CHAPTER 9: CIS SPENDING – CONTINUED RELEVANCE AND POSSIBLE REFORM

The broad aim of Chapter 9 is to consider the degree to which the objectives warrant the allocation of public funding and examine the scope for alternative policy or organisational approaches to achieving these objectives on a more efficient and/or effective basis. Section 9.1 considers whether or not there exists a continued justification for allocation of spending. Section 9.2 looks at the appropriate level of spending and the spending mix. Section 9.3 considers reform to specific programmes and the financial and other impacts of reform. Section 9.4 outlines CIS payments in the context of reform of working age payments while Section 9.5 discusses the identification of performance indicators that could be used to monitor the performance of CIS policies and programmes. Section 9.6 provides an overview of the recommendations in the report while section 9.7 concludes the chapter with a summary.

9.1 Justification for continued allocation of spending

This section addresses the evaluation question: *"What is the justification for the continued allocation of public funds to child income support policy and associated programmes?"* At an estimated €2.3 billion in 2010, spending on child income supports is very significant in terms of the total social welfare budget of €21.1 billion and current public spending generally (around €50 billion). It represents a sizeable redistribution of spending power to households with dependent children and particularly to less well-off households. In line with the methodology around the VfM and policy review process, the continued justification of this spending presupposes a combination of public support for such redistribution, the absence of other possible mechanisms to achieve it and the ability of the various component programmes to deliver such redistribution efficiently and effectively.

9.1.1 Policy and stakeholder support

As evidenced in the consultation process there seems to be strong policy and stakeholder support for the continuation of spending on child income supports. Furthermore, the analysis of the various policy statements around child income support which were considered in Chapter 2 suggests that (subject to caveats about the balance between the level of support for universal as opposed to targeted support), there remains strong support underlying some level of redistribution to households with families and for reducing child poverty.

9.1.2 Availability of other mechanisms

Other potential mechanisms through which redistribution of resources to families with children are (a) through the taxation system, (b) through vouchers or the delivery of "in-kind" public services which would pre-empt the need for cash support or (c) through non-governments organisations (NGOs).

Tax system as alternative mechanism

Up until the mid-1980s, the taxation system did provide for redistribution of disposable income to households with children through the operation of tax allowances for children. However, such allowances were abolished in 1986 at the same time as the introduction of the child benefit payment and as part of a deliberate government strategy to apply a more coherent approach to the delivery of support to families. Some element of targeted redistribution to low-income families did remain through the operation of child-related additions to tax exemption thresholds but the importance of these has diminished very considerably in recent years (needs reference). Thus, while an element of redistribution could be secured for some families within the tax system, those families without an income would be bypassed by the taxation system.

The main problem with providing redistribution to families through the taxation system, especially low-income families, is that in many cases they have no or insufficient taxable income to make a "non-refundable" system of tax credits work. In order to overcome this, a system of "refundable" tax credits would have to be introduced. This has provided the basis for various proposals for reform in the UK in recent years where the approach to reforming targeted support for families with children was to move it from a spending scheme (Working Family Tax Credit) to the taxation system (Child Tax Credit). In effect, support to families was delivered through the tax system rather than the social security system. This represented a fundamental reform of the method of delivery of support to families[148] and the broader implications of a reform of this nature are considered later in this chapter.

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[148] Jane Millar, 'Making work pay, making tax credits work: An assessment with specific reference to lone-parent employment', *International Social Security Review*, Vol. 61, (2008), pp 21 – 37.

Replacement with vouchers or services in-kind

If it was found to secure better outcomes, it might be possible to replace child income support cash payments either through the provision of vouchers which could be redeemed on purchases of appropriate items or through services which assist with the cost of raising children or which reduce child poverty.

There are some arguments in favour of using vouchers instead of cash payments. For instance, if linked with purchases of certain items or in certain outlets, they could be explicitly linked with child-related spending. Vouchers could lead to better "labelling" of the benefit for the benefit of dependent children. On the other hand, this approach also carries a number of disadvantages. It would remove flexibility from parents in deciding what is in the best interest of their children. It could also lead to suppliers capturing the value of the spending power given to families and to price distortion. Finally, voucher systems are considerably more costly to run than cash based systems and they can also have a stigma attached to them. For these reasons, voucher systems have been phased out of the social welfare system over time (e.g. butter vouchers were a feature of the system up until 1999 before they were abolished).

Clearly, some services - notably in the education and health sectors - are already provided with this specific purpose in mind, for example the school meals scheme in the education sector and paediatric services in the health sector. This is most appropriate for collectively provided services which are unlikely to be provided by the market in sufficient quantities to satisfy demand or lead to unacceptable distributional consequences (such as vaccination and primary healthcare services). Furthermore, it could be argued that some collective services could reap economies of scale (or of scope) through direct provision rather than through providing income support to parents to purchase them on behalf of their children (such as children's playgrounds, recreational or childcare facilities).

It is also possible to consider the delivery of support to households with children through child related services. Indeed international comparisons show that Ireland's spending on cash support is considerably higher than spending on child-related services (especially in comparison with those countries where better poverty outcomes are secured). There may be an argument therefore <u>at the aggregate level</u> that some spending on cash benefits for children might yield a better return if used to provide certain services. However, many of the costs associated with raising children (food, clothing, housing etc) are most appropriate to decisions within the household unit and this reality places considerable limits on the extent to which cash payments could be replaced by specific in-kind services directed at particular families.

Feasibility of delivery by NGOS

Might it be possible to considering deliver child income support payments through non-governmental organisations (NGOs)? While there are many non-governmental organisations with a remit or strong policy voice in the area of children[149] or who provide some income supplements to households, including those with children, it would neither be feasible nor appropriate to rely on NGOs to deliver a national system of transfers to families with children. Such organisations would not have access to the level of resources required or the information and administrative resources necessary to run a major income support scheme.

9.1.3 Regular review of policy relevance

The question regularly arises as to whether spending on child income supports is configured in the best possible way. While this is the first time that CIS policy (or any of its main constituent programmes) has been reviewed as part of the VfM and policy review programme, child income support policy has itself been subject to regular review since its introduction. In fact in his book on the Irish social welfare system, Tony McCashin concluded that *"It is striking that the most frequent form of (child income support) policy initiative is the attempt to make the system of child income support more targeted and focused on less well-off families. In every decade since the 1940s political leaders and policy commentators have raised the question of the universality of Child Benefit, and of the need to tax it or means test it so that less well-off families might benefit more. These suggestions have never been translated into policy."*[150]

In recent decades, CIS policy has been considered by the Commission on Social Welfare (1986), the NESC (1990), the CB review group, the Working Group on the Integration of the Tax and Welfare systems (1996) and the NESC (2007). All of these reviews have accepted the continuing relevance of child income support expenditure in itself and most of the analysis and recommendations have tended to focus on the balance between universal and targeted instruments. These reports did not question the existence of the CB payment but emphasised instead the need to reform the range of selective instruments as a second tier of payments to produce better child poverty outcomes.

[149] See for instance the organisations represented by the Ending Child Poverty coalition http://www.endchildpoverty.ie/about/index.html

[150] Anthony McCashin, *Social Security in Ireland,* p. 104.

Issues around the effectiveness and efficiency of spending were discussed in greater detail in Chapter 4. From this analysis, and from the inputs to the consultation process, it seems that any commentators or stakeholders with concerns tend to point more to reform of child income support policy in its own right rather than question the continued existence of the spending itself.

9.1.4 International obligations

Ireland, in common with many other developed countries, has ratified a number of international conventions which include the provision of social security protection. These conventions require that the country of ratification provides social protection for contingencies such as unemployment or illness. Ireland is a party to ILO convention No. 102 and the similar European Code of Social Security which include certain minimum standards in relation to child and family payments. Ireland currently provides supports well in excess of those standards, and it would be important that any changes to CIS are in line with our international commitments under these conventions.

Finding 9-1: Continued justification for CIS spending

The review concludes that there is justification for the continuation of spending providing support to families with a particular focus on low-income households. In the light of strong stakeholder support and the limited availability of alternative mechanisms to achieve similar outputs, regular reviews of the policy area and international obligations, the review concludes that there is a continued justification for spending of public resources on child income support programmes.

9.2 Overall level and mix of spending

The aim of this section and the following two sections are to address the following evaluation questions: "What changes in (i) overall policy towards CIS, (ii) the mix between specific programmes, and (iii) the design and operation of specific programmes would improve the effectiveness and impact of policy and programmes in this area?" Section 9.2 addresses the first of these by considering the overall level of child income support spending while Section 9.3 addresses the implications for the design and operation of specific programmes.

Taking into account its multiple objectives, is the Government spending too much on CIS programmes, too little or just the right level? Those who argue that we are spending too little point to the fact that despite the significant increase in such supports, poverty levels are highest for children and that costs associated with raising children, particularly those associated with paid childcare, have risen rapidly during the period under review. In international terms, it is clear that overall spending on child income supports in Ireland is relatively high even when compared with those countries where better outcomes are obtained.

In the absence of a clear statement about societal and governmental preferences for the actual level of support for families with children, overall welfare could be improved despite a reduction in child income support spending in a number of circumstances.

- Firstly, the relatively low level of spending on child-related services suggests the possibility of significant returns to child welfare from targeted additional spending.
- Secondly, given that the child income support package is lower than the risk of poverty line, a higher but more selective mix of supports would address part of this gap.
- Thirdly, the low levels of employment income, particularly amongst lone parents, is an important factor behind these low household incomes and additional supports or inputs which are specifically targeted towards addressing this might have a greater impact on child welfare.

These points suggest that increased spending on cash supports under the current structure of payments may not necessarily lead to better child outcomes and impacts. In fact, if the structure of payments were changed to better address the policy trade-offs discussed in the review, better outcomes for children might be obtained through lower aggregate spending on income supports, with the savings applied to the enhancement of child-related services where budgetary constraints allow. Many of the comments made as part of the consultation process suggested that spending on income supports needs to be complemented with better services for children and through reform of the payments system.

