Energy Poverty

Submission to the Joint Committee on Environment and Climate Action

Contents

1. Introduction

Social Justice Ireland welcomes the opportunity to make a submission to the Joint Committee on Environment and Climate Action on energy poverty.

2. Context

There are varying estimates of the levels of energy poverty in Ireland, depending on the measurement used. The ESRI in a 2022 publication estimated an energy poverty rate of 29 per cent[1], this figure is also referenced in the Energy Poverty Action Plan[2]. A recent report from the Society of St Vincent de Paul estimates that 377,000 people are in energy poverty, using the latest CSO SILC data[3]. Regardless of the methodology, the figures are very concerning, and likely to increase due to the continued impact of rising fuel prices on inflation.

The most recent CSO Report in Inflation by Household Characteristics[4] found that the cost of energy was one of the major drivers of inflation in the year to March 2023, price changes for Electricity, Gas & Other Fuels were responsible for almost a quarter of the annual change in the Consumer Price Index (CPI). Electricity, Gas & Other Fuels was the largest contributor to the estimated inflation rate of the following groups:

- Households in the bottom income decile;
- Households renting from a local authority;
- Households renting privately;
- Rural households;
- Urban households;
- Households headed by a person over 65.

Taking a five-year reference period (March 2018-2023) the CSO found that prices for Electricity, Gas & Other Fuels, prices increased by 102.2 per cent in that period. Absorbing such a price increase has an impact on every household, however the impact is most acute for those households on the lowest incomes. The impact of inflation is greatest for those households in the bottom twenty percent (bottom quintile) of the income distribution. Given that these lower income households spend a greater proportion of their income, compared to better off households, they are more exposed to price increases; they also spend a greater proportion of their income on energy and food, two of the areas that have experienced some of the largest increases in the past five years. Reflecting the trend outlined above, a previous CSO assessment of inflation by household decile between September 2017-2022 found that households in the bottom half of the income distribution have been most exposed to cost increases, and in particular those in the bottom three deciles. As inflation persists, policy will need to further target these low income households and assist with the growing living cost challenges they face. There is a significant concentration of individuals who are unemployed, long-term ill or disabled, living alone, and single parents in the bottom two deciles of the income distribution. Targeted

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[1] https://www.esri.ie/node/9125
[2] https://www.gov.ie/en/publication/159cb-energy-poverty-action-plan/
[3] https://www.svp.ie/publications/warm-safe-connected-report/
[4] https://www.cso.ie/en/releasesandpublications/fp/fp-eihc/estimatedinflationbyhouseholdcharacteristicsmarch2023/

measures to support these welfare dependent households will be an essential part of the evolving policy response to the current experience of inflation.

The challenges that increasing energy prices place on low-income households is also reflected in the data on those in arrears in utility bills. Data from the CSO Survey on Income and Living Conditions[5] shows that one in ten households (9.9 per cent) are in arrears on a utility bill (an increase from 7 per cent in 2021) with seven per cent missing two or more payments. Worryingly one in three households living in enforced deprivation are in arrears on utility bills at 36.7 per cent, compared with 3.8 per cent of households not experiencing deprivation. The data sees a continuation of concerning trends from 2021 where 8.7 per cent of people in the lowest 20 per cent of the income distribution were in arrears on utilities twice or more in the previous year, while a further 3 per cent were in arrears once. People experiencing poverty and deprivation are more likely to have been in arrears on utilities than those who were not in 2021. Lone parents were the household type most likely to have been in arrears on utilities in 2021, with one in four having fallen behind in the previous year and 16.5 per cent being in arrears twice or more.

Looking at utility arrears by health status[6] the CSO data shows that one in five (20.5 per cent) households with a person who is severely limited in usual activities for a period of at least six months reported that there was at least one occasion in the past 12 months where they failed to pay a utility bill on time due to financial difficulties. The data shows that 4.9 per cent of households with a 'severely limited' member fell into arrears on utility bill payments on one occasion, with a further 15.6 per cent failing to make a utility bill payment by due date on two or more occasions.

The trends outlined give an indication of the impact of high energy prices and energy poverty on low-income households. Income adequacy and the energy efficiency of a property are key determinants of energy poverty. If a person or household does not have access to sufficient income to cover energy costs, or if the property in which they live has a poor energy rating then these households are more likely to be living in energy poverty.

Income adequacy and building energy efficiency must be addressed in tandem in order to reduce the number of people and households in energy poverty.

