect the Irish Government definition of poverty which emphasises the ability to have a "standard of living which is regarded as acceptable by Irish society generally" and to participate in normal activities.

The MESL translates these concepts into a practical measure, providing a direct and tangible benchmark which establishes the average weekly cost of the basket of goods and services agreed as necessary for a minimum socially acceptable standard of living. In essence the MESL provides an alternative, and complementary, measure for assessing relative poverty – as understood in terms of ability to participate in normal activities and have a dignified minimum standard of living which is regarded as acceptable by society generally.

The MESL data provides a unique evidence-based benchmark against which to assess the adequacy of social welfare and minimum rates of pay and shines a light on the extent to which current income supports enable a socially acceptable minimum standard of living. An income below the MESL threshold means individuals & households must choose which essentials to go without in order to make ends meet.

The research to establish, expand, and maintain the MESL expenditure needs data has been ongoing since 2004. The dataset now establishes the minimum expenditure and income needs of 90% of households across urban and rural Ireland^{iv}.

The MESL dataset provides the minimum expenditure need for the following:

Household Types

- Two Parents, with 1 to 4 children
- One Parent, with 1 to 4 children
- Single Adult, working age
- Cohabiting Couple, working age
- Pensioner, living alone
- Pensioner Couple

Child Age Groups

- Infant
- Pre-School
- Primary School
- Second Level

MESL – An established, credible, and accepted data source

Since the inception of the VPSJ's budget standards research in 2004, and publication of the first tranche of Minimum Essential Standard of Living household budgets in 2006, ongoing research has expanded the dataset and updated the budgets annually.

The research applies a methodology which is recognised internationally and the Irish MESL data contributes to cross national work sponsored by the European Commission. Moreover, the MESL data is now widely accepted as representing a credible and tangible adequacy benchmark, and is an established reference point in policy debate in Ireland. This is demonstrated by the extensive use of the research by NGOs and Community & Voluntary organisations in their work to address poverty and social exclusion, and engagements with government.

The MESL data also forms the basis of the Insolvency Service of Ireland's reasonable living expenses, which have withstood the scrutiny of financial institutions, the judiciary and households entering personal insolvency arrangements. The MESL data also provides the evidence base for the Living Wage, which has been accepted as representing the floor of acceptability which no one should be expected to live below by both trade unions and notable employers (including Ikea, Aldi and Lidl).

In summary, the MESL data provides an evidence based adequacy benchmark, which is methodologically robust, grounded in social consensus and informed by lived experience. These unique qualities have led to the data gaining crucial mainstream acceptance as credible and robust.

MESL Benchmarking Adequacy

The MESL expenditure dataset is adjusted annually and an accompanying analysis of the changing minimum expenditure and income needs is produced. The analysis benchmarks the income adequacy of social welfare supports and minimum wage employment for multiple scenarios.

To track the changing trend of social welfare income adequacy the annual MESL analysis includes an assessment of 214 test cases, benchmarking the adequacy of social welfare supports when in an urban area and living in social housing (rent supplement for working-age households without children).^v

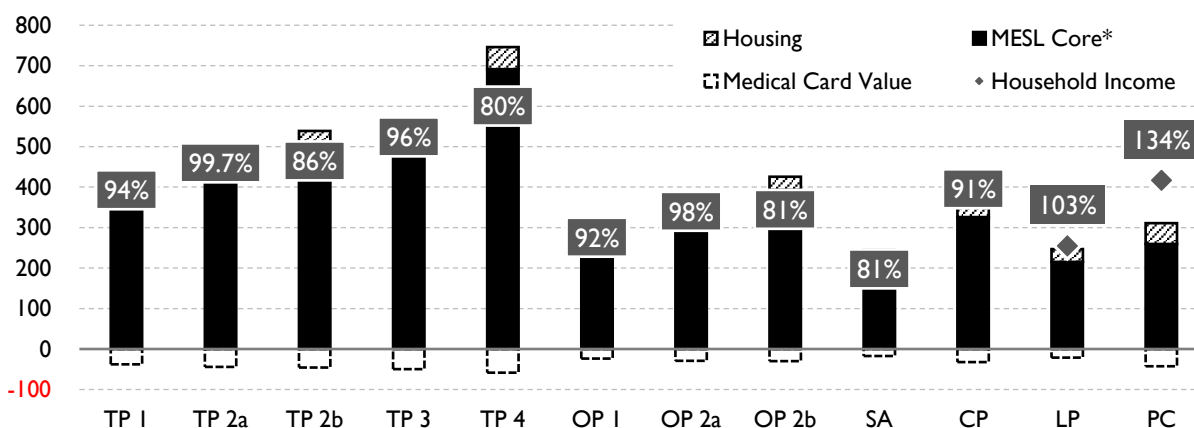
This analysis has shown that the Adequacy Gap between MESL need and social welfare supports has been reducing, and recent years have shown incremental improvements in the number of household cases demonstrating adequacy. There has also been notable progress in reducing the rate of deep income inadequacy (where social welfare falls below 90% of MESL expenditure need).

