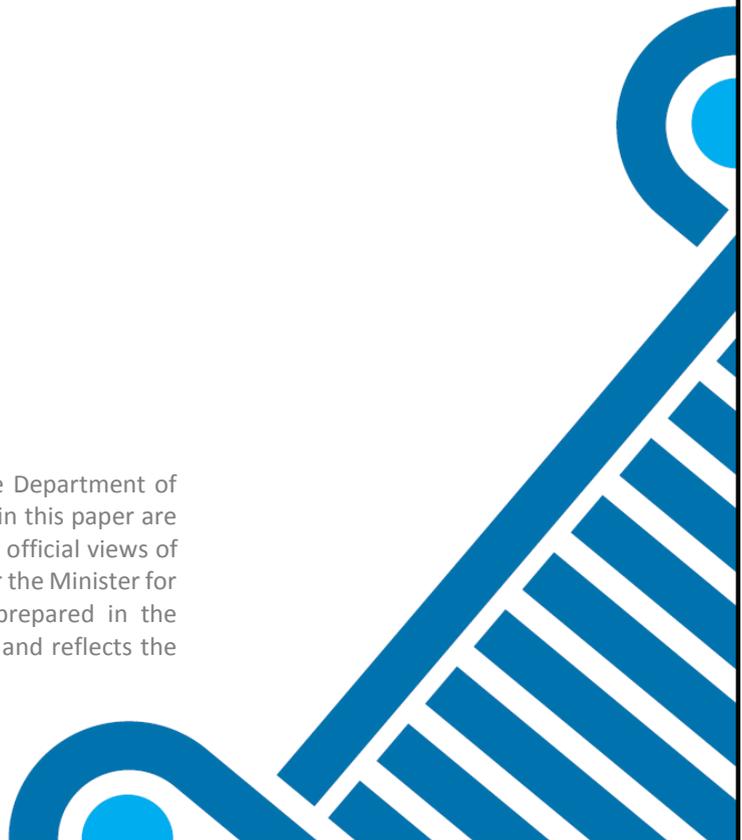# Staff Paper 2016

Social Impact Assessment Framework

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1. Introduction

Existing ex-post budgetary Social Impact Assessment ("SIA") exercises conducted by the Departments of Finance, Public Expenditure and Reform and Social Protection and externally by the ESRI use a micro-simulation (SWITCH) model to assess the impact of certain tax and welfare policy measures across different household types based on a large-scale nationally representative survey. While this model is useful in terms of analysing the impacts of certain tax and welfare measures, it is limited in scope and cannot take account of the full impact of all policy decisions across households (e.g. indirect tax measures and state funded services).

The main aim of this paper is to put forward a proposal for a SIA framework that will not only take account of the existing practices currently in place but also add to the greater body of work in this area by exploring how SIA exercises might be broadened in scope specifically with regard to incorporating expenditure on public services. By doing so it may, in the future, be possible to compare the distributional impact of changes to various types of public service spending and the implications for household outcomes.

In order to address these issues, the paper will:

- Describe the current SIA practice in Ireland;
- Identify the key factors that impact on a household outcome in order to establish what is not currently covered under the traditional SIA exercises;
- Identify the key difficulties involved in expanding the scope of SIA to incorporate expenditure on public services;
- Review the work undertaken to date around this issue;
- Put forward a proposal for a new SIA framework which will, in so far as possible, encapsulate public expenditure measures.
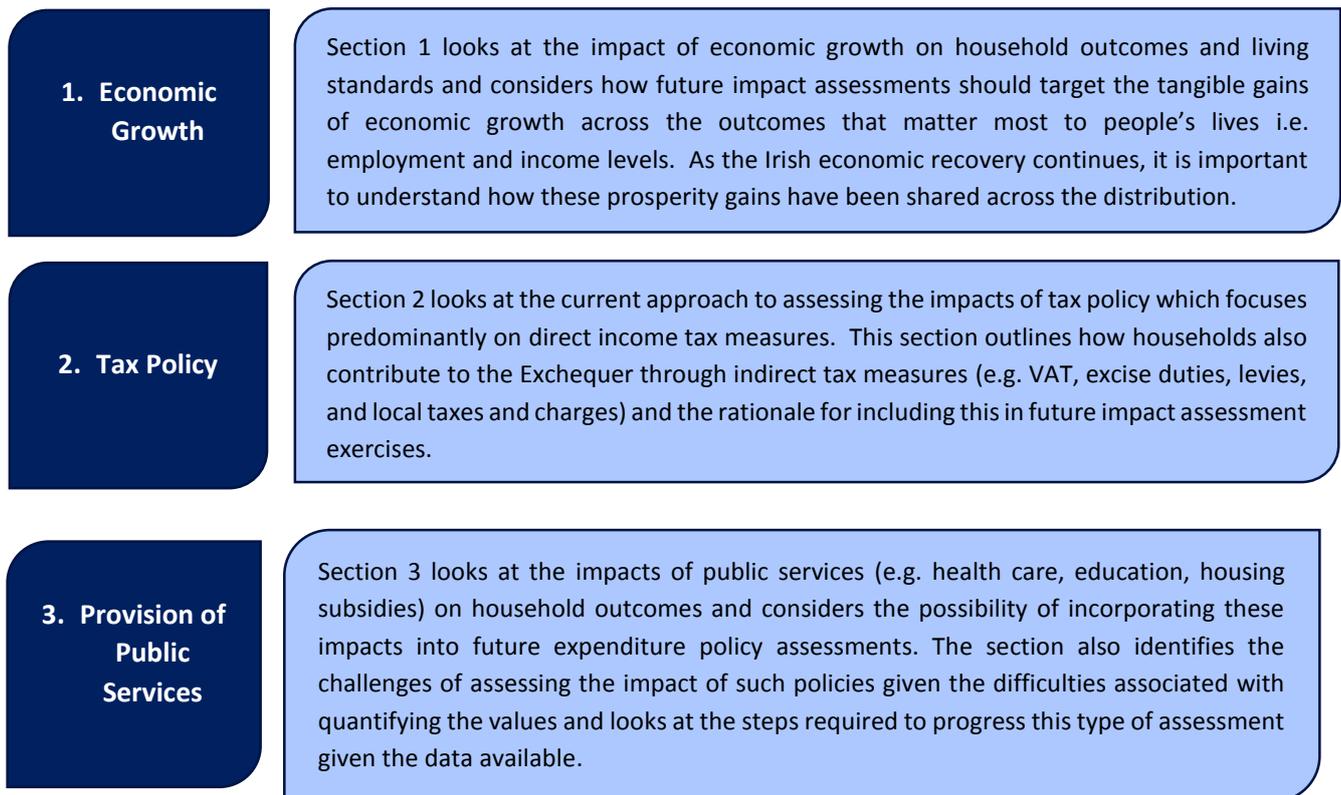
2. Background