Finding 9-2: Better outcomes unlikely from additional CIS spending

The level of spending on child income supports increased considerably over the review period and remains significant despite some recent retrenchment. A definitive conclusion on the *overall level of spending would be easier to make if there was a clear view of how much extra a child costs and a clear policy objective as to how much of this cost would be shared between families on the one hand and society at large on the other. However, on the basis of analysis in the review, it does not appear that better outcomes for children would be attained from increased spending on income supports alone. In the event that existing and future resources were diverted to child-related services or to more targeted payments within reformed CIS structures, it might be possible to maintain or even improve child outcomes with somewhat less spending. The review considers that similar or indeed better outcomes could be obtained within the current level of resources if targeted structural reform of child services is pursued.*

Within any given “spending envelope”, the question of the **appropriate mix** of universal and targeted measures is clearly crucial. Over the period of the review, the existence of tradeoffs has been reduced through a heavy reliance on universal payments. Is this approach still appropriate in current economic and fiscal circumstances, taking into account the main CIS policy objectives and other objectives such as retaining labour market incentives and addressing the cost of childcare? Would another policy mix of universal and selective approaches be more effective in securing assisting all families with dependent children and addressing child poverty, while at the same time maintaining or improving incentives to take up paid work? The analysis in Chapter 4 and in the next section suggests that the extent to which a better balance can be achieved in the current payment structure is limited. More resources could be targeted through selective instruments and reform of existing instruments on the lines discussed in Chapter 5 would facilitate this but over reliance on existing selective instruments would worsen financial disincentives and also exacerbate inconsistencies between selective instruments (notably QCIs and FIS).

Finding 9-3: Strong case for examining feasibility of structural reform of CIS policy and programmes

The review concludes that in the light of (i) the current position of the public finances, (ii) a potential shift in the balance between the two main objectives underlying this support and (iii) more general concern about the effectiveness of spending in reducing child poverty, a strong case can be made for reform of the structure of supports. This conclusion would become even stronger in the event of fewer resources being available but also applies within the existing level of resources. Nonetheless, the review remains convinced of the benefits of a mixed strategy and recognises that this places a limit on the extent to which a rebalancing can be attempted. Some of those constraints would be reduced through feasible reform of payment structures. The review recommends that overall strategy is driven by a mixed model of provision that avoids the disadvantages of earlier approaches (the employment disincentives of the mainly selective approach in the 1980s/1990s and the extensive costs of the mainly universal system in the last decade). In practice, the universal component could be less than the selective component in some years but if the value of CB is to move *considerably below the selective element, the review recommends that strong consideration be given to advancing structural reform on the lines considered in the following recommendations.*

9.3 Potential programme and structural reforms

The aim of this section is to address the evaluation questions: *"What changes in … the design and operation of specific programmes would improve the effectiveness and impact of policy and programmes in this area?"* A range of alternative approaches to achieve better effectiveness and efficiency in CIS spending can be identified. Having set out the criteria against which reforms can be assessed (9.3.1), the section reviews a number of those approaches that could combine a mixed approach (implying greater reliance on targeted instruments than heretofore) with a minimisation of the potential negative impact on work disincentives arising from a greater level of targeting. These approaches can be broadly broken down into three main categories and are summarised in Table 9-1:

- **stay within current CIS structures with possible reform of some elements (9.3.2):** This assumes that a mixed approach could be achieved largely within the existing structure of payments (CB, QCIs and FIS) by changing the relative value of each of the payments with possibly scheme level reform to improve their effectiveness and efficiency;
- **changes within the CB scheme only to achieve greater selectivity (9.3.3):** This addresses reform of the child benefit payment only through the mechanism of taxing or income-testing it;
- Integrated approaches to reform (9.3.3): This addresses three approaches to reform which are more structural in nature by seeking to integrate the current range of payments.

Table 9-1: Broad strategic approach to reforming Child Income Support payments

Categories	**Possible approaches**
Stay within current CIS structures	1. Rebalancing spending within existing or reformed programme structures
Changes within CB scheme to ensure greater selectivity	2. Making Child Benefit taxable 3. Making Child Benefit subject to an income or means test
Reform system of child income support payments	4. Introducing a refundable child tax credit 5. Replacing QCIs and FIS with a second tier income support payment 6. Integrating CIS payments with universal and selective components

9.3.1 CIS policy reform - criteria for evaluation

The aim of this section is to identify the broad criteria underlying CIS policy reform which can be used to evaluate the various approaches for reform. The starting point relates to whether reforms improve the effectiveness and efficiency with which the objectives for child income support payments are met by spending programmes. Furthermore any reforms of the system of child income supports should seek to:

- Provide a reasonable level of assistance to families with the costs of raising dependent children in a way which ensures assistance to children (e.g. visibility of the payment as a support to children)
- Secure better outcomes for child poverty
- Avoid financial disincentives to take up employment
- Contribute to the sustainability of the public finances
- Be feasible in terms of their implementation cost and effort
- Meet other considerations as appropriate e.g. meet EU regulations, avoid undue burden on customers)

9.3.2 Rebalancing within existing cis structures

Broad approach

The approach in this case would be to shift the spending mix from universal to selective broadly within the current structure. This would involve (as in recent budgets) maintaining existing structures for CIS support but rebalancing spending from CB to QCIs and FIS through either rate changes or some other mechanism. In other words, consistent with an overall level of spending on CIS, the CB payment rate would be reduced with compensating increases in QCIs (in order to maintain the value of the CIS package) and in FIS thresholds.[151] While this approach to reform might be perceived as less radical than other approaches considered below, it might include significant changes to how each of the components might work and interact with each other in order to address some of the shortcomings raised under these programmes in Chapter 5.

For instance, an overall reduction in CB payments might be considered alongside a consolidation of rates given that the “poverty tagging” role of higher payments for larger

[151] For instance an increase in the weekly QCI would raise each FIS threshold by different amounts depending on the number of children. An increase in the value of the QCI of €10 per week would increase the threshold by €14 per week for a one child family and by €72 per week for a four child family.

families is no longer necessary in a scenario where selective payments have a higher significance. With more resources assigned to selective payments, the policy arguments for higher CB payments for the third or subsequent children are weaker and a narrowing of the gap between these could be considered. Furthermore, significant changes to how the FIS system operates might also be considered within this context (such as reconsidering the level of the hours worked condition, the simultaneous payment of FIS with QCIs in certain case). Such programme level reform would have similar objectives to the more systemic reform approaches considered below (that is, more effective poverty targeting while minimising impact on employment disincentives).

A variant on this would be to reform separate aspects of each of the constituent schemes in order to improve their effectiveness and efficiency. Changes to FIS could also be considered (such as: abolition of concurrent payments as per McCarthy report; recalibration of FIS threshold to reduce the level of support to smaller families; increase the number of hours for qualification for FIS). While such reforms might improve the working of specific schemes, they are unlikely to overcome the main problem of worsening employment incentives.

Assistance with cost of child raising

The primary effect of this approach would be to reduce the level of assistance with the cost of child raising provided universally to **all** families. For low-income families, the level of support would be maintained (or increased) through other selective instruments which would continue to operate.

Reducing child poverty

This approach has the potential to shift resources to those most in need and therefore also has the potential to impact positively on child poverty.

Avoiding financial disincentives

The impact on financial disincentives would largely depend on the rebalancing of the spending mix achieved between CB and QCIs and FIS and the extent to which these latter payments can be structured so as to maintain the incentive to take up or remain in employment. However, it would be expected that this would worsen employment disincentives, as QCIs would be lost when a social welfare recipient takes up employment and would fail to address many of the structural problems with the current payments.

Impact on public finances

The impact on public finances would depend on the extent of rebalancing of the spending mix. The measures announced in Budget 2010 whereby CB rates were reduced by €16 per month but QCIs and FIS were increased by equivalent amounts led to net savings of €122 million.

Feasibility of implementation

This approach would have the advantage that it is easy to understand (simplicity) and relatively easy to administer as it would largely depend on existing administrative structures for implementation.

Other considerations

This approach would not have any implications vis-à-vis the current situation under EU social security Regulations. The payments in question would retain their current classification for the purposes of co-ordination under these Regulations. Equally, recipients of the payments would continue to identify with the separate strands to their total payment, although there is a risk that that recipients will not identify with the total package of CIS and will only identify with the reduced CB. However, this approach has the advantage of continuing the current labelling and in this respect, should not have any significant negative impact.

Finding 9-4: Some potential within current CIS system to make it more effective at meeting objectives but significant constraints exist

Recent changes in CIS spending have moved the system away from the largely universal to a mixed system. There remains some potential within the current system of income supports to make the system more effective in targeting child poverty without significantly weakening the level of assistance to all families. Some structural reforms such as abolishing the higher rate of CB and directing it to selected payments (where budgetary constraints permit) would secure somewhat better outcomes in child poverty. While a further reduction in the standard rate of CB payment coupled with increases in targeted instruments would remain in the range of a mixed system, it increases the risk that selective instruments will weaken the indirect factors (employment incentives) and direct factors (employment rates) that have contributed to the reduction in child poverty in recent years. Therefore the extent to which better outcomes can be obtained in the future with the current structure is limited. The review suggests a number of changes in the current system (Chapter 5) which might be considered as a means of improving outcomes particularly in child poverty reduction and which would not be inconsistent with more fundamental reform in order to achieve better outcomes.

9.3.3 Make CB spending more selective

Under this second heading, the review considers more structural based approaches to reform but confines them to the CB payment only.

Taxable CB

Broad description

At present CB income is not regarded as taxable income and is not therefore included in the tax base. One approach to reform of CIS which has featured in policy discussions since at least the 1970s has been to increase the value of CB payments (as an alternative to QCIs) but tax it in order to reduce the net cost to the state of doing this. In the event, the value of CB was substantially increased during the last decade but was not taxed. The non-taxation of CB has been classified by the Commission on Taxation (2009) as a tax-expenditure, the benefits of which go disproportionately to higher-income households and this has formed the basis of a recommendation by the Commission to tax CB but to introduce a child tax credit for families in the bottom half of the income distribution. The Commission did not directly address the horizontal equity argument used in the first Commission on Taxation for not taxing CB (reference from Chapter 1).

