



BUDGET 2017: MINIMUM ESSENTIAL BUDGET STANDARDS IMPACT BRIEFING

KEY POINTS

The measures in Budget 2017 for social welfare and public services are, broadly, a very welcome first step, but a first step that must be built upon in subsequent budgets. The levels of increase will not close the gap between minimum needs and rates of payment that has been allowed to widen, due to the stagnation of rates of payment in the face of rising costs. The next steps must implement evidence based policy, to tackle poverty and move toward the realisation of an adequate income and a Minimum Essential Standard of Living for all.

Budget 2017 brings welcome and much needed increases to many social welfare supports. The €5 increase will be the first improvement in working-age payments such as Jobseekers and One-Parent Family Payment, in seven years.

Adjustments to secondary supports such as the Fuel Allowance, Living Alone Allowance, and Back to School allowance, are notable in their absence. Similarly, it is regrettable that there is not a proportional increase to Qualified Child payments accompanying the increase to the working age personal rates.

Not focusing limited resources on the most vulnerable is a missed opportunity. For example, focusing the expenditure on the pension increase, on improvements to the Living Alone Allowance and Fuel Allowance could have had a more substantial impact on some of the most vulnerable of household types.





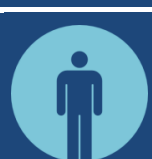
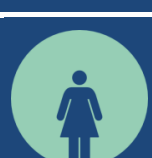
The announcement of the Single Affordable Childcare Initiative is a very positive development. The blend of universality and targeting is a progressive and welcome first step, which is much needed to address the burden of high childcare costs in Ireland. The initiative, as outlined, lays the foundations for a system that will hopefully ameliorate the burden of childcare costs and contribute to the reduction of income inadequacy for low income households.

Delay in the implementation of the measures announced is regrettable. The households which are most in need of these supports are living with inadequate income, forgoing essentials to make ends meet. Introducing increased rates of payment from the start of 2017, which would have the same annual value as the €5 increase introduced from March, would assist households in need at an expensive time of year.

The inadequacy of the National Minimum Wage rate, and the gap between the minimum wage and the Living Wage, will not be addressed by a €0.10 increase to the rate. With forecast inflation of 1.0% in the coming year, the 2017 rate of €9.25 may narrowly keep pace with inflation.

The reduction in USC results in a limited change in net income for those on low incomes (less than €2 per week for a minimum wage worker), for those on higher incomes (€70,000) the change is larger. At both ends of the income scale the impact of the change is likely to have a negligible effect on household income. This begs the question, could the tax resources foregone as a result of these changes have made a greater impact if directed toward services?

TABLE I INCOME ADEQUACY 2016 AND 2017 (FORECAST)

		2016		2017	
		Social Welfare	Employed NMW	Social Welfare	Employed NMW
Two Parent Pre-School & Primary School					
	MESL Expenditure	472.35	598.11	477.84	603.55
	Income (Net)	438.94	638.84	447.24	642.11
	Adequacy	-33.41	40.73	-30.60	38.57
Two Parent Primary School & Second Level					
	MESL Expenditure	552.78	646.95	559.08	652.88
	Income (Net)	442.78	642.69	451.08	645.96
	Adequacy	-110.00	-4.27	-107.99	-6.92
One Parent Pre-School & Primary School					
	MESL Expenditure	354.71	646.37	358.69	652.77
	Income (Net)	325.39	629.92	330.39	634.66
	Adequacy	-29.32	-16.45	-28.30	-18.11
One Parent Primary School & Second Level					
	MESL Expenditure	435.15	532.73	439.93	537.71
	Income (Net)	329.23	572.84	334.23	575.21
	Adequacy	-105.91	40.11	-105.69	37.50
Single Adult Working Age					
	MESL Expenditure*	250.64	423.53	254.82	434.92
	Income (Net)	188.00	332.33	193.00	336.95
	Adequacy	-62.64	-91.21	-61.82	-97.98
Pensioner Living Alone					
	MESL Expenditure	251.28		254.35	
	Income (Net)	242.25		247.25	
	Adequacy	-9.03		-7.10	

INTRODUCTION

The increases to social welfare rates, adjustments to USC and increase in the minimum wage in Budget 2017 are likely to bring about an improvement in the position of many social welfare dependent and low income households, with the degree of income inadequacy lessening and in a small number of cases household types moving from income inadequacy to adequacy.

