

Society of St Vincent de Paul

Submission to the Department of Social  
and Family Affairs Value for Money and  
Policy Review of Child Income Supports

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March 2010



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## **Introduction**

The Society of St Vincent de Paul welcomes the opportunity to make this submission to the Department of Social and Family Affairs on the Value for Money and Policy review of Child Income Supports. This is an opportune time to review the child income support system, to clarify its objectives, and to ensure that these objectives can be met in an efficient and effective manner.

## **The experience of the Society of St Vincent de Paul (SVP)**

The SVP is the largest charity of social concern and action in Ireland, with a variety of services for children and families being provided by our 9,500 voluntary members and 500 staff across the country. These services include family visitation, breakfast clubs and after school projects, education grants and other financial support. The Social Justice and Policy Committee of the SVP, a national Committee of the organisation, has a mechanism for gathering the experience of the membership as it relates to issues of social policy and concern. This is known as the 'From The Ground Up' process, overseen by a project team, and it takes samples of the experiences of our local branches and services throughout the country which then inform our policy positions.

An analysis of the requests for assistance received by the SVP's regional offices across the country reveals that the majority of people requesting assistance are families with children, with lone parents emerging as a particularly vulnerable group. Additionally, the main source of income of most of these callers is social welfare. Child income support and its role in preventing and eliminating child poverty is therefore a key policy priority for the SVP.

## **Need for a fundamental policy shift**

The experience of the SVP working with children in poverty and their families demonstrates that the current system of supporting children is not working to its best effect. Making small changes to the existing system could result in inconsistencies and unintended consequences in other areas. There are better ways of using public money, which would maximise the positive outcomes for children in low income households.

The taxation or means-testing of child benefit has been suggested due to the increasing cost of the payment and concerns that it is being received by high income families. The decision in Budget 2010 to cut Child Benefit and compensate families in receipt of Family Income Supplement and the Qualified Child Increase was welcomed by the SVP as the best solution available at the time. However this move fails to treat all low income families equitably, as some families on low income are not in receipt of either of these payments.

The SVP advocates for 'tailored universalism' (NESC, 2005) as a resolution to this debate. This would involve the payment of a universal child benefit, alongside a targeted second tier child income support to replace Family Income Supplement and the Qualified Child Increase. The second tier child income support payment proposed by Sweeney (2007) - where all families with children would receive some support for the costs associated with having children through Child Benefit, in line with the principle of horizontal equity; but where families on the lowest incomes would receive additional support in the form of a supplement to child benefit – is the necessary shift in policy in the delivery of child income supports. This would require integration of the tax and welfare systems and may necessitate a re-focus of funds being channelled away from the child benefit payment and towards the more targeted child benefit supplement or second tier payment. Further details are outlined below.

## **Current child income support policy and programme objectives**

### **Child benefit**

The payment of child benefit is an exercise in horizontal redistribution from households with children to those without and is intended to socialise the costs of having children. The SVP believes that child benefit should be a universal payment and that the payment should be restored to the parents of children seeking asylum, who are among the most disadvantaged children in the state.

Child benefit has been associated with three objectives (Sweeney, 2007)

- an anti poverty objective and the transformation of support for poor families in a way that minimises employment disincentives;
- providing support for working parents with the cost of childcare;
- recognising the value of women's work caring for children in the home.

It is clear that child benefit is attempting to be many things to many people and has become an expensive programme because of this. It could be argued that the programme is trying to do too much, which dilutes the ability of the programme to meet all of its objectives. The objective of providing support for working parents with the cost of childcare, and the transformation of support for poor families in a way that minimises employment disincentives could be better met through the provision of universally available affordable, accessible and good quality child care and after school care services for all children. This would allow child benefit to focus more on its anti poverty objective. As it currently stands, child benefit is inefficient as an anti-poverty measure and is insufficient on its own to impact significantly on the child poverty rate (Sweeney, 2007).

### **Qualified Child Increase (QCI)**

This is a payment made to parents in receipt of social welfare payments, in recognition of the higher income needed by families with children. In 1994 the lowest QCI payment was equivalent to 22% of the lowest adult social welfare payment, however by 2006 it had fallen to 10% as a result of the decision to freeze the QCI (Sweeney, 2007: 34), eroding its value.