Assistance with cost of child raising

The taxation approach would still provide a level of payment to all families with children. The perception of the value of the payment would vary considerably depending on the nature of how taxation would be implemented.

Reducing child poverty

In itself, this approach would not have a significant impact on child poverty and much would depend on the extent to which resources are invested into selective instruments. This approach has the potential to target resources to those most in need only if these resources were channelled into selective spending and therefore has the potential to reduce child poverty (with the possibility of negative effects of employment incentives for both those in the tax system and those reliant on benefits – see next section).

Avoiding financial disincentives

The impact on financial disincentives would largely depend on whether reform in other areas of CIS were combined with taxation of CB without which this approach has the potential to have disincentive effects as it would add to marginal tax rates especially for second-earners. If the correct balance is not achieved there is potential to worsen employment disincentives.

Impact on public finances

This approach would have a positive impact on public finances as, while it would not reduce spending as such, it would increase tax revenue.

Feasibility of implementation

Taxation of CB would be achieved in principle either through deduction of CB through claw back on other income ("coding-in") or through deduction of tax from CB payment at source. The difficulties around taxation of CB relate to the definition of and aggregation of income which would determine the appropriate tax treatment. Another key issue is how tax would be collected i.e. at source or coding in. It is clear that taxation of CB has many difficulties associated with it.

Other considerations

This approach would not have any implications vis-à-vis the current situation under EU social security regulations. CB would retain its current classification for the purposes of co-ordination under these Regulations. However, while recipients of CIS payments may continue to identify with the separate strands to their total payment, there is a risk that they will only identify with the reduced CB thereby reducing the visibility of the payment.

Income or means testing CB payment

Broad description

Means tested payments are paid in respect of the main social risks (e.g. unemployment, disability, old age, widowhood, lone parenthood) where the means of a customer are assessed as below a certain level and where they do not have sufficient Social insurance contributions to qualify for the contributory equivalent. Some reduction in payment is made for earnings in excess of these amounts but the payment is fully withdrawn above a certain income point for all means tested benefits. The practical operation of the means test can vary for each payment but a DSP means test usually takes into account the following:

- the size and composition of the household;
- property, cash income, partner's means and others in household and other social welfare payments;
- a withdrawal rate which reduces payments over a relatively narrow income range.

Means testing would have the potential to improve the targeting of a benefit by applying a threshold for household income, withdrawing the benefit for all incomes both completely or at a certain percentage rate (a "taper") and thereby target available resources to those on low income and therefore most at risk of poverty. However, the main disadvantages arise from (a) the level of resources required to administer and ensure compliance with rules regarding means, (b) the existence of disincentives to take up or increase paid work (c) the complexity it brings to understanding of entitlements with implications for benefit take-up and poverty reduction and (d) potential stigma associated with means tested payments.

Assistance with cost of child raising

This approach would still provide a level of payment to all families with children. The extent to which it would provide assistance with the cost of child raising would depend on the design of the means test and the extent to which specific elements associated with the cost of child raising are factored into the means test.

Reducing child poverty

This approach has the potential to target resources to those most in need and in this respect has the potential to impact positively on the reduction of child poverty. In itself it would not have significant impact on child poverty and much would depend on the extent to which savings are ploughed back into selective instruments.

Avoiding financial disincentives

There is the potential for very significant disincentive effects for income earners as it would add to marginal tax rates especially for second-earners in households.

Impact on public finances

There are considerable uncertainties about the precise impact of an income or means test. The specific implications for the level of spending would depend on the various design features associated with how assessable income is defined, the threshold at which payments are reduced and the rate at which this takes place. Other important issues such as how to treat households with different numbers of children would need to be decided upon as would how to address the issue of changed income or household circumstances within the assessment period. Issues around the likelihood of establishing all relevant income and the collection of arrears and repayment of underpayments would also need to be taken into account. Furthermore it is possible that there may be ‘dynamic’ effects insofar as persons may adjust their behaviour (such as hours worked) in order to minimise the reduction in their child benefit payment.

Feasibility of implementation

There are significant administrative and cost issues in administering this option – administration of any means test is resource intensive. There are significant difficulties in collecting household income data and keeping these up to date. These issues are compounded by the scale of CB payments and the fact that many payments are in respect of children living outside the state. In many cases one parent may also be living and/or earning income outside the state. This approach also raises issues around control procedures. The introduction of an income or means test has two essential elements. The first is the availability of income or means data for all claimant households that are both accurate and relatively up to date. The second is the specification of key parameters of the means/income test that can be applied to claimant data to calculate whether the claimant is entitled to the payment and the value of that entitlement.

In relation to the first, the Steering Group noted that no income test existed within the public service which has the existing scope to assess all households with children (the CB claim load is approximately 600,000 households). Only a fraction of this number of means tests is currently conducted by DSP for its main means tested payments. The other area to consider would be income data from the Revenue Commissioners. However, as these data are gathered on a tax unit basis (or on a joint basis for most married couples) rather than household basis and as the Tax Code currently requires it to be submitted to Revenue after the end of the year in which it is earned (e.g. almost twelve months after the year end for the self-employed), further work would be needed to make it usable for the purpose of an income test. An exercise undertaken by the DSP in 2009 estimated that it could take between 300-500 staff for a means tested CB payment system. In relation to the second point, even if a single up-to-date database of households was available, the parameters (income cut-off, rate of withdrawal) would not necessarily apply or transfer across to a CB system given the different objectives behind the schemes and the need to avoid financial disincentives.

Other considerations

This approach would not have any implications vis-à-vis the current situation under EU social security Regulations. CB would retain its current classification for the purposes of co-ordination under these Regulations. However, there is a risk that while recipients of CIS payments may continue to identify with the separate strands to their total payment, they will only identify with the reduced CB. Adding a further means-tested payment to the social welfare code runs the risk of adding to the complexity of the system as a whole. The current social assistance system is often criticised as being overly complex and often results in people making poor decisions – adding another means-tested payment to this system would only serve to compound this situation, particularly for people who are in receipt of another means-tested payment.

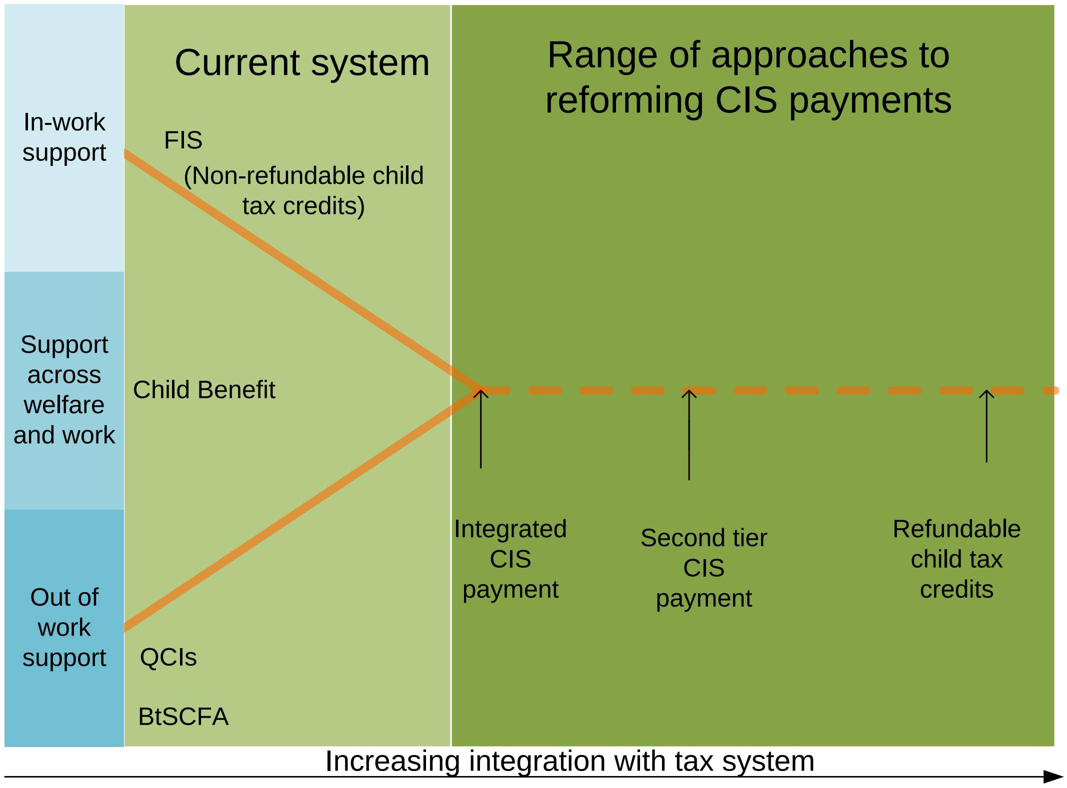
Finding 9-5: Taxation or means testing of CB could have favourable distributional consequences but it would address only one of the main CIS payments

The review considered the impact of taxation of CB (using SWITCH) and found that it could have favourable distributional consequences. On the assumption that the resources raised were ploughed back into targeted payments, overall CB resources could contribute more to *reducing child poverty while still providing assistance to all families with dependent children. However the review also notes that proposals to either tax or means/income-test CB were considered extensively during 2009 but were not proceeded with as considerable logistical and legal issues arise both of these options. Specifically, taxation of CB, means-testing or income-testing CB share common difficulties in relation to defining income, the unit of assessment and the scale of administrative effort required. Furthermore, if an income/means test was introduced for CB, it would have to be introduced as a new mechanism with very considerable administrative consequences. Most importantly, taxation or means testing of CB would only address one of the main CIS payments and have no benefit in terms of a better design of the overall system of child income supports. While recognising that the taxation of CB could potentially have positive implications for outcomes associated with the CB payment itself, the review does not recommend the taxation of CB as a means of improving the overall effectiveness and efficiency of the system of CIS payments.*

9.3.4 Integrated approaches to reform

The question of reforming the system of child income supports (as opposed to specific payments) has been raised on a number occasions. A wide range of reform designs have been identified. Given the importance of how the support is portable across welfare payments and work, one important way of considering the range of options is to examine how it provides support in and out of work and the degree of coordination required between the tax and social welfare systems for implementation. Figure 9-1 sets out the range of payments. Starting from the current system on the left we see that in general, support under the current system is provided through a combination of CB (which crosses the welfare to work divide), QCIs and BtSCFA (paid generally when out of work) and FIS (paid generally when in work). If child tax credits were provided in the tax system on the same basis as other personal credits, they would lie in this range as well.