In this regard the Budget brings a welcome first step following a prolonged period with no increases in the majority of social welfare supports. However, the first step is unfocused and future budgets must demonstrate a plan to assist those most in need.

On the basis of the MESL research, the VPSJ recommended a suite of measures for Budget 2017. The recommended adjustments to social welfare payments and public services were based on research and data, identifying the household types with the greatest degree of income inadequacy and the gaps in social welfare provision which drive the inadequacy. The measures recommended would be the first step towards the longer term goal of social welfare ultimately providing an adequate income for a Minimum Essential Standard of Living.

Budget 2017 is a missed opportunity to base policy decisions on the evidence and research available, focusing the limited resources available on those households which data identifies as having the greatest income inadequacy, the highest risk of poverty, deprivation rates, etc.

MEBS IMPACT BRIEFING

This briefing analyses the impact of Budget 2017, applying the Minimum Essential Standard of Living (MESL) data to forecast the adequacy of social welfare rates and the minimum wage in 2017, 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 MESL research establishes a negotiated social consensus on what people believe is required for households to have a minimum, but socially acceptable, standard of living. The data specifies the cost of the minimum required to live and partake in the social and economic norms of life in contemporary Ireland at a standard of living which members of the public agree nobody should be expected to live below.

This understanding of an acceptable minimum standard of living, echoes the concepts which underpin the human right to an adequate standard of living, and 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 and ideals into a practical measure, which specifies the average weekly cost of all the goods and services necessary to enable a socially acceptable minimum standard of living. An income below the MESL threshold means individuals & households must go without in order to make ends meet, and must forego items deemed essential for being part of Irish society.

The MESL data examined in this briefing, is based on the 2016 MESL expenditure and income data[‡]. The 2016 costs are projected forward to 2017 using the CPI forecast inflation rate (1.0%), published by the Central Bank in October 2016[§]. The 2017 income calculations are based on the available information from Budget 2017 as published by the relevant Government Departments, at the time of writing.

SOCIAL WELFARE

Budget 2017 brings much needed increases to many social welfare supports; these are welcome and long over-due. The €5.00 increase, coming into effect from March, will be the first increase in working-age payments such as Jobseekers and One-Parent Family Payment, in seven years. The increase to the State Pension rates build on the adjustments made in 2016.

However, adjustments to secondary supports such as the Fuel Allowance, Living Alone Allowance, and Back to School allowance, are notable in their absence. Similarly, it is regrettable that there is not a proportional increase to Qualified Child payments accompanying the increase to the working age personal rates.

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

The adequacy of social welfare payments are tested against the minimum expenditure needs of each household. In all cases the household types are eligible for a full Medical Card, and housing costs are based on local authority rents (except for the single adult**).

The MESL research has consistently found that these household types illustrate particular vulnerabilities to income inadequacy, when dependent on social welfare. In all the cases above social welfare failed to provide an adequate income to these household types in 2016, and are likely to be inadequate in 2017.

The combination of modest increases in social welfare and low forecast inflation, mean it is probable that the depth of income inadequacy will decrease slightly for each of these household types in the coming year.

Area	MESL Recommendations	Budget 2017 Measures
Working Age Personal Rates	Increase by €5.70	Increase by €5 per week
Qualified Adult	Increased by €3.80	Increase by €3.30
Qualified Child (basic level)	Increase by €1.90	No adjustment
Qualified Child (adolescent)	€7.25 above QCI rate for younger children	No acknowledgement of higher costs
Jobseekers Under 26	Restore full rate of payment	€2.70 for >24 and €3.80 for 25 year olds
Fuel Allowance	Increase by €6.20	No Change
Back to School	Restore to 2010 level	No Change
Child Benefit	No Change	No Change
Pensions, Personal & QA	No Change	Increase of €5 with proportionate increase to Qualified Adult
Pensions, Living Alone	Increase by at least €2.40	No Change
Services	Affordable Childcare Living Rent Extension of free GP care to older children	Single Affordable Childcare Initiative Allocation for HAP & Social Housing No progress on GP care for older children

Table 2 Social Welfare & Public Services – MESL Recommendations v Budget 2017 Measures

SINGLE ADULT OF WORKING AGE

This household type will benefit from the €5 increase to the Jobseekers Personal Rate, the first direct social welfare increase for a household of this type in seven years.