3. Income adequacy

Society itself is continuously changing and the income people need in order to maintain a basic and decent standard need to reflect current agreed standards of living. A lesson from past experiences of economic recovery and growth is that the weakest in our society get left behind unless welfare increases keep track with increases elsewhere in the economy. If issues regarding income adequacy are not addressed, then progress in reducing the numbers of people in poverty, and the numbers of people in energy poverty will not be evident. While Government have introduced a number of packages of measures, including budgetary, to mitigate the impact of rising costs, they fail to address

[5] https://www.cso.ie/en/releasesandpublications/ep/p-silced/surveyonincomeandlivingconditionssilcenforceddeprivation2022/keyfindings/

[6] https://www.cso.ie/en/releasesandpublications/ep/p-pihs/povertyindicatorsbyhealthstatus-surveyonincomeandlivingconditionssilc2022

the core issue of income adequacy, as many have been one off in nature, and others are insufficient to address the challenges that households on low incomes currently face[7].

The current cost of living and energy crisis has made the challenge of making ends meet a feature of the day-to-day life for many households across Irish society and across much of the income distribution. Households on the lowest incomes who, through good and bad economic times, struggle to live life on a low income. Budget 2023 failed to deliver for them as the necessary increase to the minimum social welfare payment was not made. Despite the welcome temporary measures to address the cost of living and energy crisis, in the long run this Budget failed households in low incomes as one-off measures fail to address income adequacy.

The Budget widened the rich/poor gap by €199 next year. The rich/poor gap monitors the income of single individuals on jobseekers' benefit ('poor') and the disposable income (after income taxation and employee social insurance) of a single PAYE worker earning €100,000 ('rich'). An annual income of €100,000 is chosen as representing very high income earners – it represents the top 6.5% of earners (180,000 earners) according to Revenue Commissioners data and is well over twice average earnings. As a result of the taxation and welfare measures adopted in Budget 2023, the rich -poor gap will increase by €3.82 per week (€199 per annum) in 2023. The cumulative rich-poor gap will stand at €979 per week (€51,066 per annum) in 2023. The gap has widened because the measures in Budget 2023 favoured those on the highest incomes.[8]

Adequate levels of social welfare are essential to addressing poverty, and energy poverty.

The current cost of living and energy crisis has made the challenge of making ends meet a feature of the day-to-day life for many households across Irish society and across much of the income distribution. Households on the lowest incomes who, through good and bad economic times, struggle to live life on a low income. *Social Justice Ireland* has consistently called for the benchmarking of core social welfare rates to 27.5 per cent of average weekly earnings, and for a system of indexation to then be introduced to ensure security and certainty for those on fixed incomes.

Just over a decade ago Budget 2007 benchmarked the minimum social welfare rate at 30 per cent of Gross Average Industrial Earnings (GAIE). This was a key achievement and one that we correctly predicted would lead to reductions in poverty rates, complementing those already achieved in earlier years.[9]

The CSO has since discontinued its *Industrial Earnings and Hours Worked* dataset and replaced it with a more comprehensive set of income statistics for a broader set of Irish employment sectors. A subsequent report for *Social Justice Ireland* found that 30 per cent of GAIE is equivalent to 27.5 per cent of the new average earnings data being collected by the CSO.[10] A figure of 27.5 per cent of

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[7] For full details see https://www.socialjustice.ie/article/time-audit-child-poverty-initiatives and https://www.socialjustice.ie/article/government-cost-living-package-fails-reach-many-most-vulnerable and https://www.socialjustice.ie/article/dealing-increased-cost-living

[8] See https://www.socialjustice.ie/publication/budget-2023-analysis

[9] See https://www.socialjustice.ie/system/files/file-uploads/2023-05/SER%202023%20Annex%203%20Income%20FINAL.pdf for full details of the benchmarking process.

[10] Collins, M.L. (2011) *Establishing a Benchmark for Ireland's Social Welfare Payments.* Paper for Social Justice Ireland. Dublin: Social Justice Ireland.

average earnings is therefore the appropriate benchmark for minimum social welfare payments and reflects a continuation of the previous benchmark using the current CSO earnings dataset.

Table 1 applies this benchmark using the latest CSO Earnings and Labour Costs data. By the end of 2022 average weekly earnings equalled €881.29. Taking this as the starting point for earnings in 2023, we can determine that the updated value of 27.5 per cent of average weekly earnings equals €242.35 implying a shortfall of almost €22.35 between the minimum social welfare rates being paid in 2023 (€220) and this threshold.