Figure 9-1: Illustration of range of reform options and how they inter-relate



Moving to the right side of the scale, we see **Refundable Tax Credits which** rely heavily on the tax system rather than the social welfare system. These would include refundable child tax credits (RCTCs) which would be paid to households with income as tax credits and "refundable" as cash payments to households with no or insufficient taxable income. Variations of this approach would include Child Tax Credits which are paid to low-income families with children in the UK. Lying to the left of this we find the NESC secretariat proposed **second-tier CIS payment** which would provide an income tested supplement to low and middle-income families with children to replace FIS and QCIs. While remaining essentially a social welfare payment, this approach would require a considerable degree of integration with the tax system (See NESC report). Moving again to the left on the scale (towards the current system) is an approach based on providing an **Integrated Child Income Support payment.** This approach rationalises the current system of child income support payments but its operation remains largely independent of the tax system (and therefore closer conceptually to the current system of child income supports) to provide a payment with both universal and selective components to replace CB, QCIs and FIS would be considered in this context. These three approaches are considered further in the following sections.

Refundable child tax credits

Broad description

In some jurisdictions support to families is by way of a refundable tax credit. While these can vary considerably across countries in how they operate in practice, the basic idea is that a taxpayer receives a tax credit in respect of their children which may or may not be withdrawn as income rises depending on whether or not it is targeted at low and middle income taxpayers or is regarded as a universal credit for all taxpayers. The basic idea is that all families receive a tax credit for each child which can be offset against their tax liability. Most importantly, the tax credit is not "wastable", that is it would be forfeit in the event of no family income, but may be paid directly to those families that do not have a tax liability making it akin to a low-income transfer rather than a tax credit. Such systems have provided the basis behind the Earned Income Tax Credit in the US, Family Tax Benefit in Australia and Child Tax Credit in the UK. It has provided the basis for proposals of reform of child income supports by external commentators (Social Justice Ireland)[152] and issues around tax credits have been considered by a PPF working group on refundable tax credits (not published).

Assistance with cost of child raising

The extent to which this approach would assist with the cost of child raising would depend on the design of the system and whether or not specific elements associated with child raising are factored into the structure of the system. In some countries who administer tax credit systems, allowances are made for the cost of child care. For example, the UK system allows for the cost of registered or approved childcare costs within the Working Tax Credit system (akin to FIS). Australia's Family Tax Benefit also gives extra assistance for child-raising.

Reducing child poverty

A refundable tax credit has the potential to impact positively on child poverty but this is dependent on the level of the credit and the degree of targeting. On the negative side there is a risk that the visibility of the payment gets lost within the recipient's tax liability and that the money might no longer be used for the benefit of the child.

[152] Building a fairer tax system, the working poor and the cost of refundable tax credits, Social Justice Ireland Policy Research Series (Dublin, 2010).

Avoiding financial disincentives

This approach is dependent on greater integration between the tax and social welfare system and therefore has the potential to highlight existing tax disincentives and make them easier to address.

Impact on public finances

This approach has the potential to reduce net spending on child income support depending on the design of the system by making payments more targeted but the approach implies that those with high incomes would get a lower tax credit and those with low to middle incomes would get a higher tax credit.

Feasibility of implementation

This is a very significant reform and would require significant adjustments to both the social welfare and revenue systems. While feasible it would require significant development to both systems. It is also reliant on up to date data on incomes which is not available as it is not currently required by the tax system. Indeed the effective operation and administration of such a system should not be under estimated. This is particularly the case in the UK where the administrative difficulties created significant problems for low income families.

Other considerations

This approach may have implications for EU social security Regulations depending on which elements of the current CIS are incorporated into the tax credit – at present CB and FIS are classified as family benefits and are therefore exportable, whereas QCIs are not. Therefore, the issue relates to paying benefits in respect of children living abroad, but the numbers would be quite low. One other issue relating to a tax credit is the visibility of the payment. Under current arrangements recipients can clearly identify with their child related payments. In a tax credit system this is less visible – this could impact on recipients' choices in using the payment for the benefit of children.

Second-tier child income support payment

Broad description

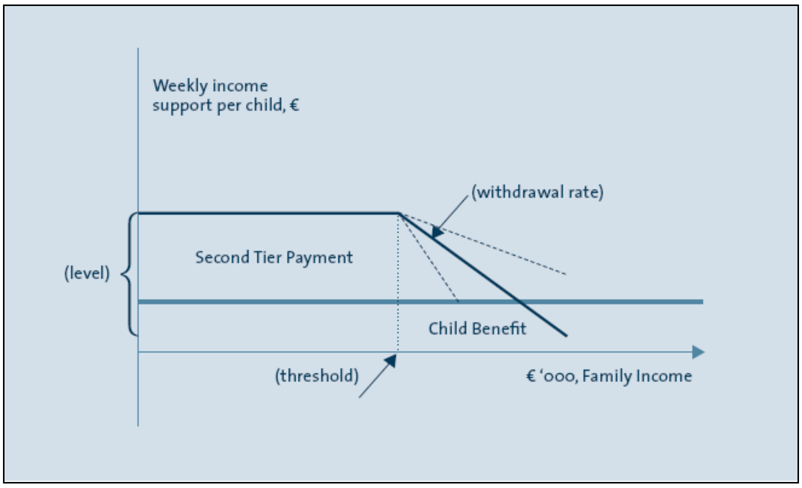
This approach to reform has been proposed on a number of occasions in the past and most recently in a research paper by the NESC secretariat.[153] The paper arose on foot of a

[153] http://www.nesc.ie/dynamic/docs/Child%20Income%20Report%20with%20cover.pdf

Government commitment in the previous partnership agreement 'Sustaining Progress' to undertake a review of child income support and in particular the possible merging of family income supplement (FIS) and qualified child increase (formerly child dependant allowance, or CDA) into a "second-tier" child income support payment which would minimise employment disincentives.

The paper identified weaknesses in current child income support measures, the main recommendation contained in the report is the abolition of current FIS and CDA payments and the introduction of a means-based, employment-neutral child income support payment. The paper proposed that the initial application would be made via the CB application form, with DSP forwarding relevant information to Revenue, who would in turn award a child income support tax credit. Where a family were unable to avail of all or part of the credit, Revenue would refer them back to DSP where, following a detailed means assessment, payment would issue directly. The approach proposed by NESC is illustrated in Figure 9-2.

Figure 9-2: Basic parameters of proposed second tier payment



Assistance with cost of child raising

The first tier of the payment would be static relative to family composition and would provide a level of income to all families and as such would be a clear and transparent view of the amount payable. The second tier, which would be based on family income, would also contribute to the cost of child raising but at high levels of income some families would not receive a supplementary payment.

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[153] *Ireland's Child Income Supports: The Case for a New Form of Targeting,* National Economic and Social Council, Research Series Paper No. 6 (Dublin, 2007).

Reducing child poverty

This approach has the potential to target resources to those most in need and in this respect has the potential to impact positively on the reduction of child poverty. In particular, the second tier would provide for targeting lower income families over middle to higher income families. NESC state that one of the primary and overriding objectives to steer the design of this approach must be to combat child income poverty in Ireland.

Avoiding financial disincentives

This approach involves the amalgamation of current QCIs and FIS into one income tested supplement. The objective would be to ensure that the second tier payment is paid to families with children where family income is below a threshold and withdrawn at higher levels of income. The withdrawal may cause some disincentives and may result in recipients altering behaviour so as to avoid reduction in the payment. This, however, may be the case for existing payments.

Impact on public finances

It is difficult to estimate the impact on public finances with certainty as much would depend on the final configuration and the final decisions around the threshold and tapering arrangements. The NESC estimate based on maintaining the existing level of CB was for an additional net spending of €775 million. Given the earlier conclusion that reform should take place within the current level of spending, it would be necessary to fund this through say a reduction in the value of the CB payment.

Feasibility of implementation

There are a number of significant issues with this approach, including difficulties in collecting household income data and keeping these up to date, setting the threshold at the appropriate amount to achieve optimum impact on child poverty. NESC state that the single most difficult challenge in administering a second-tier payment is to find a measure of family income on which to base the payment. Abolition of QCIs and FIS would also be a challenge. The approach also requires greater collaboration between DSP and Revenue and would require significant systems developments for both organisations. The design proposed by NESC and the degree of interaction between the two authorities seems cumbersome, not least for the potential recipient.

Other considerations

This approach may have implications for EU social security Regulations - at present CB and FIS are classified as family benefits, whereas QCIs are not. Issues here relate to paying benefits in respect of children living abroad – not considered to be a significant increase. The steps envisaged in this approach could lead to confusion and could be off-putting for potential recipients and impact on the take-up of benefit. The visibility of the payment would also be affected and for some recipients (i.e. those paid via Revenue) their child income support would be subsumed into their tax liability.

Integrated CIS payment with universal and selective components

Broad description

In order to operate effectively, the two previous approaches would require significantly higher levels of coordination/integration between the personal taxation and social welfare systems.[154] Progress in the direction of these payments could progressively build on the type of reforms of the current system discussed earlier. Such an approach would start within the social welfare system itself in order combine the satisfactory features of the current payment structure (integration) but change their relative levels to make the overall payment more selective and their interaction more coherent (rebalancing). The overall architecture of such a new integrated payment could feature three components:

(1) Basic Child Income Support payment: A fixed amount per child would be paid in respect of all children. The precise rate would have to be determined but it would probably be less than the current level of CB as its function would be to reflect general support to families rather than having an explicit poverty alleviation role. However, there is also a strong operational logic for such a basic payment. Essentially it would provide a "platform" scheme on which payments can then be targeted at low-income families.