2010 was the low point for prices during the recession, and in 2016 the core cost of an MESL is 4.6% higher. In 2010 the adult personal rate was €196 per week.

The 2017 rate, coming into effect in March, will be €193, remaining €3 below the personal rate from 2010 when the cost of a minimum standard of living was an average of 4.6% lower than it is currently.

The increase to the Jobseekers personal rate brings a 2.7% increase in income for this household type. To restore the purchasing power of the Jobseekers

payment to 2010 levels a series of adjustments will be required in subsequent budgets.

For an unemployed adult living alone in urban private rented accommodation, the combination of a full Job Seekers payment and Rent Supplement was inadequate in 2016, this inadequacy will decrease marginally in 2017, by less than €1, from a shortfall of -€62.64 to a shortfall of -€61.82.

The additional Christmas Bonus payment applies to a household of this type when in receipt of a long term Jobseekers payment. The increased Christmas Bonus of 85% in 2016 equates to an average of an additional €3.07 per week for an eligible unemployed adult without dependents. Over a full year, this equates to an average weekly increase of 1.6%. The Christmas

Bonus would reduce this household type's income inadequacy to just below €60 per week.

UNEMPLOYED ADULTS, UNDER 26

Budget 2017 has not restored the full rates of Job Seeker's Allowance for younger adults. Instead the reduced rates have been increased by less than the €5 per week introduced for older adults.

Maintaining significantly lower rates for 18 to 24 and 25 years old is regrettable. The marginal increase will

not provide basis for an adequate income, or enable young adults to live at an acceptable level without significant familial support. To live independently, adults aged under 26 have the same MESL needs as older adults, and therefore require the same level of income support.

The increase in the Back to Education Allowance to €193 per week for Jobseekers under 26 is however welcome; although the increase is delayed until September.

HOUSEHOLDS WITH CHILDREN

Budget 2017 failed to adjust the Qualified Child Increase (QCI) in line with the increases to working age personal and qualified adult rates. Budget 2017 also maintained the current rates of other child income supports, including Child Benefit and the Back to School Clothing & Footwear Allowance.

For a two parent household type, with one adult unemployed and one a stay-at-home parent, the combined increase to personal and qualified adult rates, increase household income by €8.30 (1.9%).

A one parent household type, dependent on the One-Parent Family Payment or Jobseekers Transition only, will receive the €5 increase in the personal rate, increasing household income by 1.1% in 2017.

On the basis of the MESL research the VPSJ had recommended increases to the Personal Rate, Qualified Adult and Qualified Child payments. Combined these would have added €13.30 per week to the social welfare supports for a Two Parent & Two Child household, and €9.50 to a One Parent & Two Child household.

The lack of adjustment in the Qualified Child Increase means that the overall position of children in social welfare dependent households will improve very marginally in 2017. With forecast inflation of 1% it is

likely that the depth of income inadequacy will decrease slightly for most household compositions.

In 2016 social welfare provided an adequate income for 23 out of 207 household compositions with children. It is forecast that in 2017 four marginal cases will move to income adequacy, meaning social welfare will provide an adequate income for 27 out of 207 household compositions examined.

As 1 in 5 children (18.6%) are at risk of poverty in Ireland, the failure to directly improve child income supports is regrettable.

COST OF AN ADOLESCENT

The cost of an MESL is highest for children at second level age, almost two thirds of an adults MESL costs and 1½ the costs of younger children (excluding childcare).

The MESL research demonstrates that households with an adolescent consistently face deep income inadequacy when reliant on social welfare.

Budget 2017 has again failed to recognise the additional minimum needs of households with an adolescent, and has not introduced a higher rate of QCI for children in second level education.