Table 1: Benchmarking Social Welfare Payments for 2023 (€)

Year	Average Weekly Earnings	27.5% of Average Weekly Earnings
2020	814.99	224.12
2021	853.08	234.60
2022	881.29	242.35
Start of 2023	881.29	242.35

Notes: Earning data from CSO Earnings and Labour Costs (February 2023).

Given the importance of this benchmark to the living standards of many in Irish society, and its relevance to anti-poverty commitments, the current deficit highlights a need for the Government, and Budget 2024, to further increase minimum social welfare rates by a minimum of €25 and commit to converging on a benchmark equivalent to 27.5 per cent of average weekly earnings and develop a pathway to index core social welfare rates to the Minimum Essential Budget Standard.

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4. Energy efficient homes

Energy is the third largest driver of our emissions in Ireland. Energy-efficient homes help reduce our carbon footprint as they require less fuel to heat. One of the most cost-effective measures to promote sustainable development is to increase building energy efficiency through retrofitting, for example. The SEAI estimate that €35 billion would be needed over the coming 35 years to make Ireland's existing housing stock 'low-carbon' by 2050. More than 50,000 home will have to be retrofitted every year to meet the targets set out in the Programme for Government. Investment in renewable energy and retrofitting on the scale required to meet our national climate ambition requires large scale investment in infrastructure. However, barriers persist to accessing grants for low income households. These are the households who are most likely to use solid fuels such as coal and peat; the very households that policy should be targeting. The upfront costs associated with accessing sustainable energy grants can act as a barrier for those on low incomes. Yet with an estimated 217,587 homes having the lowest BER ratings of F or G, it is imperative that Government support these households by redesigning these schemes to make them more accessible. While we welcomed the announcement of

[11] See https://www.socialjustice.ie/system/files/file-uploads/2023-05/SER%202023%20Annex%203%20Income%20FINAL.pdf for full details of the benchmarking process.

the National Retrofitting Programme[12] , particularly the Free Energy Upgrade for households in receipt of certain social welfare payments, we remain concerned that the upfront cost associated with the One Stop Shop Service and Individual Energy Upgrade Grants Schemes remains a barrier to many low income households. Too often subsidies are only taken up by those who can afford to make the necessary investments. These subsidies are functioning as wealth transfers to those households on higher incomes while the costs (for example, carbon taxes) are regressively socialised among all users. Incentives and tax structures must look at short and long term costs of different population segments and eliminating energy poverty and protecting people from energy poverty should be a key pillar of any Just Transition platform.

A state led national retrofitting strategy of sufficient scale is required to ensure that people living in social housing and poor quality housing have access. This would increase energy efficiency, reduce bills, improve health outcomes, and assist us in meeting our climate-related targets. Government should use the learning from the SEAI deep retrofit pilot programme, with an ambitious target to deep retrofit the entire existing housing stock in a 20 year timeframe and concurrent plans to increase capacity within the construction sector.

Government should integrate a Building Renovation Passport Scheme[13] into the National Retrofit Plan. This plan should be fully aligned with the existing BER system and existing retrofitting finance and regulatory measures. This would facilitate a step-by-step approach to retrofitting which could be more financially appealing and manageable for many households.

An upgrade of the national grid must be a key element of infrastructure investment so that communities, cooperatives, farms and individuals can produce renewable energy and sell what they do not use back into the national grid, thus becoming self-sustaining and contributing to our national targets.

As outlined earlier, many of those households experiencing energy poverty are in the rental sector, and these households do not have the possibility of availing of the schemes that are in place to retrofit and upgrade the home in which they are living in as tenants. In terms of those renting in local authority housing, Government must invest in a State programme of retrofitting to ensure these homes are fully retrofitted to the highest possible energy standard. This will not only reduce energy poverty and improve the situation of the people living in these homes, it will reduce emissions and improve the value of a State assets in the long term. This should be a priority for Government.

In terms of the private rented sector, the Warmer Homes scheme (free energy upgrades) should be expanded to include properties in the private rented sector if the tenant is receiving the Housing Assistance Payment. However, eligibility should be contingent on the landlord providing a long-term lease to the tenant. Government should also commence preparation of a tailored retrofit plan for the private rented sector with clear milestones, targets and funding. This should include new grants for deep retrofits for landlords in the private rental sector, again, on the condition that long-term leases are offered to tenants.