(2) Child Income Support supplement (Type A): Where a member of a family is in receipt of primary social welfare payments, the current child related addition (QCI) would be replaced by a supplement to the basic CIS payment paid at the same time but signalled to the household by regular statements of what they have received. A supplement (type A) would in effect replace QCIs and be paid at a higher rate than currently in order to make up for the reduction in CB. In the past, this approach would be expected to considerably worsen employment disincentives especially for those on low-income with larger families as those leaving social welfare payments would be diminished by a number of features discussed below but particularly by the introduction of an alternative supplement type B.

(3) Child Income Support Supplement (Type B): This supplement would be paid to low-income families with children who were not in receipt of a primary social welfare payment.

[154] *Ibid.,* p. 76

For those leaving a primary social welfare payment, a notification would issue to the effect that the supplement type A will end after a transition period but the claimant is invited to apply for an alternative supplement (type B) if they are on low-income. The supplement would be at the same rate per child as CIS supplement type A up to a certain income threshold and reduced for higher income levels. This supplement would in effect replace FIS but have considerably different properties.

An overview of how the various components would link together is shown in Table 9-2. An approach on these lines would seek to combine the objectives for both the provision of support to all families with children and targeted support at social welfare dependent and low-income families using a single payment with three components. The implementation issues that would need to be addressed with this approach and how these could be achieved over time through incremental change to the current system would need to be considered further in the context of a feasibility study covering financial, technical and operational issues (see Section 9.4).

Table 9-2: Overview of rebalanced and integrated CIS payment

<table>
<tr><td rowspan="2">Replace CB with

Flat-rate Child Income Support payment per child

Paid to all families with children at a fixed rate per child but probably at lower rate than currently</td><td>Replace QCI with

Child Income Support supplement (Type A)

Supplementary payment per child to households where there is a primary social welfare payment which would be paid as a supplement to the main CIS support payment. Payment would be retained for 13 weeks after leaving primary social welfare payment (as is the case with QCIs in theory).</td></tr>
<tr><td>Replace child related component of FIS with

Child Income Support Supplement (Type B)

Supplementary payment per child to households where there is no primary social welfare payment but household is assessed as at low income. Payment would replace Type A for household after 13 weeks after application has been processed. Payment withdrawn at a certain percentage rate over the threshold.</td></tr>
<tr><td colspan="2">Note: BtSCFA could be incorporated in supplement payment but paid as additional payment at critical times for families with children (e.g. September and December)</td></tr>
</table>

Assistance with cost of child raising

The basic component of the payment would provide a level of income to all families and as such would be a clear and transparent view of the amount payable. The supplements, which would be based on receipt of a social welfare payment or family income, would also contribute to the cost of child raising but at high levels of income some families would not receive a payment.

Reducing child poverty

This approach has the potential to target resources to those most in need and in this respect has the potential to impact positively on the reduction of child poverty. In particular, the supplements linked with social welfare payments or low-income would provide for targeting lower income families over middle to higher income families.

Avoiding financial disincentives

This option may address many of the issues around moving from social welfare payment to FIS as the same level of payment would be made irrespective of whether a person was on social welfare payment or on low-income. In fact, such a payment would obviate the need for persons who moved regularly between employment and social welfare payments (e.g. casual workers) to reapply for the same level of payment. Of course as the payment was withdrawn there would be potential disincentives especially as the payment withdrawal rate would most likely interact with general taxation. Therefore, there is a requirement that the payment would be payable up to a reasonable income level and that the withdrawal rate is not too high in order to avoid financial disincentives.

Impact on public finances

The overall impact on the public finances would be complex. Provided that the incorporation of the Child Benefit payment is made at a lower basic rate than currently (perhaps moving to the bottom of a 40/60% range), there would be potential for funding a payment within current spending level or even produce overall savings. However, the precise impact would have to be modelled more precisely and the various effects teased out. Issues around the age to which these payments should be paid would need to be resolved as CB is paid to 18 years (when in full time education) whereas QCIs for long-term payments are paid to 22 years (see chapter 5).

Table 9-3: Key factors determining potential impact on public finances of integrated and rebalanced CIS payment

	Saving	**Additional spending**
CB	Universal payment reduced Consolidation of higher rate CB payments into one rate	-
QCIs	Restriction of payment for those over a certain age if it is decided to standardise the age at 16/18 years.	Higher rates to maintain 33% target. Included maintenance of payment for a period after leaving primary payment Extension of payment to those who are excluded from QCIs currently because of higher income
FIS	Elimination of Personal rate and adult rate components Elimination of bias towards smaller families	Higher take-up Inclusion of self-employed persons and other low income workers with children not receiving FIS payments

Feasibility of implementation

The detailed design and practical implementation of the income tested component would need to be thoroughly analysed and tested. Decisions in relation to the basis of the income assessment, the definitions of income, how often it should be updated and potential gainers and losers under the current arrangements would need to be identified and decided upon. Because the supplement type B would be intended to replace or partially replace the loss of supplement type A over an income range, payments (especially for small families) would be considerably less than current FIS payments raising the question of whether reform should seek to compensate for such losses even if existing gains are poorly targeted. However, in any reform process it may not be possible to compensate all those potentially affected as this may undermine the intention of the reform.

It would be necessary to consider how the loss of employment incentives arising from the loss of the main personal FIS rate and the adult dependent rate can be addressed in another way. The effect of the loss of the non-child related components of FIS would need to be decided upon and analysed for appropriate solution. What needs to be considered in this regard is how the employment related component of FIS could best be met for all working age groups such as through disregards on the primary payments or an in work benefit linked with the employment effort or a tax credit.

The replacement of QCIs on existing payments systems with Child Benefit Supplement type A might be undertaken as part of the ICT strategy where all scheme functionality is moved to the Department's new Business Object Model (BOMi) system. New scheme functionality would need to be designed particularly in relation to handling low income cases; the quality and timeliness of income data flows from Revenue would need to be addressed.

Other considerations

This approach may have implications for EU social security regulations depending on which elements of the current CIS are incorporated into the supplement – at present CB and FIS are classified as family benefits, whereas QCIs are not. Issues here relate to paying benefits in respect of children living abroad – not considered to be a significant increase.

Unlike the second-tier payment, CIS would be delivered from within the one system which would mean less confusion for potential recipients and the impact on benefit take-up would also be less. Recipients would also have one point of contact in relation to their payment and the system, although similar in many respects to the second-tier approach, is more transparent and easier to understand.

9.3.5 CIS policy reform – financial and other impacts

There are significant difficulties associated with trying to determine the financial, poverty and incentive impacts of the various approaches discussed in the previous section. These difficulties are primarily due to the range of assumptions that would need to be made in determining the parameters of the various reform options. On the other hand, some expert analysis has been conducted on the effects of taxing CB and on the introduction of a second tier child payment. The following presents a summary of this analysis.

Taxing CB: The ESRI has examined the effects of taxing CB using its microsimulation model *SWITCH*. Based on the 2009 model, the ESRI calculated that the inclusion of CB in taxable income could yield an additional €370 million in tax revenue. As would be expected, the effect of taxing CB would result in a greater reduction in the disposable income of the highest deciles compared to the lowest deciles (0.4% compared to 0.2%). With regard to the 'at risk of poverty' rate, the effect of taxing CB was found to result in an increase of 0.6

percentage points. Using the poverty gap measure, which looks at the depth of poverty, taxing CB led to an increase of 3%. [155]

Second Tier Child Payment: In its report on the case for a new form of CIS targeted payment, the NESC provided an illustrative costing for a second tier income related payment. In the scenario presented the combined value of CB and the second tier payment was €69.22, half of which was apportioned to the selective instrument. Once again, the SWITCH model was used to determine the effect of this reform. In this simulation the decile distribution was used to determine the threshold for the payment so that the lowest three income deciles received the payment in full. A withdrawal rate of 20% was set for each of the higher deciles which meant that the top three income deciles received no second tier payment at all. Based on these parameters, the SWITCH model estimated that the maximum net cost of the reform option would be €775 million, having deducted €344 million from spending on QCIs and FIS.[156]

9.3.6 CIS policy reform – broad conclusions

Having identified and discussed a number of possible approaches to reform in the previous section, the aim of this section is to answer the evaluation question *"What changes in the design and operation of specific programmes would improve the effectiveness and impact of policy and programmes in this area?"* The key requirements of such improvements were identified in previous sections and revolve around being clearer as to attaining horizontal distribution objectives, while at the same time ensuring that targeted supports can be made more effective in reducing child poverty and encouraging parental employment. As discussed in previous sections, there are a number of approaches to reform issues raised by this large spending area that are complex and the attractiveness of the various options differ considerably depending on the balance of objectives and on the time horizon being considered.

Finding 9-6: Changes to existing CIS system

In the short term, it is likely that only those changes focussing on the existing payments are feasible. In Budget 2010, there was a movement towards a mixed or largely selective system by reducing CB and compensating low-income families through QCIs and FIS in order to prevent a worsening of child poverty rates. Further reforms could rationalise features in the

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[155] T. Callan, C. Keane, J.R. Walsh, 'Tax reform; selected issues', in T. Callan et al., *Budget Perspectives 2010*, Economic and Social Research Institute (Dublin, 2009), pp 11 – 13.

[156] *Ireland's Child Income Supports: The Case for a New Form of Targeting,* pp 66 – 68.

current payment structure and a range of possibilities were discussed in Chapter 5. However, these compensating measures may not be fully effective (given for instance gap in coverage and take-up of FIS) and given the policy direction in recent years, this risks exacerbating employment disincentives which make future reductions in unemployment difficult.