The SVP has argued that as a targeted payment to children in families reliant on social welfare, the Qualified Child Increase (QCI) should be increased. However the obvious disadvantage to this is that the payment is not made to families in work on low incomes. Because the receipt of this payment is contingent on the labour market status of the parent, the QCI has in the past been associated with creating poverty traps and a disincentive to people with children making the move from welfare to work.

### **Family Income Supplement (FIS)**

The primary purpose of Family Income Supplement is to provide an incentive to low-earning parents to take up or remain in employment. It is a weekly payment supplementing the take-home pay of employees where income falls below a specified threshold, determined by the number of children in the household. In 2008, FIS was paid to 29,000 families on behalf of 58,000 children. However the payment is difficult to access, lacks flexibility and is plagued by low take up (Children's Rights Alliance, 2010). The payment has the potential to significantly reduce child poverty if it had full take-up. However, as the payment is not triggered automatically by low income, and because it requires co-operation from employers, many parents who are entitled to the payment do not take it up, reducing

its effectiveness in meeting its objectives. If nothing else is changed, the SVP asks that Family Income Supplement is paid automatically to eligible parents. This could be used as a way of piloting the sharing of information between the tax and welfare systems and could be used to inform the eventual development of the second tier child income support payment.

### **Validity of policy and supporting programmes on providing income support to families with children**

Figures from the EU-SILC demonstrate the impact that social transfers have on the risk of poverty rate experienced by children. In 2008, social transfers reduced the risk of poverty rate from 42.3% to 18% for children aged 0-17 (CSO, 2008). While child poverty rates are still far too high, they have been reducing alongside improvements in child income supports.

The OECD (2009) shows that Ireland invests around €81,000 in each child before they reach 18 years, which is €7,000 less than the OECD average and €22,000 less than the UK. The importance of investing resources in the under six is stressed by the OECD as key for supporting families.

### **The role of CIS in a strategy for tackling child poverty through income support and work**

The SVP strongly feels that a combination of child and adult income supports and access to good quality services in housing, education, health and childcare are necessary to end child poverty. The proposed changes to the Community Childcare Subvention Scheme, whereby parents in receipt of Family Income Supplement will move to Band A subvention in order to provide them with more support for childcare costs is an example of a targeted policy shift which will be of benefit to families in work on low incomes. The development of relevant after school services for older children is also essential if child poverty is to be tackled through parental access to employment.

Sweeney (2007) points out that the challenge of ending child poverty is ultimately tied in with the challenge of ending adult poverty. The SVP knows that poor children do not grow up in isolation but grow up in poor households, with poor parents. Therefore tackling child poverty cannot be seen as a separate policy from adult income supports. Adult social welfare rates are part of the solution to ending child poverty and should be recognised as an anti-child poverty measure.

While they are not the complete solution to ending child poverty, child income supports do have an important role to play. Universal child benefit is an important component of tackling child poverty, however child benefit alone is not enough to address child poverty. An employment neutral payment would be the best mechanism for providing support to those on the lowest incomes regardless of whether this income comes from welfare or work, and would avoid creating poverty traps. The introduction of a second tier child income support payment targeted at those on low incomes would be a key mechanism for tackling child poverty through income support, while supporting parents in work on low incomes.

Child income support payments must be adequate for low income families if they are to tackle child poverty. Sweeney (2007: 50) suggests that one way in which the adequacy of child income supports can be measured is to establish the direct costs associated with rearing a child at a point in time and calculate how much of this cost child income supports cover. Barnardos<sup>1</sup> has done some work on this, estimating the average cost of a child for a modest but adequate standard of living at €60.29 per week. However, this cost excludes childcare which can range from between €90-200 per week. A

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<sup>1</sup> [www.barnardos.ie/pdf.php?path=assets/files/poverty/Brian-Harvey.pdf](http://www.barnardos.ie/pdf.php?path=assets/files/poverty/Brian-Harvey.pdf)

further example is the work of Healthy Food for All (2009), which calculated that the cost of providing a teenage boy with a healthy diet (from a multiple supermarket) costs 54% of weekly child income support payments.