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[12] https://www.gov.ie/pdf/?file=https://assets.gov.ie/215252/a53faf62-c2ec-44d3-9cff-b61715a6d79f.pdf#page=null
[13] https://www.igbc.ie/wp-content/uploads/2020/09/Introducing-BRP-In-Ireland-Feasibility-Study.pdf

5. Supporting vulnerable households

Rural Households

Energy poverty is also a key challenge in rural areas. Government must target energy poverty in rural areas by setting up a dedicated retrofitting programme for households solely relying on solid fuel heating systems. This programme should include the establishment of a Community Energy Advisor Scheme to reach these households and to coordinate the entire process for these households. Government should increase SEAI resources to collaborate with organisations who work with those at risk of fuel poverty to coordinate promotion of the Warmer Homes Scheme and support uptake with wraparound services for participating households.

Vulnerable households in employment

In-work poverty

The CSO figures show that in-work poverty is 5.8 per cent, indicating more than 133,500 people in employment are living below the poverty line. Many working families on low earnings struggle to achieve a basic standard of living. Specific interventions are required to tackle the issue of the 'working-poor'. One of the most effective policy interventions would be to make tax credits refundable. Until Government makes tax credits refundable, it will not have an efficient mechanism by which it can address the issue of the working poor. By making the two main tax credits refundable Government could directly assist people on fixed incomes and people in low paid employment. If a low income worker does not earn enough to use up their full allocation of tax credits then they will not benefit from any income tax reductions introduced by government in the annual budget via increases to the PAYE or Personal tax credits. Making PAYE and Personal income tax credits refundable would be a simple solution to this problem. It would mean that the part of the tax credit that an employee did not benefit from would be "refunded" (essentially paid, at the end of the tax year) to him/her by the Revenue Commissioners.

The main beneficiaries of refundable tax credits would be low-paid employees (full-time and part-time). The benefits from introducing this policy would go directly to those on the lowest incomes and it would help address the disincentives currently associated with low-paid employment.

Almost 40 per cent of refunds would flow to people in low-income working poor households who live below the poverty line. The majority of the refunds would be worth under €2,400 per annum, or €46 per week, with the most common value being individuals receiving a refund of between €800 to €1,000 per annum, or €15 to €19 per week. Tax credits are fairer way of achieving a tax reduction than any past or present systems of allowances or reliefs and mean that (for the most part) any changes to the tax system implemented via tax credits will be felt equally by all.