Finding 9-7: Strong rationale for structural reform delivered incrementally

Given the possibility of improved outcomes and the constraints on change within the current system, it is reasonable to consider more fundamental reform. While the taxation or means/income testing of CB would result in a rebalancing in the total level of public resources devoted to families with children, it would not specifically address issues around the system of child income supports and in particular issues of transition from QCIs to FIS. There would be very considerable set-up and ongoing administrative costs in pursuing this option without any guarantee that the overall system of child income supports was more coherent and comprehensive. An approach based on reform of all child income supports as a system (whether through the refundable tax credit, second-tier payment or integrated payment discussed above) would have a number of advantages over both the current structure and the alternative of means testing or taxing child benefit. It would address horizontal and vertical redistribution objectives in a single instrument making it more visible and easier to assess if it is meeting governmental objectives. The various elements would be more transparent to families with children and inconsistencies could be better avoided. It would be easier to cross the welfare-to-work divide while minimising work disincentives requiring an income cut-off point beyond which payments would be gradually withdrawn. The main difference between these reform options is in terms of their feasibility in the medium –term. Both the refundable child tax credit and the second-tier payment could have the potential to target supports more effectively and more transparently. However, they assume that information on current household income is available more readily than is actually the case from either the current taxation or social welfare system. The integrated payment approach would build on existing payment structures to move incrementally towards a single child-related payment which has both universal and targeted components.

Table 9-4: Comparison across main strategic reform options by likely outcomes

	Assistance with cost of child raising	Reducing child poverty	Incentives	Impact on public finances	Feasibility of implementation	Other considerations
Stay within current (possibly reformed) CIS structures	Reduction in rate of CB and therefore reduction in assistance to families generally.	Potential for shifting resources to targeted instruments with first-round impact on incomes.	Potential to worsen employment disincentive for low-income workers May be partially offset by increases in FIS but would not overcome issues raised with FIS payment.	Could reduce net spending on Child Income Support while still meeting poverty objectives (assuming no negative employment effects from worsened disincentives.	Relatively straightforward depending on nature of increases in selective payments and reform (if any).	Would have no new implications for EU social security Regulations and would maintain current level of visibility.
Tax CB	Would still provide a minimum level of payment to all families with children. However the amount would in effect vary with the income of the taxable unit.	This would not of itself have a significant impact on child poverty. Main question is the extent to which resources are ploughed back into selective instruments.	Would have the potential to have disincentive effects for income earners as it would add to marginal tax rates especially for second-earners.	Positive. Would not result in a reduction in spending as such but in an increase in tax revenue.	A number of issues arise. Many of these relate to the definition of and aggregation of income tax which would determine the appropriate tax treatment. Another key issue is how tax would be collected (at source or coding in).	Would have no new implications for EU social security Regulations and would maintain current level of visibility.

Income tested CB	Would depend on design of income test – but if an income test without a full cut-off would continue to provide assistance.	This would not of itself have a significant impact on child poverty. Main question is the extent to which savings is ploughed back into selective instruments.	Would have the potential to have disincentives effects for income earners as it would add to marginal tax rates especially for second-earners. Would not address current issues around loss of QCIs/FIS qualification.	Variable. There is a trade-off in prospect. A low income threshold would secure significant savings but would have very significant administrative development and operating costs.	Very significant issues given the scale of CB payments, the difficulties in collecting household income data and keeping these up to date.	Would have no new implications for EU social security Regulations and would maintain current level of visibility.
Refundable tax credit	Would depend on the nature of changes. In effect, horizontal support would be delivered through the tax system which may reduce the visibility of the child related payment.	Would depend on level of payment and degree of targeting.	Would have the potential to direct reform to improving incentives because of greater integration between tax and benefits but final outcome would depend on nature of reform.	Would depend on nature of reform.	Very significant reform to both revenue and social welfare systems.	May have implications for EU social security Regulations. Also impacts on the visibility of the payment which may have implications on choices made by recipients in using the payment for the benefit of children.

Second-tier child income support payment	"First-tier" would provide clear and transparent view of what the appropriate amount would be.	Second-tier would provide for targeting lower-income families over lower and middle income ranges.	QCIs and FIS would be consolidated into one income tested supplement. This would need to be withdrawn over a certain income range and might cause some disincentives.	Would depend on final configuration. However an NESC estimate for one configuration (based on maintaining then existing level of CB) was for additional net spending of €775 million.	Would require replacement of FIS and QCIs with income assessed supplement. Most issues arise around how to determine and update household incomes.	May have implications for EU social security Regulations. Steps involved cumbersome. Visibility of payment adversely affected.
Integrated CIS payment implemented incrementally	Basic component would provide clear and transparent view of what the appropriate amount would be	Supplements linked either with social welfare payment or low-income would allow for targeting of resources on low-income families	May address some of the issues around moving from social welfare payments to FIS. Would still require low income supplement to be withdrawn thereby causing some disincentives	Would depend on final configuration. Rebalanced basic component (in effect lower CB) would be required to pay for higher level of supplement Type A (former QCI) and extension of supplement Type B (redesigned FIS) to groups not previously covered by FIS.	Main issue would be around how to establish income for low-income groups not in receipt of supplement Type A (former QCI). The potential exists for greater use of Revenue data than previously but would not rely on automatic revenue link with payment as with second-tier payment.	May have implications for EU social security Regulations. Process less cumbersome than second-tier approach. More transparent and easier to understand for recipients thus reducing any negative impact on take-up of benefit.

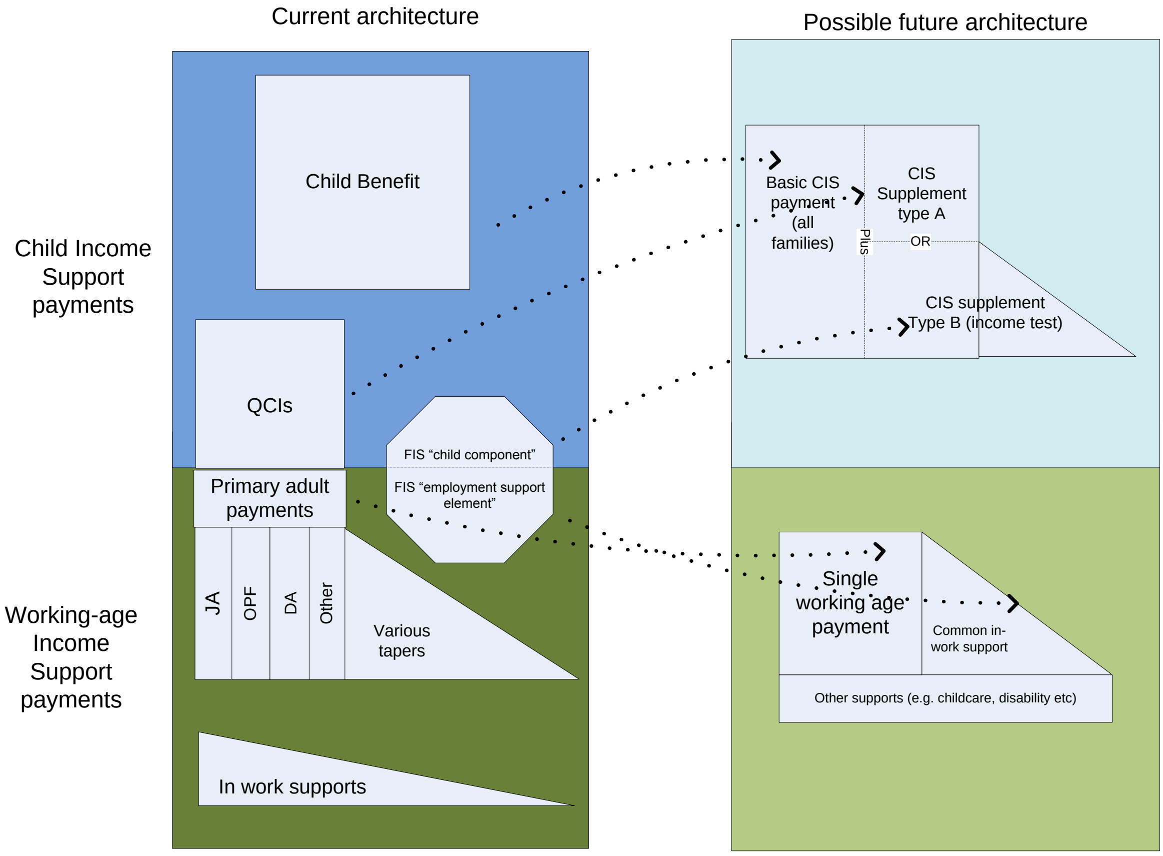
9.4 Broader context for social protection reform

Previous sections have outlined approaches to reform of child income support payments. Some are largely stand-alone but others would have significant implications beyond CIS payments, particularly for working age payments. Specifically the proposal for an integrated CIS payment would imply (i) paying QCIs through a child specific payment rather than through adult payments as at present, and (ii) refocusing FIS as a child related payment to be paid through a child-specific payment rather than through an adult payment. Reform of CIS payments would therefore have to be coordinated closely with reform of working age payments.

The DSP is examining the feasibility of a single payment for all persons of working age. Such a payment would in principle take the place of the existing range of social assistance payments (such as for unemployed persons and lone parents) with the objective of rationalising the treatment of in work income on benefit calculation and improving incentives for progression into employment by persons of working age. As a payment bridging employment incentive and child poverty objectives, the role of FIS is particularly significant.

Figure 9-3 shows one potential configuration of how reform could be coordinated. The top part of the figure shows the three main child related components (CB, QCIs and FIS) being reconfigured to an integrated child payment with universal and selective components. In keeping with the logic of the reform spelt out earlier, the CIS supplement Type B component (replacing FIS) would be based on low-income alone without having an employment condition. Were this to happen on its own, the role of FIS is providing incentives to take up employment would be lost. In the context of broader reform of working-age payments, this component of FIS (essentially the adult element) might be reconfigured in the context of a single payment as a revised means-test and/or supplement for those who take up employment.

Figure 9-3: Overview of interaction between reform of child and working-age income supports



The process of reform would have different implications for its various components and these are summarised below.