The Vincentian Partnership for Social Justice<sup>2</sup> has developed information on the cost of providing a Minimum Essential Budget for different household types. This information highlights the high cost of having teenagers in a household, where total household income is inadequate to a minimum essential standard of living. This type of method of calculating the adequacy of child income supports is favoured by the SVP as it takes into consideration the cost of living, which the families we are assisting are unable to meet in many cases.

### **Achievement of policy and programme objectives**

The SVP is particularly concerned about the achievement of anti-poverty objectives. The *National Action Plan for Social Inclusion* aims to “reduce the number of those experiencing consistent poverty to between 2% and 4% by 2012, with the aim of eliminating consistent poverty by 2016”. Reducing child poverty will be necessary if this aim is to be achieved. Child poverty rates have been falling, but in order to meet the National Action Plan for Social Inclusion’s aim of eliminating consistent poverty by 2016, more needs to be done. Sweeney (2007: 55) notes that “The evidence that Ireland’s child income supports are good by international standards, while our levels of child income poverty remain high, suggests that significant reform of the current system should precede or accompany devoting further resources to it”. This again points to the need for fundamental reform of the child income support system.

### **Wider impact of policy and associated programmes for society over the medium to long term**

It is likely, given the economic circumstances, that further downward pressure will be exerted on child income support payments. The reduction in adult social welfare rates in Budget 2010 reduced the income going into households with children, making child income supports an even more important component of household income. Child benefit was cut in Budget 2010, with provisions made for recipients of the Qualified Child Increase and Family Income Supplement. As mentioned above, this resulted in protecting some families on low incomes, but not all. This was a failure to treat all families on low incomes equitably.

It is imperative that a mechanism is put into place to protect families on low incomes from reductions in child income supports. The second tier payment could allow for the refocusing of resources away from child benefit and towards a targeted payment for families on the lowest incomes, which would be of benefit in reducing child poverty and which would yield dividends for society over the medium to longer term.

### **Continued public funding for child income supports**

Support for children in all families is necessary, while families on low incomes need extra support. The End Child Poverty Coalition, of which the Society of St Vincent de Paul is a member, outlines the effects on children of living in poverty<sup>3</sup>. The experience of the SVP of working with families experiencing poverty and disadvantage who in many cases are struggling to pay for the basics of food,

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<sup>2</sup> [www.budgeting.ie](http://www.budgeting.ie)

<sup>3</sup> See [www.endchildpoverty.ie](http://www.endchildpoverty.ie)

fuel, housing, education and health demonstrates the importance of continued public funding for child income supports.

### **Second tier child income support payment**

The current child income support mechanisms are insufficiently targeted at the poorest children to lift them out of poverty. Child income supports should:

- Provide a level of support to all families with children, in line with the principle of horizontal equity
- Provide additional support to all children in low income households
- Treat all low income households equitably
- Prevent the emergence of further poverty traps for families with children

The second tier child income support payment as proposed by Sweeney (2007) should be fully considered. This payment would have the objective of redistributing income towards lower income families with children and would treat all low income families with children equitably, regardless of whether their income is from paid employment or social welfare. It is proposed that where family income is below a certain threshold, the family would receive a maximum payment per child in addition to child benefit. However the payment would not be universal, but would be withdrawn as family income increased, and would cease to be paid at a certain level of income. The assessment of child maintenance as income for the purposes of the second tier payment would add another layer of complexity to the introduction of the second tier payment and should be borne in mind in order to avoid creating disincentives to the collection of maintenance.

The introduction of the second tier payment would require decisions to be made on the following (Sweeney, 2007: 63)

- The level of family income below which the payment is made
- The level of the full payment
- Rate at which the payment is withdrawn

The SVP recommends that whatever level of family income is chosen to trigger the second tier payment, the income thresholds for receipt of the payment should be linked to wage inflation. While rising wages may not be a current concern, it is important that people do not become ineligible for the second tier payment if their wages rise faster (due to inflation) than the income thresholds for the payment.

The SVP recommends that the level of the full payment is adequate to cover the costs associated with raising children. As discussed above, the adequacy of the payment is important in addressing child poverty and should be based on the direct costs of raising a child. This standard needs to be researched and regularly updated.

