

INITIAL SUMMARY OF IRISH TROIKA PROGRAMME FOR FINANCIAL SUPPORT AND ITS IMPACT

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1. Macro-economic situation

- Unemployment: Unemployment has increased from 4.5% in 2007 to 14.8% in mid-2012. Currently 17.5% of those under 25 years are on the Live Register. There were approximately 28.3 people per vacancy in mid-2012¹
- Deficit: 13.1% in 2010, expected to be 8.2 (€13bn at end of 2012).
- Debt as % of GDP: 108.2% in 2011 expected to rise to over 117.1% by 2012.

The Government deficit at the end of 2010 was 11.6% of GDP, or €18.5 billion. In September 2008 Ireland had also introduced a bank guarantee on the urging of the European Commission covering both depositors and bondholders, adding bank debts of over €60 billion to the sovereign debt. Due to the escalating sovereign deficit, Government had started to introduce austerity measures through two budgets in 2008 and to embark on a programme of structural reform. On 24th November 2010 the Government published a National Recovery Plan 2010-2014 presenting its ongoing plan for ultimate reduction of the deficit to 3% by 2014.

Four days later, representatives of the European Commission, European Central Bank and International Monetary Fund (the “Troika”) arrived in Ireland four days later (28th November) following a request a week earlier from the Irish Government to discuss and agree a programme to secure Troika assistance in dealing with the Irish debt issue.

2. Memorandum of Understanding and Programme of Financial Support

The programme for financial support agreed between the Irish Government and the European Commission and IMF in liaison with the European Central Bank was for a total package of support of €85 billion to be drawn down between December 2010 and December 2013. €17.5 of the programme is funded from national sources, with the rest being provided from troika resources and also some other international sources (UK, Denmark and Sweden).

The official objectives of the troika programme are:

- Immediate strengthening and comprehensive overhaul of the banking sector. (**€35 billion**)
- Ambitious fiscal adjustment programme to restore fiscal sustainability, and correct the excessive deficit by 2015. (**€50 billion**)
- Growth enhancing reforms, in particular on the labour market, to allow a return to a robust and sustainable growth.

[In the Programme there are many other structural reforms other than LM – e.g. property tax, enterprise supports, education, sheltered sectors etc.]

The original programme was broadly based on the National Recovery Plan 2011-2014 published by the Irish Government less than a month before the troika programme was agreed. This outlined many of the reforms and also the levels of taxes and cuts that were envisaged.

In February 2011 the Irish Government fell and a new coalition Government elected. This Government has negotiated small changes to the programme, such as a reversal of the cut to the National Minimum Wage, but otherwise states that it is bound by the existing programme. There is

¹ Nevin Institute, Quarterly Economic Facts, Summer 2012, http://www.nerinstitute.net/download/pdf/neri_qef_summer_2012_all.pdf

much more flexibility around the specific cuts and taxes to be introduced as part of achieving the overall deficit target of 3% but these changes have to be agreed in advance with the troika.

Many of the reforms being implemented by the Irish Government, such as those relating to increased conditionality for those who were unemployed and reviewing wage levels as an approach to increasing competitiveness were already developing across the EU.

Details of Programme

The Programme of Financial Support, initially agreed with the Troika in December 2010, is updated after every quarterly review. There are broadly two sections in the Programme, one covering the Memorandum of Understanding with the EU/ECB and the second the Memorandum of Understanding with the IMF. The first presents upcoming targets for each quarter and the second presents a report on progress under specific headings, but both are really addressing the same issues.

Key policy areas covered within the EU/ECB Memorandum

The Memorandum broadly deals with four areas separated out under the following headings

Financial Sector Reforms

Capitalisation, Asset quality, Deleveraging, Reorganisation and Financial supervision. While in the context of the crisis in Ireland the reform of the banks is important it is not an area EAPN engages with.

Structural reforms (mainly for 2012)

This is the key section dealing with specific reforms of concern to EAPN, in the following areas:

a. Efficient social support expenditure

A variety of actions aimed at reforms of Ireland's activation measures which mentions areas such as better targeting social supports at lower incomes, ensuring work pays for welfare recipients, evaluation of actions re jobseekers not attending interviews, establish one stop shop pilots for welfare and activation services, employer engagement and job matching, monitoring the performance of the activation system (there are 6 reporting areas listed), improved data collection system to enable ongoing evaluation of activation and training policies and review of the social insurance fund in the context of budget 2013. Evaluation of activation systems is an ongoing element including monitoring of progress against targets in 'Pathways to Work' strategy.

b. [Competition law enforcement.]

c. **Water charges.** Progress on transferring responsibility to a regulated water utility and roll out of domestic water metering programme to start at end of programming period (early 2014).

d. Labour Market reforms

- Related to new legislation (Industrial relations- Amendments - Bill) which is being finalised aimed at re-establishing a legal basis for wage setting mainly for workers in low paid sectors. A condition in the Memorandum is to strengthen inability to pay clause for employers and ensure process for REAs is conducted in a timely manner.