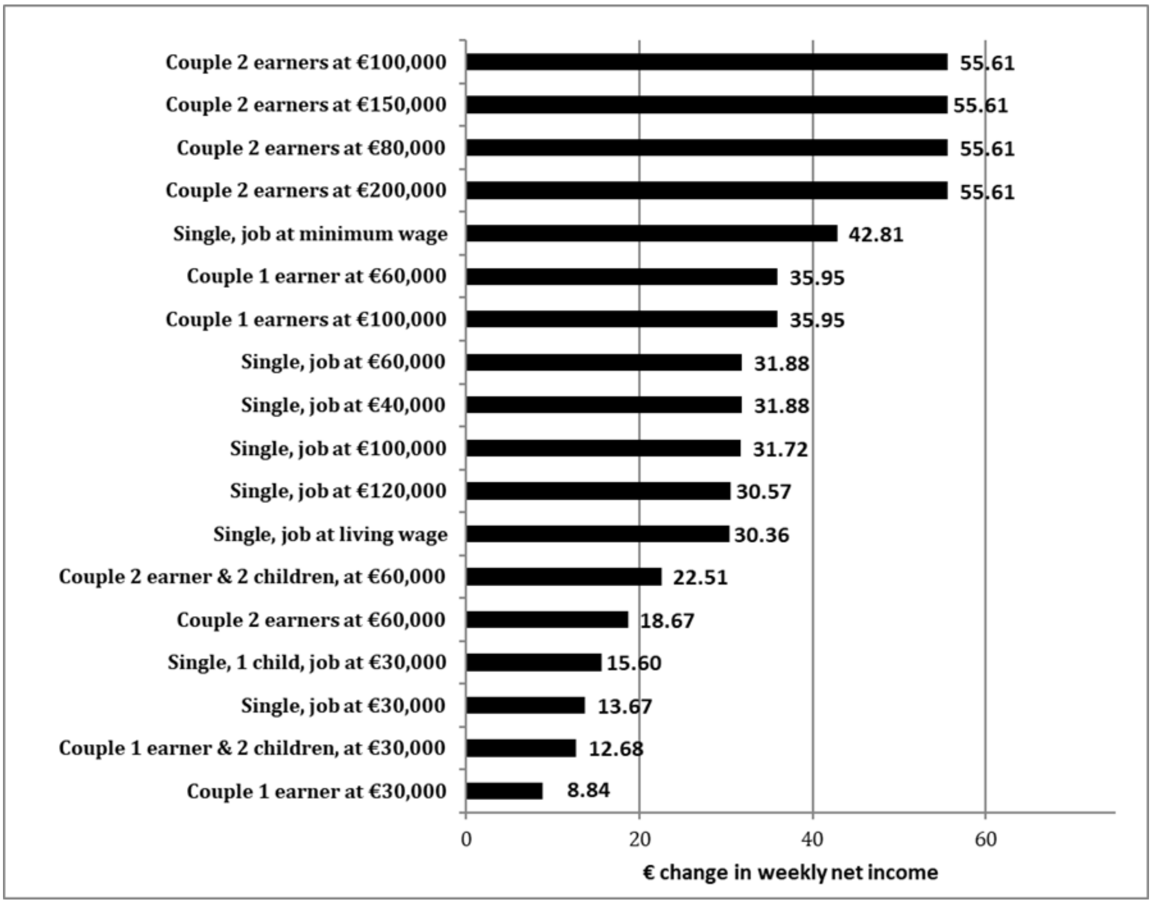
Working families

Households headed by a person in employment are also struggling. These households are above the poverty line, and often headed by a person earing between €15 and €20 per hour. These are the workers who gained the least from Budget 2023. To support these households, Government must look beyond a narrow focus on 'tax packages' and tax reductions, as many of these earners pay the majority of their tax at the standard rate and therefore do not benefit from changes to the higher income tax rate. The introduction of a Living Wage and the expansion of eligibility to key supports such as the fuel allowance and other packages are policies that will directly support these families.

Social Justice Ireland's analysis of the impact of budgetary measures on households with jobs for Budgets 2021, 2022 and 2023 shows that gains have been skewed towards earners on higher incomes. Our analysis includes workers on the minimum wage, on the living wage, workers on average earnings and earners with incomes ranging from €30,000 to €200,000. In the case of working households, the analysis is focused on PAYE earners only. Our analysis does not take account of other budgetary changes, most particularly to indirect taxes (VAT and excise), other charges (such as prescription charges and state exam fees) and property taxes. Similarly, it does not capture the impact of changes to the provision of public services or the many emergency measures that were introduced to respond to the Covid-19 emergency. As the impact of these measures differs between households it is impossible to quantify precise household impacts and include them.

Comparing 2020 to 2023 for households with jobs (see Chart 1), the weekly income gains experienced range from a €8.84 cent per week (for low-income couples on €30,000) to €55.61 per week for couples with incomes over €80,000. Earners on both the living wage and the minimum wage gain more that the value of taxation, welfare and one-off cost of living changes on account of the increase in the level of those hourly rates. The analysis highlights how low-income working families, those with incomes below the standard rate income tax threshold, gain least from the Government's measures over the past three years.

Chart 1: Cumulative Impact on Households with Jobs, 2020-2023



Source: *Social Justice Ireland* Income Distribution Model.

Notes: Minimum wage and Living wage increases reflects changes to this wage rate and its taxation.

6. Policies to alleviate energy poverty

In terms of meeting the needs of households on the lowest incomes as energy costs continue to rise Government must look at targeted measures, including a €25 increase in core social welfare payments and a commitment to benchmark social welfare payments to 27.5 per cent of average weekly earnings over a two-year period.[14]

In looking to the longer term, Government should examine what measures are available to it and what policies can be implemented to support households with the cost of energy as we move to a system powered by renewable energy and transition to a green economy and society that is carbon neutral by 2050. Government should move to implement the OECD recommendation[15] to redesign the fuel allowance, delink it from heating fuels, update and expand the eligibility criteria and provide it to eligible households during the whole year. This would provide a tool for Government to target and support rural and low income households (those impacted most by rising energy costs) in the near term and other households in the years ahead as policies to meet the targets set out in the carbon budgets are implemented.