The 2018 analysis found that social welfare falls short of the MESL standard in 157 of the 214 urban based cases examined. This is an improvement from 2017, when 169 cases demonstrated income inadequacy. Additionally, in 2018 the adequacy gap reduced in all cases, with the proportion of minimum need being met by social welfare increasing. Of the 157 household cases with income inadequacy, over half (90 cases) demonstrate deep income inadequacy, where

income meets less than 90% of minimum need. This is a marked improvement from the position in 2017, when over two thirds (110) of the inadequate cases were in deep income inadequacy.

Initial analysis for 2019 has found that the rate of inadequacy and deep income inadequacy is continuing to reduce. However, deep inadequacy persists and is exclusively found in households which are either headed by one adult, i.e. single working-age adult and lone parent households, or in households with older children. These issues raise important questions about the relativities between rates of payment in the social welfare as currently structured.

Graph I 2018 Social Welfare benchmarked against urban MESL expenditure (12 illustrative households)



(Source: MESL 2018 Update Report)^{vi}

Social Welfare Rate Relativities

The VPSJ has previously highlight the issue of older children, aged 12 and above, having additional and different needs compared to younger children. Budget 2019 brought a vital first step to rebalancing the rate of support for older children in social welfare dependent households. It however remains the case that the rate of Qualified Child Increase for older children underestimates their costs relative to younger children.

The MESL data also shows that the costs for a two adult household compared to a one adult household do not scale in line with the standard equivalence scale used to inform the relative value of social welfare rates in the Irish system.

Crucially the equivalence scale used underestimates the cost of one adult headed households compared to two adult headed households, and consequently the resulting social welfare rates underestimate needs for households headed by one adult, i.e. lone parent households and single adults of working age.

The current structure of the social welfare system implicitly regards a couple as requiring 1.66 the income support of a single headed household. Analysis of the MESL data finds that the minimum needs^{vii} of a working-age couple, either parents or couple without children, cost 1.5 times that of an equivalent one adult headed household, either lone parent or single working-age person.

This is not because the second adult consumes less than the first, but instead that there are significant economies of scale available to two adult households which reduce the relative cost of the second adult in the household. For example, there are economies of scale available in food costs and home energy costs for couple headed households compared to single headed households. This finding has been observed not only in Ireland but also in other countries with developed minimum budget standards research, a forthcoming paper examines the situation in Ireland, the UK, France and Portugal.

SILC data demonstrates that working-age single headed households are the groups with higher risks of poverty, deprivation and consistent poverty. The MESL analysis has also found that households headed by one adult demonstrate a greater rate of income inadequacy and deeper inadequacy than two adult households.

Rebalancing to achieve income adequacy

To address this imbalance and move towards a social welfare system that adequately meets minimum needs consideration must be given to the structure of the system and the relativities within it.

Taking income adequacy as the starting principle would mean ensuring the basic working-age personal rate meets the minimum needs of a single working-age person without dependents. From that basis, additional supports can be provided to ensure adequacy for household with dependent adults and children. Further supports (in the form of income and services) can then address the additional and different needs which arise from specific circumstances, most crucially supporting people with a disability.

To model how the relative rates of social welfare payment could be adjusted to ensure income adequacy, the MESL need of an urban working-age single adult is taken as the basis. Based on current MESL expenditure need, and applying a system of rates based on the following:

Personal Rate	100% of MESL need of working-age urban single adult
Qualified Adult	retained at current level
Qualified Child, under 12	increased to 100% of primary level need
Qualified Child, over 12	increased to 100% of second level need

If the rates of payment were modelled on the above relativities, results in the following adequacy assessment for the 214 test cases tracked:

- 204 of the 214 test cases demonstrate income adequacy
- no cases of deep income inadequacy
- the 10 cases demonstrating inadequacy are within 5% of meeting MESL need
- the inadequacy cases are households with three or four teenage children, the income inadequacy is due to the treatment of QCI in differential rent calculations^{viii}.