Poverty traps must be avoided when setting the rate at which the payment is withdrawn.

### **Barriers to introducing the payment**

Identifying the level of family income is the biggest challenge in administering a second tier payment (Sweeney, 2007). This would require the sharing of information between the Department of Social and Family Affairs and the Revenue Commissioners.

Sweeney (2007: 74) suggests that the necessary information could be obtained by:

1. Using the current child benefit application form to obtain the data that link parents to their children
2. Providing the second-tier support as a tax credit as a default position
3. Having Department of Social and Family Affairs make a direct payment to parents not in a position to benefit from the full amount of the tax credit or who are not in work

We acknowledge the difficulties associated with the change in work practices that this would involve. However the result would be more effective use of public money in addressing child poverty in a time of limited resources. The administrative difficulties are not insurmountable. For instance, the Australian child income support system (Family Tax Benefit A and B) is subject to an income test which relates to taxable income for the current financial year and requires a tax return to be lodged in order to access child income support payments. Social security recipients are not subject to an income test, but must regularly declare their income. While there is a risk of overpayment of child income support under this system, a supplement is given at the end of the year, after the tax return has been made, which can be used to offset any over payment, and avoid some of the issues which have arisen with the UK system of tax credits.

The cost of the payment could be another barrier to its introduction. The cost of introducing the second tier payment has been estimated at between €450 and €775 million per annum (Sweeney, 2007; Callan et al, 2006). The cost of the second tier payment is likely to have changed due to budgetary changes made since these figures were published. SVP suggests that savings could be made in the child benefit budget to fund the introduction of the second tier targeted payment. The second tier payment would be efficient at meeting its objectives and represents good value for money.

**Performance Indicators to monitor child income support policy:**

The SVP welcomes the fact that the Terms of Reference for this review include a reference to the development of performance indicators, and we feel that all public policy objectives should be developed in conjunction with indicators for monitoring performance.

There is a need for greater clarity around the objectives of child income supports and a focus on outcomes when monitoring performance. Clear objectives for child income support policy should be generated from this review. It will then be possible to develop performance indicators for each of the objectives. An anti-poverty objective should be at the heart of child income support policy. Child income supports must be adequate and structured in such a way as to avoid poverty traps and work disincentives.

Possible performance indicators to monitor the effectiveness of child income support policy include:

Income adequacy

- At risk of poverty rate for children
- Consistent poverty rate for children
- Deprivation among children
- Child income support measures as a percentage of the lowest adult social welfare rate

- The proportion of the cost of a child which is covered by child income supports.

#### Poverty traps

- Effective marginal tax rates (including benefit withdrawal) for welfare recipients compared with high income earners
- Proportion of children in families without an employed adult
- Proportion of children in 'working poor' households.

#### Conclusion

The members of the Society of St Vincent de Paul see on a daily basis the struggle of children and families living in poverty. We also see the effects of childhood poverty in terms of early school leaving, unemployment and intergenerational poverty and disadvantage.

We know that solving the problem of child poverty is not as simple as increasing the amounts spent on child income supports. Access to good quality, universal services, and the amount of income coming into the household through adult income supports and employment are also key to ending child poverty. Reductions to adult income supports will impact negatively on child poverty rates.

The current system of child income supports is insufficiently targeted at the poorest children to lift them out of poverty and is in need of reform. There is a need for a fundamental policy shift in the way child income supports are provided. The limited resources now available should be directed at the people in most need and we have outlined the problems with the current targeted measures above (Qualified Child Increase and Family Income Supplement).

We are asking that the Department of Social and Family Affairs:

- Reviews and clarifies the objectives of child income support policy
- Develops performance indicators to allow monitoring of the achievement of these objectives to include those outlined above
- Takes on the proposals to merge the Qualified Child Increase and Family Income Supplement into a single second tier payment, to supplement child benefit for those households on low incomes, regardless of the source of this income. This work could begin with making the payment of the Family Income Supplement automatic.

In all of this, child benefit should remain as a universal payment. However the development of a second tier payment would allow for the redirection of scarce resources into a programme with a clearly defined objective to address child poverty. This could be a real success delivered by the Department of Social and Family Affairs in a very challenging time.

## References

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