- Cross-departmental report on negative employment incentives arising from the structure of social payments.

e. Activation of the unemployed (Q1)

This element seems to repeat some of what is covered under 'Efficient social support expenditure' above. It looks at the strengthening of activation and training policies but mainly focuses on an external evaluation of data and reporting systems required under 'Pathways to Work' to enable on-going evaluation. [Programme and legislation for disposal of state assets]

f. Introduce legislation and reform in area of personal debt

Structural Fiscal Reforms (Q3 only)

Fiscal Framework

- Legislation to enshrine multi-annual expenditure limits (already being done in practice)
- Legislation to enshrine the commitment to sound public finances

Fiscal Consolidation – (Budget Taxation and expenditure measures) (Q4 only)

Budget 2013- 3.5bn adjustment including:

Revenue €1.25bn-

- Broaden income tax base
- Restructure motor taxation
- Reduce general tax expenditures
- Increase excise duty and indirect tax

Expenditure €2.25bn

- Social Expenditure
- Reduce total pay and pensions bill
- Other programme expenditure and reduce capital expenditure.

Note: The items above can be replaced with others (of equally good quality) from Government's Comprehensive review of Expenditure (a process carried out in 2011 to identify areas for cuts across all Government Departments) while retaining the overall amount.

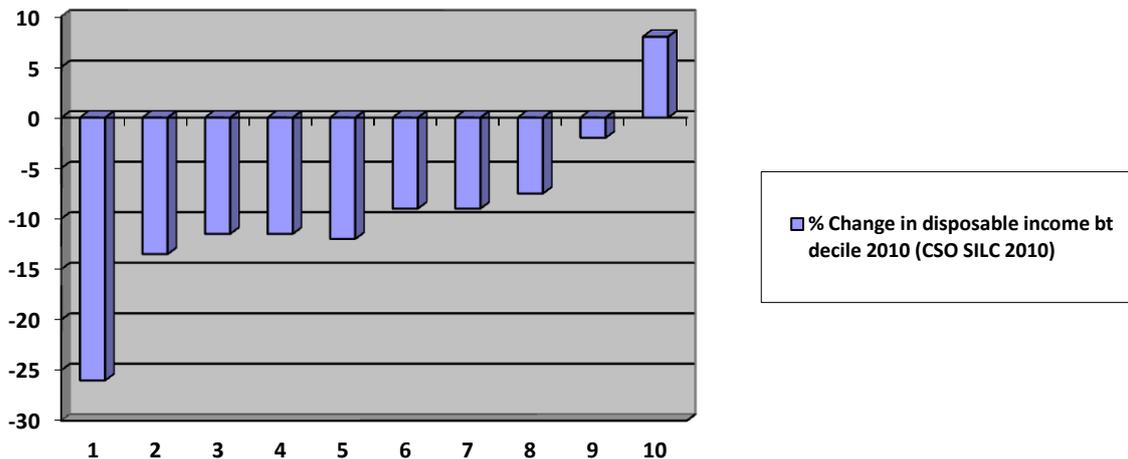
IMF Memorandum – Mainly outlines the same as the EU programme as above but in a different format. It also highlights its Action Plan for jobs and measures to support employment creation.

3. Income Distribution

For almost 20 years income inequality in Ireland had been reducing. However, the Survey of Income and Living Conditions in 2010 showed a sharp rise in inequality shown both in the Gini Coefficient and Income Distribution. This rise cancels the progress made in the previous 10 years. While this rise is significant it is unclear to what extent it is due to once off occurrences related to pensions and redundancies or an indication of the impact of a wider range of policies.

Inequality	2009	2010
Gini Coefficient (perfect equality =0% and inequality 100%)	29.3%	33.9%
Income Distribution (Ratio of top 20% of incomes vs bottom 20%)	4.3	5.5

As the table below shows that between 2009 and 2010 income groups in the lower decile experienced a much greater drop in disposable income than the highest deciles with the top decile showing an actual increase.



Disposable income

Average annual equivalised disposable income in 2010 was €22,168 (or €424.83 weekly), a drop of 5.0% on the 2009 figure of €23,326 (or €447.03 weekly). Equivalised total direct income fell by almost 9% while social transfers increased by 4% between 2009 and 2010. The 60% at risk of poverty threshold fell from €12,455 in 2009 to €10,831 in 2010 with a fall of 13% from 2009 to 2010 alone.