Implications for Child Benefit

- Establish CB as platform payment for new basic CIS
- Maintain value of payment at around 50% of NAP Inclusion target rate
- Rationalise value of payment for higher birth order and multiple births on the lines proposed in the report

Implications for QCIs

- Maintain value of CB plus QCIs at percentage of NAP Inclusion target rate
- Bring max age for QCIs into line with CB (18 years). Savings recycled through educational supports
- Pay QCIs as CIS supplement to monthly CB payment rather than as weekly addition to adult payments

- Decide approach in relation to half-rate QCIs (given spousal incomes) on the basis that only one supplement should be paid. Decision requires assessment as to whether supplement paid as type A or B in that instance

Implications for FIS

- Technical, operational, financial feasibility study of redesigning FIS with a child component (income related) and an in-work condition and (work condition and income related)
- Decide as to whether to pay it through single scheme or two schemes

Implications for BTSCFA

- Abolish scheme in favour of a higher rate of payment of the Child supplement in July/August

Implications for working age payments

- Reconfigure existing social assistance payments into a single payment for people of work age
- Establish the parameters of a single payment – including conditions, rates of payment, disregards and taper arrangements
- Decide whether the payment will be a basic payment with additional components to take up or remain in work

9.5 Performance indicators

The aim of this section is to identify the performance indicators that might be used to better monitor the performance of CIS policy and associated programmes. Section 9.5.1 provides an overview of the performance indicators in the context of Value for Money reviews and seeks to identify the performance indicators identified and used in the preceding chapters of this review. Section 9.5.2 considers the practical aspects of how the monitoring of ongoing policy and programme performance can be improved.

9.5.1 Performance indicators in the context of VfM reviews

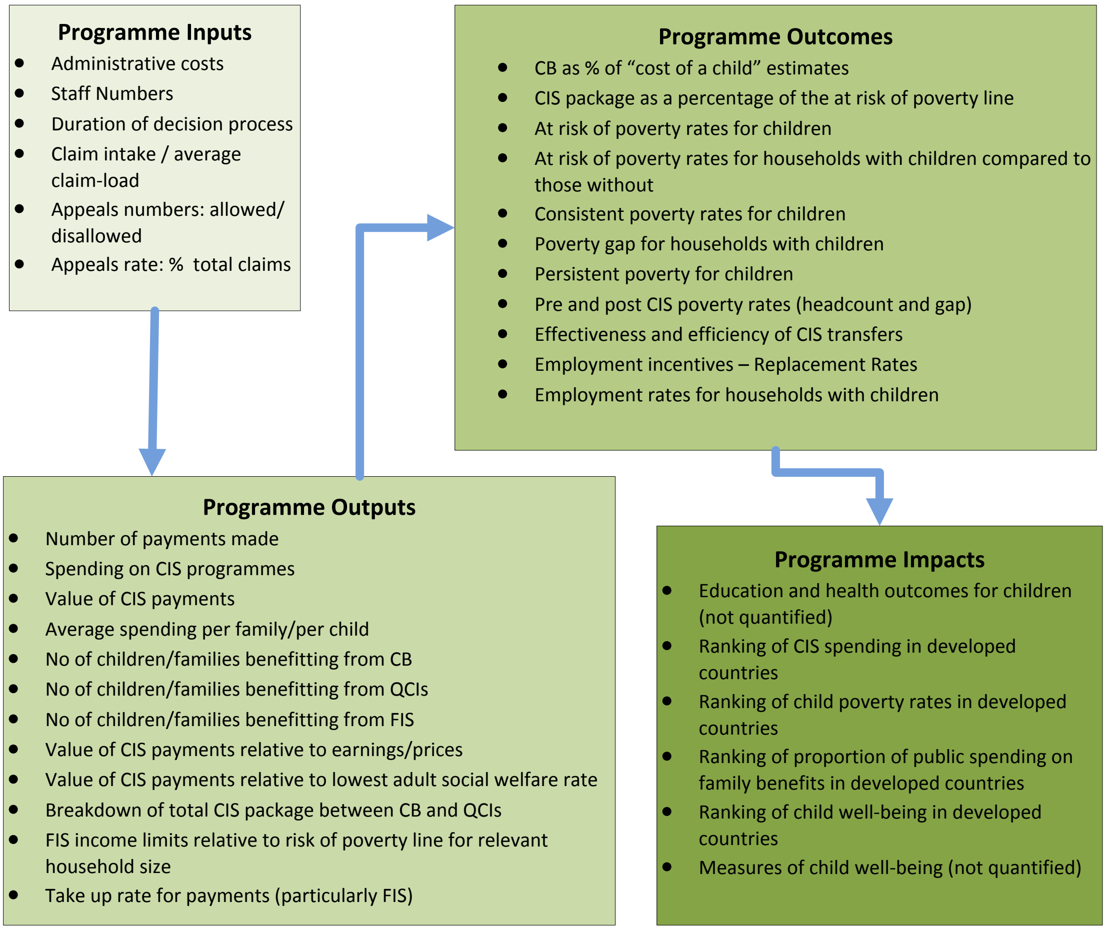
According to the VfM manual performance indicators are data points used to measure inputs, activities, outputs or outcomes. Four types of performance indicators are identified in VfM review methodology namely input, output, result and impact indicators:

- The resources used by a programme are the **inputs**, which can include the actual cost of the programme, numbers of staff and staff time.
- The programme **outputs** are the goods and services that are actually delivered, for example the number of payments made.
- **Outcome or result** indicators relate to short term effects brought about by a project/programme while
- **Impact** indicators represent the wider medium to long term effects of the programme such as the effect on economic or social indicators.

Performance indicators used in the CIS review

A range of performance indicators have been identified and used during the course of the review on CIS programme. Figure 9-4 summarises these performance indicators and disaggregates them according to the typology set out in the VfM manual. The categorisation of performance indicators according to this typology can be somewhat arbitrary as there can be an absence of clear boundaries between the different categories of performance indicators, i.e. inputs to outputs, outputs to outcomes etc. This is particularly the case where the programme logic of a spending programme, such as is the case with child income supports, is not as clearly defined as in capital programmes. There are therefore inherent difficulties in structuring performance indicators concerned with transfer payments such as child income support payments. Despite these difficulties, Figure 9-4 sets out the performance indicators following the programme logic as set out in this review.

Figure 9-4: Summary of programme indicators identified in CIS review



9.5.2 How can we better monitor ongoing policy and programme performance?

The overview of performance indicators in Figure 9-4 shows that there is a wide range of data that is currently available to monitor performance. To effectively monitor policy and programme performance need not necessarily include all of these indicators. Instead one approach that might be considered could involve ensuring congruence with the Department of Social Protection Statement of Strategy and the monitoring process that accompanies this, including the preparation of Annual Output Statements. The child related performance indicators that have been considered in the context of the preparation of the latest Statement of Strategy are set out in Table 9-5. It should be noted, however, that impact indicators are absent from this list, as appropriate benchmarks in this regard should be framed in the wider context of child well-being indicators.

Table 9-5: Child related indicators

Type	*Domain*	*Indicator*	*Source/ Periodicity*
Outcome	Provide assistance to all families with the cost of child raising	Value of (lower) Child Benefit payment rate as proportion of the estimated 'cost of a child'	Estimates are available based on the Budget Standards cost of a child (taking an acceptable basket of goods associated with children).
	Provide additional targeted assistance to low income families to reduce child poverty	Child poverty headcount rates Consistent child poverty rates Depth of poverty Adult versus child poverty rates	SILC - Annual
	Increased employment for households with children	Employment rates for households with children compared with households without children Two-adult two children Two-adult four children or more Single parents	QNHS - Quarterly
		Children living in jobless households	QNHS – Quarterly
	Control measures	Fraud and error rates Overpayment levels Savings vs. target levels	
Output	Value of payments	Value of CB payment (lower and higher)	
		Value of CB (lower) plus QCI as 33% -35% of adult rate (NAP/inclusion target)	
		Value of lower CB rate % of CB plus QCI	
		Impact of recent budget CIS transfers on (i) a no-spending scenario, and (ii) previous year scenario	SWITCH Analysis - Annual
	Coverage of payments	Numbers of households and children benefitting from CIS payments	
		Numbers of children benefiting from CIS payments as % of population	QCI's and CB as % of population aged 0-18

		Number of children benefiting from payment • CB only • CB plus QCI only • CB plus QCI plus FIS • BtSCFA	
	Impact on employment objectives	Number of interventions for families with QCI's	*To be developed*
		Duration on current claims with QCI's	*To be developed*
		Total duration on benefits with QCI's	
		Replacement rates for families with children	
		Percentage hits on COE by cohorts with QCI's	*To be developed*
Input	Efficiency of delivery	Clearances vs. target levels	Department statistics - Monthly
		Pending claims analysis Percentage awarded within timeframe	
	Control measures	Reviews vs. target levels	
	Staffing	Percentage of staff availability in month	
	Budget allocation	Spending vs. profile in month	

Development of new indicators

The review process provides scope for the recommendation of potential future performance indicators to address the presence of data gaps, which could hinder the monitoring of performance. One area that this review identifies as to where indicators are lacking is with regard to the cost of a child. Finding 4-1 of this review provides for research to be conducted into this issue and arising from this research, potential future indicators could be developed in this regard.

9.6 Overview of recommendations

This section provides an overview of the recommendation contained in the finding throughout the review. An outline of the principal recommendations can be found in the Executive Summary and are elaborated on here.