Government should resource the Central Statistics Office to examine the issue of energy poverty and improve the data available to Government as a measure to meet the targets we have set ourselves in SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all.

7. Resourcing energy poverty policies

Ireland is highly dependent on imported fossil fuels for energy, our import dependency was 72 per cent in 2020. This runs contrary to our targets of reducing emissions, increasing renewable energy, and eliminating our dependence on fossil fuels. In 2020 renewables made up 13 per cent of final energy consumption, well short of the 2020 target of 16 per cent. In light of the current energy crisis, its impact on the cost of living and the challenges presented by the war in Ukraine, a move to renewable energy must be an immediate policy and investment priority.

The subsidising of fossil fuels by the Exchequer is an example of policy incoherence. According to the latest data published by the CSO, €2.2 billion was not collected by the Exchequer due to direct subsidies and revenue foregone due to preferential tax treatment supported fossil fuel activities in Ireland in 2020 compared to €2.8 billion in 2019 with the decrease primarily due to consumption of fossil fuels in the transport sector[16]. Direct fossil fuel subsidies accounted for 13 per cent of total fossil fuel subsidies in 2020 while indirect subsidies arising from revenue foregone due to tax abatements accounted for 87 per cent. The excise exemption for jet kerosene accounted for €234 million in 2020, a drop from €634m in 2019, attributable to COVID travel restrictions. Government must act on the recommendations of the report on the impact of aviation taxation in Ireland and abolish the Jet Kerosene exemption. In 2020, Government raised €2.8 billion in energy taxes, of this just €0.4 billion was spent on environmental subsidies related to energy and emissions, while fossil fuel subsidies were €2.2 billion. Taxation policy must be aligned with our national climate targets.

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[14] https://www.socialjustice.ie/system/files/file-uploads/2021-09/2021-09-03-budget2022benchmarkingandindexationfinal.pdf
[15] https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-ireland-2021_9ef10b4f-en
[16] https://www.cso.ie/en/releasesandpublications/ep/p-ffes/fossilfuelsubsidies2020/keyfindings/

A study by the ESRI[17] found that budgetary cost of these subsidies was over six times higher than the entire carbon tax revenue of the Government in 2017. The value of these subsidies is substantially higher than the allocation to Just Transition and biodiversity in Budget 2022. Eliminating these subsidies means that government has a wider fiscal space available in terms of climate policy. Government can alleviate adverse climate change impacts by removing these subsidies rather than levying new environmental taxes or increasing the existing environmental tax rates/levels. This is something that must be considered in budgetary terms when implementing and designing climate policy. By ending environmentally damaging tax breaks and investing this money in people, communities and regions that will be most affected by climate adaptation, Government can help to ensure a Just Transition. Subsidies are also an element of the environmental tax code that should be reviewed. These subsidies mean that government has a wider fiscal space available to it in terms of climate policy and taxation. Government can address climate challenges by removing those subsidies which are harmful rather than levying new environmental taxes or increasing the existing environmental tax rates/levels. This gives additional budgetary space for Government when implementing and designing climate policy.

Social Justice Ireland welcomes the OECD[18] recommendation to systematically screen actual or proposed subsidies and tax provision to identify those that are not justified on economic, social and environmental grounds and develop a plan to phase out fossil fuel and other environmentally harmful subsidies. In terms of overall public expenditure, systematic reviews should be carried out and published on the sustainability impacts and implications of all public subsidies and other relevant public expenditure and tax differentials. Subsidies which encourage activity that is damaging to natural, environmental and social resources should be abolished.

In terms of environmental subsidies, these must be reviewed immediately. The existence of these subsidies means that government has a wider fiscal space available to it in terms of climate policy and taxation. Government can address climate challenges by removing those subsidies which are harmful rather than levying new environmental taxes or increasing the existing environmental tax rates/levels. This gives additional budgetary space for Government when implementing and designing climate policy. By eliminating these harmful subsidies and investing in renewable energy and schemes to address energy poverty Ireland will be in a much better place to meet our energy targets. This is a policy that Government can begin to implement immediately and would be an important component of a national mitigation and transition programme.

[17] https://www.esri.ie/pubs/RS98.pdf
[18] https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-ireland-2021_9ef10b4f-en

Social Justice Ireland is an independent think-tank and justice advocacy organisation of that advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for societies as a whole.

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