The Consumer Price Index also shows an increase in process across almost all areas since mid 2010 with prices now over 5% more than at the beginning of 2007. While there has been a small decrease in the cost of clothing, footwear and leisure costs there have been increases in energy costs, utilities and local charges other areas such as transport, health and education costs and to a small extent in food costs.

4. Poverty Impact

Since 2008 poverty levels in Ireland have been increasing.

POVERTY	2008	2009	2010
Consistent Poverty	4.2	5.5	6.2
Material deprivation	13.8	17.1	22.5
At-risk of poverty (despite 10% fall in 60% threshold)	14.4	14.1	15.8
In work Consistent Poverty	1.1	1.1	1.8
In work Material Deprivation	6.6	7.9	12.5
In work at-risk of Poverty	6.7	5.5	7.8

The rise in poverty reflects a number of broader issues, notably the sharp increase in unemployment (from 4.5% in 2007 to 14.9% in June 2012) and changes to social welfare supports and income of the low-paid. At the beginning of the crisis Government initially introduced some measures to protect the most vulnerable from the impact of the crisis by, for example, increasing the social welfare rate in 2009, compensating families dependant on social welfare for a cut in child benefit by increasing the Qualified Child Increase in 2010. However, Government has since introduced a series of cuts and changes to social welfare supports and also hit people on low incomes by increasing taxation and including them in the new income levy, now part of the Universal Social Charge. Since 2010, the latest year for which the poverty statistics are available, there have been many other changes which will further increase poverty. Apart from the old age pension, there were cuts to all social welfare rates in 2011 and also to the Household Benefits Package, Rent Supplement and Child Benefit. Parents with seriously disabled children have also been removed from Domiciliary Care Allowance. There have also been tax and levy changes including an increase in the VAT rate which by definition has a disproportionately negative impact on low income groups².

Many people are experiencing the accumulated impact of multiple cuts and changes.

The rise in poverty is very real and is witnessed in communities and by organisations working to address these issues across the country. Organisations such as the Money Advice and Budgeting Service (MABS), the Society of Saint Vincent de Paul and others have highlighted the growing crisis many people and families are facing. As an extreme but real example, 2,000 Christmas food parcels were handed out at the Capuchin Friary in Dublin's Bow Street on 21st December last year - up from just 400 three years earlier. Participants at EAPN Ireland workshops on the Europe 2020 poverty target around the country last September also highlighted the growing levels of poverty in communities and their impact on people's lives, as reflected, for example, in growing levels of stress and mental ill-health³. In 2012 the Irish League of Credit Unions reported that 1,820,000 left with €100 or less each month after bills are paid and that 40% have borrowed to pay their household bills in the past 12 months, 10% using moneylenders⁴.

Social Protection

Since 2008 there have been a number of changes to social protection payments which reduce the rates and eligibility as well as reductions to secondary payments as follows:

² Alan Barrett and Caeman Wall (2006), *The Distributional Impact of Ireland's Indirect Tax System*, Dublin: Combat Poverty Agency

³ EAPN Ireland Review: Progress towards Europe 2020 <http://www.eapn.ie/eapn/eapn-ireland-review-progress-towards-europe-2020>, November 2011.

⁴ <http://www.creditunion.ie/communications/pressreleases/2012/title,6905,en.php>

- There has been approximately a 10% cut to social welfare rates for all groups apart from old age pensioners.
- There have also been increases in eligibility criteria for access Jobseekers Benefit (non means tested unemployment payment) and reduced the length of these payments. This has involved doubling the number of contributions needed (52-104 weeks) for access and reducing the period from 12-9 months for those with less than 260 contributions.
- Since 2010 new applicants for Jobseekers Allowance (long-term unemployment payment) for those under 22 (without children and not in education and training) was reduced to €100 and for those aged 22-24 years (without children and not in education and training) to €150. The normal rate is now €188.
- Reduction in the social welfare payment week from 6 to 5 days meaning that someone working part-time and making a claim for the rest of the week receives less.
- There have been two cuts to the universal Child Benefit. The first cut did not impact on those on social welfare payments as they received an increase in the targeted Qualified Child payment. However, in the second cut in 2012 there was no such compensation. A move away from a universal to a targeted means tested approach runs greater risk of poverty traps for people looking to move from welfare to works.
- Reduction in the Household Package (contribution towards electricity and gas, telephone and television costs for older people, carers and people with certain disabilities).
- Reduction in the level of Rent Supplement paid to those on social welfare renting in the private rental market has meant that many tenants have had to pay a greater share of their welfare payment on rent costs.