The review recommends that the objectives of child income support should be understood within the wider context of improving child well-being by allowing families to secure better outcomes for their dependent children. There are already a number of mechanisms in place to facilitate this, most notably the implementation of the national children's strategy and increased attention to child well-being indicators but greater consideration should be given to how child income support outcomes contribute to child well-being. (Finding 2-12)

In order to better understand policy development into the future, the review recommends that the Department of Social Protection should seek to ensure that estimates around the cost of a child are updated using the direct budget standards method (using an agreed minimum budget as well as higher standards) and the more indirect methods such as analysis of the household budget survey. These should allow for better understanding of the links between equivalence scales (used in the measurement of household income and poverty) and direct estimates of the cost of a child and therefore provide a better understanding of the extent to which Child Benefit provides assistance with child raising. (Finding 4-1)

There would be considerable advantages in having greater clarity around the objective to provide assistance with the cost of child-raising and the appropriate balance between universal and selective element in the overall child income support package. However, in recognition of the fact that it may be difficult to set a target given the lack of consensus about what might be regarded as reasonable level of assistance, the review considers the appropriate level of support is best reflected in a mixed system where over time universal and selective instruments are roughly equal (in the range of 40% -60%). (Finding 4-5)

In order to maximise the trade-off between poverty and incentives objectives while maintaining the overall costs of CIS programmes within reasonable bounds, a mixed approach should be maintained into the future, given the current structure of payments (CB, QCIs and FIS) and the associated discontinuities between selective instruments. A mixed approach also allows the balance between universal and selective to vary depending on prevailing fiscal conditions and the desired mix between horizontal and vertical redistribution. (Finding 4-8)

The review does not recommend changes to the automatic (16 years) and conditional (18 years) maximum age limits for Child Benefit at the present time. (Finding 5-1)

The higher CB payment should be reduced as the differential between poverty rates for different family sizes reduces and as the total Child Income Support spending package becomes more balanced between selective and universal components. If the selective elements of child income support could be reformed to reduce or minimise employment disincentives or improve employment incentives, the CB premium should be abolished on the grounds that it would no longer have a role in reducing poverty. (Finding 5-2)

The review recommends that empirical research should be undertaken to objectively establish the actual differences in costs between their families and other families of equal size. The review further recommends that such research should underpin decisions about the total size of the support for multiple births. In the meantime, the review also recommends that the balance of the support provided as between one-off and recurrent should reflect the nature of costs for parents. (Finding 5-3)

The review does not recommend the introduction of age-related CB payments at this time. Instead, it recommends that the cost of a child report be updated to assess the extent of the differential between broad age groups (pre-school, late primary school, early teenager, late teenager) to assess the implications of different payment rates on actual costs. The review recommends that in the meantime, the Department of Social Protection consider from a technical point of view whether different age-related payments could be made in respect of all child income support payments. Finally, the review recommends that if age-related supplements are to be introduced, consideration be given in the first instance to addressing the nature of costs with a similar payment (that is, one-off costs associated with one-off payment; recurrent costs with recurrent payments). (Finding 5-4)

In the current environment, it is not proposed to change the current arrangements [regarding higher rates of payment at times of the year when child-related costs are higher]. However, in the event of a decision to move to a form of integrated child income support payment, the review recommends that strong consideration be given to higher payment rates at certain times of the year, subject to budgetary constraints. Such a move could facilitate the absorption of the BtSCFA into an integrated payment. (Finding 5-5)

The review considers that there is merit in rationalising the upper age condition and that all child income support payments might eventually be aligned with the age conditions around

Child Benefit. If such an approach were to be taken the resources thus saved could be put into appropriate educational supports. (Finding 5-6)

The current rules relating to increases in respect of qualified adults and qualified children, while complex, are the result of various improvements introduced in recent years. In particular, the reform introduced in 2007 abolishing the concept of income testing for entitlement to an IQA for certain means-tested payments was specifically designed to remove disincentives to work and poverty traps. Efforts have also been made to rationalise the rates of payments across schemes. The review does not recommend any changes to this structure. However, this position would need to be reviewed in the context of an integrated CIS payment or a second tier system. (Finding 5-7)

The review recommends that, given the importance of employment as a route out of poverty, and in the event that the existing structure of child income support remains unchanged, consideration be given to improving the effectiveness of this measure [Continued payment of QCIs for 13 weeks]. (Finding 5-8)

FIS has a dual role in addressing both work incentives for adults and child poverty objectives. It is considered that a more fundamental reform of FIS would be needed to address both issues. Pending this examination, the review recommends that the employment condition be retained and that the number of hours be kept under review to ensure that it is consistent with the operation of the JA scheme and reduces the risk that 19 hours is viewed as much as a maximum as well as a minimum condition. (Finding 5-9)

The concurrent payment of FIS to some primary payment recipients and not to others reflects the conditionality assumption underlying the primary adult payment rather than the objective of reducing child poverty. This differential treatment weakens the extent to which FIS clearly and consistently addresses in-work poverty and low incomes for families with children. While the abolition of concurrent payments (as recommended in the McCarthy report) would result in a more consistent and coherent approach, FIS plays an important role in incentivising adults to take up work and can have a positive impact on work incentives by helping to meet childcare costs. The removal of concurrent payments would therefore potentially weaken the capacity of the social welfare system to reduce child poverty in the long-run. Any decisions to rationalise these aspects should take into account both income and incentive effects for low-income families with children, especially lone parents, and would be better made as part of an integrated approach incorporating adult payments. (Finding 5-10)

Since its introduction, a perception of poor take-up has dogged the effectiveness of FIS as an instrument for delivery of support to low-income families with children. Previous analysis has tended to confirm this perception, although in recent years, it is not clear whether the growth in the FIS claimload reflects better take-up or simply a larger employment pool. Recent work commissioned by the DSP suggests that the take-up problem may have improved, partially because of initiatives to improve information and make the payment more attractive. The review recommends that the issues around take-up are re-examined when the result of this new analysis becomes available. (Finding 5-11)

FIS income limits should be kept under regular review taking account of trends in earnings, social welfare rates and poverty lines. (Finding 5-12)

The review recommends that, in the interest of reducing poverty traps in the current system and also perhaps contributing to improved take-up of the payment, the reduction in the FIS withdrawal rate should be considered as a long-term objective. In order to achieve this without worsening unemployment traps, the review also recommends that mechanisms be identified to split the child income support and employment support components of FIS, which would allow a lower withdrawal rate to be applied to the child income support component. This would ensure that the loss of targeted child payments for those in employment would be more gradual. It would also allow for the gradual extension of FIS or its successor payment to households with children not currently covered with a targeted child payment, subject to budgetary resources. (Finding 5-13)

The review concludes that in the light of (i) the current position of the public finances, (ii) a potential shift in the balance between the two main objectives underlying this support and (iii) more general concern about the effectiveness of spending in reducing child poverty, a strong case can be made for reform of the structure of supports. This conclusion would become even stronger in the event of fewer resources being available but also applies within the existing level of resources. Nonetheless, the review remains convinced of the benefits of a mixed strategy and recognises that this places a limit on the extent to which a rebalancing can be attempted. Some of those constraints would be reduced through feasible reform of payment structures. The review recommends that overall strategy is driven by a mixed model of provision that avoids the disadvantages of earlier approaches (the employment disincentives of the mainly selective approach in the 1980s/1990s and the extensive costs of the mainly universal system in the last decade). In practice, the universal component could be less than the selective component in some years but if the value of CB is to move considerably below the selective element, the review recommends that strong consideration be given to advancing structural reform on the lines considered in the following recommendations. (Finding 9-3)

Recent changes in CIS spending have moved the system away from the largely universal to a mixed system. There remains some potential within the current system of income supports to make the system more effective in targeting child poverty without significantly weakening the level of assistance to all families. Some structural reforms such as abolishing the higher rate of CB and directing it to selected payments (where budgetary constraints permit) would secure somewhat better outcomes in child poverty. While a further reduction in the standard rate of CB payment coupled with increases in targeted instruments would remain in the range of a mixed system, it increases the risk that selective instruments will weaken the indirect factors (employment incentives) and direct factors (employment rates) that have contributed to the reduction in child poverty in recent years. Therefore the extent to which better outcomes can be obtained in the future with the current structure is limited. The review suggests a number of changes in the current system (Chapter 5) which might be considered as a means of improving outcomes particularly in child poverty reduction and which would not be inconsistent with more fundamental reform in order to achieve better outcomes. (Finding 9-4)

While recognising that the taxation of CB could potentially have positive implications for outcomes associated with the CB payment itself, the review does not recommend the taxation of CB as a means of improving the overall effectiveness and efficiency of the system of CIS payments. (Finding 9-5)

Given the possibility of improved outcomes and the constraints on change within the current system, it is reasonable to consider more fundamental reform. ... An approach based on reform of all child income supports as a system (whether through the refundable tax credit, second-tier payment or integrated payment discussed above) would have a number of advantages over both the current structure and the alternative of means testing or taxing child benefit. ... The main difference between these reform options is in terms of their feasibility in the medium –term. Both the refundable child tax credit and the second-tier payment could have the potential to target supports more effectively and more transparently. However, they assume that information on current household income is available more readily than is actually the case from either the current taxation or social welfare system. The integrated payment approach would build on existing payment structures to move incrementally towards a single child-related payment which has both universal and targeted components. (Finding 9-7)

9.7 Summary

Chapter 9 evaluates the degree to which the objectives warrant the allocation of public funding on a current and ongoing basis and examine the scope for alternative policy or organisational approaches to achieving these objectives on a more efficient and/or effective basis. In summary, the review concludes that there is a continued relevance for the spending of resources on child income support but that in the light of (i) the current position of the public finances, (ii) a potential shift in the balance between the two main objectives underlying this support and (iii) more general concern about the effectiveness of spending in reducing child poverty, there is a strong case of reform within the existing level of resources. This case would become even stronger in the event of fewer resources being available. The possible shape that such reform might take and the issues that might arise are considered in Section 9.2 and 9.3. The report identifies a number of broad criteria against which relevant reform alternatives might be considered namely: providing greater transparency for outcomes in horizontal redistribution objective, securing better outcomes for child poverty, avoiding work disincentives, assessing the impact on public finances and the feasibility of implementation.

Sections 9.3 outlines the strategic approaches to policy reform so as to better improve the effectiveness and efficiency of spending. The review identified a number of strategic approaches to shifting the spending mix from universal to selective approaches. These range from using the existing payment structures, albeit with some reforms to programmes to more systemic approaches to reform such as taxing or income testing CB, introducing a second-tier child income support payment, a refundable child tax credit or an incremental approach to child income support with universal and selective components. Each of these had various implications and the specific implications for the public finances, outcomes and administration would have to be carefully considered. Section 9.4 looked at reform of CIS payments in the broader context of social protection reforms, particularly for working age payments, with various implications for the range of payments concerned set out.

Section 9.5 considered how the monitoring of the performance of CIS policy and associated programmes could be improved through the identification and use of appropriate performance indicators. The range of performance indicators used in this review were identified and set out according to the typology used in the VfM process. This exercise identified a wide range of data points that could be drawn on for future monitoring and evaluation. The practical aspects of monitoring were also considered and it was determined that one approach that could be used was to align with existing structures for the monitoring of the child related elements of the DSP Statement of Strategy.