It must be stated unambiguously, that this is not a recommendation to reduce the current nominal value of the Qualified Adult rate. But rather to give consideration to rebalancing the system over time, focusing on increases in the Personal Rate and Qualified Child rates, allowing the Qualified Adult rate to reduce in relative value.

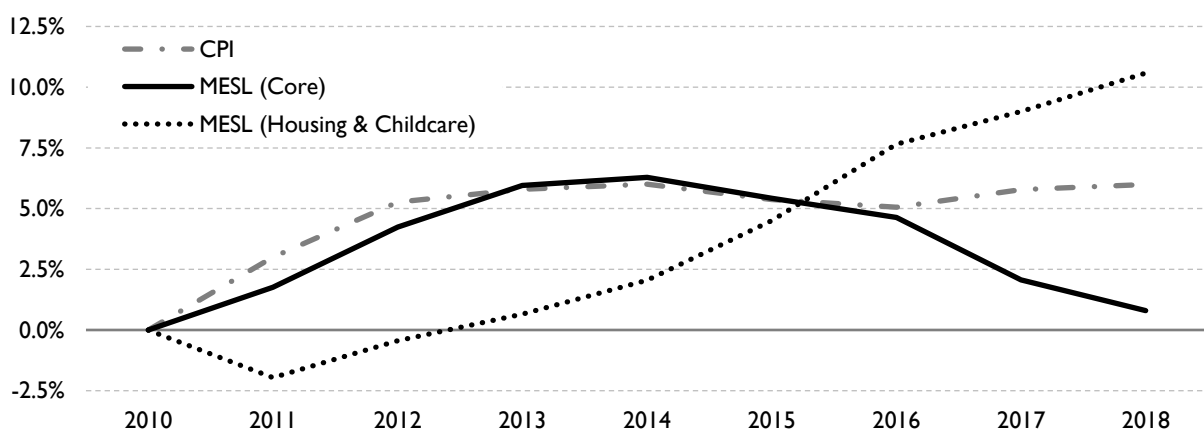
Indexation - CPI

There is a body of evidence^{ix} which demonstrates that inflation, and changes in the overall cost of living, are felt differently by various social groups and at different income levels. Broadly speaking, this is due to the average basket of goods used to measure inflation generally, the CPI, not reflecting the specific basket needed and consumed by different groups in society. On average, increasing costs in one area, for example food or household energy, may be offset (at least partially) by reducing costs in other areas, for example mortgage interest rates, and thus overall CPI rates may show marginal change from year to year. However, particular groups may experience notable increases in their living costs as their particular consumption needs leave them more vulnerable to rising costs in for example food and energy, without benefiting from the decreasing cost in other areas.

The MESL research has tracked the changes in the cost of an MESL against the headline CPI inflation rate and has found that the CPI rate tends to under-estimate changes in the cost of an MESL. The disparity between changes in the MESL and the CPI index re-enforces the point made by the CSO, that the CPI is not a cost of living index^x, and is reflected in the findings of ESRI research demonstrating the different rate of inflation experienced by households on lower incomes when compared to the national average^{xi}.

By its nature the MESL basket is more limited and concentrated on basics such as food and home energy, than the average consumer basket. Approximately 40% of the CPI is comprised of goods and services which are not part of the MESL basket. Food represents an average of 23.1% of the MESL basket, household energy 11.2% and public transport 10.6%, these areas represent 10.3%, 3.8% and 1.0% of CPI basket respectively. As a result changes in prices effect the overall cost of an MESL differently from the national average measured by the CPI.

Graph 2 Cumulative Change in average MESL & CPI, from 2010



The chart above illustrates the cumulative change in prices as measured by the CPI, compared to the average change in urban MESL expenditure need. The change in MESL need is tracked in the core MESL (excluding housing, childcare and the effect of secondary benefits), and for scenarios which include private rented housing and childcare. The disparity in the rate of change highlights

the importance of the composition of the basket of goods being tracked in informing how overall living costs and needs are changing.