The current Government made a commitment in their Programme for Government (2011) to try not to cut rates further. It stuck to this commitment in Budget 2012 but has not made a commitment to do so in Budget 2013. However, in 2012 the Government made a number of other changes, particularly to conditionality related to some payments. The group most negatively impacted by these changes were lone-parents.

These changes are linked to proposals to move towards a single social welfare payment for all adults of working age based on the current conditions for those on the unemployment Jobseekers Allowance. While this policy has not been formally adopted, and the Minister for Social Protection, her Department and the Inter Parliamentary Committee on Jobs, Education and Social Protection believe that the current level of services and supports are not in place to support this transition and there are not sufficient jobs available it is nevertheless being slowly introduced.

A number of the main changes made in 2012 will mean that after a transition period until 2015 all lone parents whose youngest child is seven will move from the One Parent family Payment, which has no requirement to seek work, onto the means tested Jobseekers Allowance which has a seeking work requirement. This suddenly reduced the age of the youngest child from 18 and is much lower than the 15 years which was only adopted in Budget 2011 following extensive consultation. This is at a time without jobs and when there is very inadequate provision of affordable childcare. Of additional major concern is the loss in the income disregard, which those lone parents on the OPFP receive when on low incomes and which is reduced on a sliding scale as their income increases. As part of Budget 2012, the government already reduced this limit from €146.50 to €130 per week; with further reductions signalled which will see it fall to €60 by 2015.

This change will present a direct poverty trap for parents who face additional costs related to childcare when returning to work.

In-Work Poverty

Between 2009 and 2010 the at-risk of poverty and material deprivation levels for those in work increased from 5.5% to 7.8% and from 7.9% to 12.5% respectively. In 2010 17.3% of those at-risk of poverty were at work. This in work poverty has come about due to a number of factors including the increase in precarious work conditions, the increase in taxation, a reduction in tax credits and a decrease in wages generally.

While the reversal of the previous Government's €1 cut in the National Minimum Wage and of the Universal Social Charge (USC) on the lowest paid are welcome, those earning over €10,036 are still liable to the USC, which thus includes many workers who earn just the minimum wage. This is also the income level at which the maximum rate of USC applies which is regressive.

5. Services

Cuts to public services and to supports to disadvantaged communities exacerbate harm of recession on marginalised groups because they particularly rely on these services. The cuts will lead to long term social problems, many of which will also have an economic cost.

Education

- All resources to support Travellers to access and remain in mainstream education have been cut, including resource teachers in schools and the Visiting Teacher Service. Travellers have a low participation rate in mainstream education⁵ but great progress has been made in the past 20 years with the help of these resources. Determined, intelligent intervention programmes over this period brought Traveller participation in primary education from less than 40% to nearly 90%. The Traveller Education Strategy was in place to address the challenges related to Traveller participation in education. This Strategy allows for a review of services. However these cuts have been carried out without any review involving Travellers and their representative organisations. The cuts will now undermine the very progress which has been made.
- There has been a ceiling put on the number of special needs assistants for schools and the number of language support teachers for children who are not competent in English have been reduced.

Health

- People with disabilities need both disability-specific health and personal support services that have been cut every year since 2008 and they also use mainstream social services that have been cut.
- Cuts to home care supports for older people mean that many older people are unable to live at home but have to enter nursing homes, where this is possible, or, if not, to access hospitals. Since 2007 the number of home care hours has been cut by about 13% while over the same period there has been an increase in the ratio of people with low and medium care dependency going into nursing homes.
- There have been reductions in services in hospitals and a new prescription fee has been introduced for those on medical cards (those on the lowest social welfare supports) who previously received their prescription medicines free of charge.

⁵ 63.2% of Traveller children under the age of 15 had left school as compared to 13.3% nationally (Census of 2006).