OLDER PEOPLE

Budget 2017 increases the State Pension (Contributory and Non-Contributory) by €5 per week, with accompanying increases in the associated Qualified Adult payments. This is the second increase in two years, and represents a cumulative increase of €8 (approx 3.5%).

Households reliant on the state pension undoubtedly received a reduction in support from social welfare

over the course of the recession, in particular with reductions to the Household Benefits Package and the Fuel Allowance.

Nonetheless, the MESL research finds that pensioner couple household types generally demonstrate income adequacy, affording an MESL when reliant on the state pension (contributory or non-contributory). Conversely, pensioner living alone household types are

vulnerable to income inadequacy, with the combination of the state pension and living alone allowance not providing enough to securely afford an MESL.

Whilst the €5 increase in the State Pension will improve the position of the pensioner living alone, the same expenditure of resources could have supported a more substantial increase to the Living Alone Allowance. It was for this reason that the VPSJ recommended an increase to the Living Alone Allowance, as opposed to a general increase in the State Pension. And also an increase to the Fuel Allowance, supporting long-term social welfare recipients generally.

When resources are limited, it is disappointing that their distribution does not prioritise the most vulnerable.

FUEL ALLOWANCE

While the cost of energy decreased in 2016, on average energy costs remain 16.7% above 2010 levels.

It is unfortunate that Budget 2017 does not build on the €2.50 increase introduced for 2016, to further restore the purchasing power of this important support.

Not addressing the reduced purchasing power of the Fuel Allowance leaves long-term social welfare dependent households vulnerable to energy poverty.

INCOME ADEQUACY IN EMPLOYMENT

Table 1 summarises the minimum wage employment scenarios for each of the 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.

MINIMUM WAGE

The increase in the National Minimum Wage (NMW) rate of €0.10 brings the rate to €9.25 per hour in 2017. This remains €2.25 below the current Living Wage rate (€11.50 per hour); the NMW is 80% of the Living Wage.

The MESL research shows the inadequacy of minimum wage for Single Adult household types, and many household compositions with children.

The 10 cent increase to the hourly rate represents an adjustment of 1.01%; this may scarcely keep pace with the forecast inflation of 1% for 2017. However, for households already facing income inadequacy, and struggling to meet ever increasing rent costs, this rate increase is inadequate, and does not move toward the provision of adequate income and a Living Wage.

SINGLE ADULT

One adult in full-time (37.5 hour) minimum wage employment will have an increase in net income of €4.62 per week (1.39%), due to the combined effect of the increase to the NMW and reductions in USC.

Housing costs increased by 10.9% for this household type (in Dublin) between 2015 and 2016, and this trend is continuing. The combination of inflation

CHILDCARE

The announcement of the Single Affordable Childcare Initiative is a very positive development. The blend of universality and targeting is a progressive and welcome first step, which is much needed to address the burden of high childcare costs in Ireland. The initiative, as outlined, lays the foundations for a system that will hopefully ameliorate the burden of childcare costs and contribute to the reduction of the income inadequacy faced by lower income households with children.

Currently the announced plan will not come into effect until September, and greater detail of the income thresholds and means tests are to be published in the coming weeks. Consequently, the effect of the Single Affordable Childcare Initiative is **not** included in the scenarios presented in Table 1.

It is intended that as more information becomes available, the scheme can be examined in greater detail, and its impact on the affordability of childcare and income adequacy can be accurately assessed.

generally and increasing rents result in an increase in minimum expenditure need of €11.39 (2.69%) in 2017, for a single adult living and renting in Dublin.

In 2017 income inadequacy will likely deepen for a household in this scenario, with an income shortfall of almost €100 per week. The NMW will provide for only 77.5% of this household MESL expenditure need.

Based on the current forecast MESL costs for 2017, a single adult would need to have over 57 hours of paid NMW employment per week in order 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 and housing costs are based on paying a differential rent (social housing).

Budget 2017 did not review the Family Income Supplement (FIS) income thresholds. An immediate result of the NMW increase and USC changes in 2017 will be less support from FIS, as the income thresholds have not changed in line with these adjustments. Consequently the full benefit of the minimum wage increase will not be felt by households with children.

The Two Parent household scenarios are based on one adult employed full-time and the second adult in part-time employment.