The above demonstrate that CPI does not provide an appropriate basis for measuring the change in needs and costs for those dependent on social welfare supports and/or on low incomes. Consequently, it is argued that CPI does not provide a suitable reference for the indexation of social welfare supports. Moreover, the VPSJ recommends that the Department consider the examination of determining an appropriate inflation rate for tracking changes in living costs for those social groups on low incomes and / or dependent on social welfare.

Conclusion

In summation, the points outlined in this submission demonstrate the potential of the Minimum Essential Standard of Living data to inform the discourse on social welfare adequacy benchmarking.

The potential for budget standards research to provide crucial evidence in determining the appropriate levels for social welfare supports has previously been recognised. At that time the MESL dataset did not exist, that is no longer the case. The MESL now provides a robust resource, which has been accepted as a credible and valid measure of minimum needs by multiple sectors of society and official Ireland.

Furthermore, the discussion above has outlined how the evidence from the multitude of household types and compositions covered by the MESL data can be practically applied to inform decisions on the structures and relative values of social welfare payments.

Notes

- ⁱ Commission on Social Welfare (1986) *Report of the Commission on Social Welfare*
- ⁱⁱ Callan, T., Nolan, B. and Whelan, C. (1996) *A Review of the Commission of Social Welfare's Minimum Adequate Income*, Dublin: Economic and Social Research Institute.
- ⁱⁱⁱ Kennedy, K., (2001) *Final Report of the Social Welfare Benchmarking and Indexation Group*, Dublin: Department of Social, Community and Family Affairs.
- ^{iv} The MESL data is focused on single family-unit households, households comprised of either a single adult or a couple, and up to four dependent children. The remaining 10% of households not covered by the current MESL dataset, are households with additional adults (e.g. a family household with children, parents and grand-parent) and households with more than four children.
- ^v **The Source of the 214 Test Cases:**
 The MESL data defines the minimum expenditure a specific household composition requires for an acceptable standard of living. The MESL requirement changes to reflect the composition of the household, varying with the adults and children (number and age-groups) in the household.
 The MESL data can distinguish between the minimum expenditure needs of 69 compositions of 1 to 4 children across four age-groups. Further permutations may be introduced through examining different income scenarios, housing tenures, etc.
 This flexibility enables the benchmarking of social welfare adequacy for 214 test cases. The cases are comprised of the following households and income scenarios:

Two Parents	1 to 4 children, 4 age-groups	Social Housing	1 Jobseeker & 1 Stay-at-home	69
Two Parents	1 to 4 children, 4 age-groups	Social Housing	2 Jobseeker	69
One Parent	1 to 4 children, 4 age-groups	Social Housing	OFP / JST / Jobseeker	69
Working Age	Single Adult & Couple	Private Rented	Jobseeker, Rent Supplement	2
Pensioner	Living Alone & Couple	Social Housing	State Pension	5
- ^{vi} See MESL 2018 Update Report Appendix Tables 4A and 6A for detail of MESL expenditure need & Social Welfare income. The full set of MESL 2018 data, for all household types and compositions, and a suite of income scenarios are available on budgeting.ie
- ^{vii} Based on urban MESL expenditure need, adjusted for Medical Card, and housing based on differential rent or rent supplement tenant contribution.
- ^{viii} The model above bases housing costs on differential rent (applying the Dublin City Council scheme). The higher rate of QCI is assessed as part of the rent calculation, consequently as the rate increases so too does the rent. Rents for households with three or more teenagers would become unaffordable, leading to social welfare income falling up to 5% short of MESL need.
- ^{ix} For examination of the UK experience see:
 Smith, Z. and Crawford, I. (2002) *Distributional Aspects of Inflation*, London: The Institute for Fiscal Studies
 Levell, P. and Oldfield, Z. (2011) *The spending patterns and inflation experience of low-income households over the past decade*, London: The Institute for Fiscal Studies
 ONS (2014) *Variation in the Inflation Experience of UK Households: 2003-2014. Estimates of the inflation rates experienced by different types of household in the UK.*
www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/compendium/variationintheinflationexperienceofukhouseholds/2014-12-15
- ^x CSO, 2015. CSO Consumer Price Index Methodology. Published on-line
www.cso.ie/en/media/csoie/surveysandmethodologies/surveys/prices/documents/introductiontocpi2.pdf
- ^{xi} Callan, T. & Colgan, B., 2015. ESRI Research Note: The Distributional Impact of Inflation: 2003-2014. Published on-line
www.esri.ie/publications/the-distributional-impact-of-inflation-2003-2014/