Other Services

- There have been significant cuts to services on **violence against women**. Funding has been cut between 20-35% for basic services while simultaneously demand for services has increased by 40%.
- Between 2008 and 2010 there has been an approximately 35%⁶ cut to supports for the **community and voluntary sector** which provides support and services for the most marginalised communities and groups throughout Ireland. These have included cuts to drugs initiatives, family supports, community development, voluntary social housing, health projects etc. This occurred at a time of increased demand for these services but has resulted in a reduction of services and in some cases their closure. This will have a long term impact on the communities dependent on these services and supports. The cuts to community based supports and services represent a model case of political choice, as the trend towards massively deconstructing this sector was already well under way even before the crisis hit.
- The Government's plan to reduce the numbers of **public servants** by 37,500 (or 12%) by the end of 2015 from its height in 2008 is already having a severe impact on the delivery of public services in many cases resulting in closure, limiting access or increasing waiting times for services. This includes essential front line services in health, education and local services. The public service recruitment embargo also has an impact on the introduction of new talented staff as would have happened in the past thus impacting on the development of the service.
- Early in the crisis there were disproportionate cuts, closures and the integration of a range of key **Government agencies addressing issues related to poverty, equality and rights**. This has had a detrimental impact on the capacity of people and groups to monitor, highlight and address these issues. This included the closure of the National Consultative Committee on Racism and Interculturalism, the effective closure of independent Combat Poverty Agency and its integration under a Government department and the severe cuts to the budgets of the Equality Authority and the Irish Human Rights Commission which are currently in the process of being amalgamated.

The retraction and even dismantling of many of these services has been presented as reform but in reality the changes have been driven purely by a single minded determination to reduce costs and in effect engagement. Reform must be guided by principles and key amongst these are equity and participation.

6. Labour market reform and Active Labour Market Programmes

In the past number of years, even preceding the crisis, the issue of pay has been raised by employers and to some extent Government as an issue to be addressed in the context of competitiveness. Since the crisis started however this has drawn even greater attention. The previous Government cut the National Minimum Wage by one euro to €7.65 but then the new Government reversed this cut. At the same time the national mechanism to set wages in low-paid sectors was being reviewed. However during this process a group of employers were successful in the High Court in seeking to have this mechanism declared unconstitutional. Legislation is currently going through parliament to put new legislation in place. However this legislation, while firmly re-instating the system of REAs, will now give employers a strong basis for pleading inability to pay. This inability to pay is one element of the troika programme.

⁶ <http://www.ictu.ie/download/pdf/downsizingcommunitysector.pdf>

There has also been an increase in the levels of flexibility, particularly in low-paid employment, leading to a rise in precarious employment and rising in work poverty. A greater percentage of those in work are now working part-time with growing numbers seeking more hours to increase their income or to supplement it with social welfare support⁷. However because of the nature of much of this precarious employment, which impacts greatly on women and migrants, many workers are unable to supplement their income from these sources and are increasingly experiencing poverty and forced to get loans to meet their bills.

The Government has been reforming the activation system through the integration of social welfare and job seeking services into the National Employment and Entitlement Service. This is potentially a positive development if the focus of services is person centred and supportive as opposed to being a mechanism to impose sanctions without meeting people's need. There has clearly been a greater focus on greater conditionality and threats of sanctions for non engagement.

The Government (past and present) has initiated a range of new labour market programmes. These include a programme for placement in the community and voluntary sector (Tús), and in the private sector including the Work Placement Programme and the internship (JobBridge) programme and Springboard which supports people who are unemployed to access relevant education and training opportunities. The JobBridge internship programme gives an additional payment (€50) to cover extra costs and Tús €20. The Community Employment scheme which targets long term unemployed people and people from other disadvantaged groups has been in place since the 1990s currently has 23,300. There have been recent changes regarding welfare supports for lone-parents and people with disabilities on the scheme which is having a very negative impact on the participation of these eligible groups and also a review of training allowances which could impact on the viability of some of these schemes.

7. Taxation

Compared to other EU states Ireland is traditionally a low tax but there have been increases in taxation since 2008. There has been no changes to income tax rates but changes to credits and bands have brought about 300,000 more people on low income into the tax net. Most significantly a Universal Social Charge of between 2-7% has been imposed on a sliding scale on gross income from €10,036 upwards. This levy incorporates previous levies, such as the health levy, but is at a higher percentage of income and applies to much lower incomes. It impacts on those on the minimum wage. Among other taxes there has been an increase in the basic VAT rate from 21% to 23% and the introduction of a new flat-rate household (tax on homes) charge of €100, which is supposed to be replaced by a progressive property charge from 2013; also a new water charge is to be introduced. There has been some limited effort to address tax reliefs but many have not been addressed yet.

The emphasis of austerity has been on cuts over taxes despite much lobbying for this balance to be reversed based on the recognition that cuts have a more negative impact on the most disadvantaged and can also be more damaging to economic growth by taking money out of the economy. Within taxation there have been strong calls for a greater focus on progressive taxation with an emphasis initially on targeting wealth through a wealth tax and tackling tax reliefs which are not socially or economically beneficial.

⁷ Mandate Trade Union, Decent Work: The impact of the recession on low paid workers, 2012. http://issuu.com/mandate/docs/mandate_decent_work_report_2012