The increase to the minimum wage and adjustments to USC will result in an overall income gain of €3.27 per week for a Two Parent & Two Child household composition, in this income scenario. The joint net salary increases by €7.27, but FIS support reduces by €4.00. The net effect is a 0.5% increase in household income.

Minimum wage employment provided the basis of an adequate for a Two Parent household with a pre-school and primary school aged child in 2016. This will continue to be case in 2017.

However, for a Two Parent household composition with a primary school and second level age child income was inadequate in 2016 and the inadequacy is forecast to deepen in 2017, due to the increase in costs exceeding the increase in income.

The One Parent household scenarios also demonstrate a reduction in FIS support in 2017, offsetting some of the benefit of the increase to the NMW.

Budget 2017 increased the income disregard for the One-Parent Family Payment (and Jobseekers Transition).

The income inadequacy for a One Parent household composition with a pre-school and primary school age child is currently forecast to deepen in 2017 due to increasing costs. The change to OFP income disregard

results in €10 additional support from OFP in this scenario. However, FIS support reduces by €9 due to the increase in OFP, NMW and reduced USC. The net outcome is an increase in household income of 0.75%.

AFFORDABLE CHILDCARE & HOUSING

As explained above, the 2017 employment scenarios in Table 1 do not include the effect of the Single Affordable Childcare Initiative at this time. However, the scheme has the potential to significantly reduce the cost of an MESL for households with childcare costs, when it becomes available in September.

The recent 2016 MESL Annual Update report demonstrated that family households unable to access social housing face costs of approximately €200 more per week. To afford an MESL, including the cost of 90% average private rent, necessitates earnings significantly higher than equivalent household compositions in social housing.

Reducing childcare costs has the potential to greatly reduce expenditure need, but the additional cost of housing will likely continue to necessitate higher rates of pay to enable an MESL for households unable to access social housing.

UNIVERSAL SOCIAL CHARGE

Budget 2017 reduces the USC rate by 0.5% in the first three bands, and adjusts the upper threshold of the second band to €18,772. This prevents a full-time (39 hr) minimum wage worker paying the third USC band.

A single full-time worker (37.5 hours) earning the 2017 NMW (€9.25) will pay €1.73 less per week in USC in 2017, than they would in 2016 (on the same salary rate), improving annual net income by €90. On the Living Wage, the reduction in USC is €2.24 per week, or €116 over a full year.

On a salary of €35,000 per annum the USC changes result in a net income increase of €177 over the course of a year; and an increase of €352 for an individual earning €70,000.

The value of such a limited change in net income for those on low incomes is questionable, and the impact for those on higher incomes is likely negligible. This begs the question, could the tax resources foregone as a result of these changes have made a greater impact if directed toward services such as social housing and childcare.

NOTES

SOCIAL WELFARE SCENARIO NOTES

Housing costs based on social housing (differential rent), with the exception of 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 + 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, 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), with the exception of 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. As explained above, the effect of the Single Affordable Childcare Initiative is not included at this time, as full details of the scheme and its implementation are not available at the time of writing.

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.

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. Family Income Supplement, One-Parent Family Payment, are included as applicable

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

ENDNOTES

- * The MESL Expenditure in the social welfare scenarios includes housing costs based on Rent Supplement. The cost of renting at
- † 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.
- ‡ Analysis of the MESL in 2016 is available in the 2016 Annual Update Report
- § Central Bank (2016) Quarterly Bulletin No.4 2016
<http://centralbank.ie/publications/Documents/Quarterly%20Bulletin%20No.%204%202016.pdf>
- ** The Single Adult household type MESL expenditure need is based on living in private rented housing. In the unemployed scenario the costs are based on renting at the Rent Supplement ceiling in Dublin City, and receiving Rent Supplement. In the employed scenario the costs are based on 90% of the average cost of a private rented one bedroom dwelling in Dublin. The 2017 cost is based on the latest rent data available from PRTB Rent Index; Q2 2016 average was €1,008.79, 90% is €907.91.

DISCLAIMER

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The contents of the report are not attributable to the Minister for Social Protection or the Department of Social Protection.