The rationale for this piece of analysis is to develop a framework for future Social Impact Assessments ("SIA") which can be used as a reference point when examining who benefits or loses from budgetary policy decisions.

Existing ex-post budgetary impact assessment exercises conducted by the Departments of Finance, PER and Social Protection and externally by the ESRI use a micro-simulation (SWITCH) model to assess the impact of certain tax and welfare policy measures across different household types based on a large-scale nationally representative survey. While this model is useful in terms of analysing certain tax and welfare measures, it is limited in scope and cannot take account of the full impact of all policy decisions across households (e.g. indirect tax measures and state funded services).

However, in order to comprehensively assess how budgetary policies impact on household living standards, it is necessary to explore a range of factors that influence the outcome outside of the traditional income tax and welfare assessments, most notably through indirect taxes and expenditure on public services. Given the present limitations of micro-simulation with regard to measuring the impacts of certain tax and public expenditure measures, it is worth considering alternative complementary approaches to conducting impact assessment exercises. This will allow for the development of a more comprehensive understanding of the various factors impacting household outcomes.

This paper identifies three key areas which impact on household outcomes and living standards (see Figure 1 below).

Figure 1: Factors Affecting Household Living Standards

1. Economic Growth	Section 1 looks at the impact of economic growth on household outcomes and living standards and considers how future impact assessments should target the tangible gains of economic growth across the outcomes that matter most to people's lives i.e. employment and income levels. As the Irish economic recovery continues, it is important to understand how these prosperity gains have been shared across the distribution.
2. Tax Policy	Section 2 looks at the current approach to assessing the impacts of tax policy which focuses predominantly on direct income tax measures. This section outlines how households also contribute to the Exchequer through indirect tax measures (e.g. VAT, excise duties, levies, and local taxes and charges) and the rationale for including this in future impact assessment exercises.
3. Provision of Public Services	Section 3 looks at the impacts of public services (e.g. health care, education, housing subsidies) on household outcomes and considers the possibility of incorporating these impacts into future expenditure policy assessments. The section also identifies the challenges of assessing the impact of such policies given the difficulties associated with quantifying the values and looks at the steps required to progress this type of assessment given the data available.

This paper proposes that the SIA Framework should include an IGEES SIA series of papers for publication throughout the year. For the purpose of this framework SIA is defined as an evidence-based methodology which attempts to assess the impact of policy on households' financial positions. In this way the series will aim to support future policy formulation and analysis by providing Government with evidence-based policy advice. The assessment can be quantitative, measuring the change in incomes as a result of policy or qualitative, offering a description of how policies affect households' financial positions. Within the proposed framework, households may be broken down into different groups based on income, economic status, household composition (e.g. children), and age.

These papers will focus on policy areas that cannot easily be incorporated into the SWITCH model currently used by the Departments of Finance and Social Protection. In this regard, the papers will largely focus on the impacts of public expenditure on recipients. There is currently no standard methodology or model which can be used to assess the impacts of changes in public expenditure policies across various groups in society. Any change in spending on public services will typically have no direct cash impact on households however, the welfare of the household may be affected. The size of the impact will be dependent on, amongst other things, how much a household values a particular service and how much of that service they actually use.

As the first step in this iterative process, it is intended to undertake point-in-time exercises examining current expenditure in certain policy areas in order to establish a baseline position and identify those who are affected by public expenditure in a given policy area. This baseline position should identify the level of spend in a given policy area, the key drivers of expenditure and will aim to generate a profile of those impacted by the expenditure. This should facilitate the analysis in future years of the impacts of budgetary policy changes in those areas. It is intended that the first of these baseline position papers will be published at the time of Budget 2017.

The Programme for Government published in May 2016 set out a commitment to developing a process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights. The proposed SIA Framework is the first step in progressing this process. Depending on the available data, the impacts of expenditure in certain policy areas may also be examined with regard to certain group characteristics e.g. age, gender, and regional spread. In the future, the aim will be to expand the assessment, in so far as is possible within the available data constraints, to encapsulate the impact of a particular policy measure on other identified groups.

3. Economic Growth

Economic growth plays an important role in determining household outcomes and living standards. It is important to consider the tangible gains of economic growth across a range of outcomes for households, including but not limited to, its impact on employment opportunities and income levels.

In recent years the Irish economy has started to recover and is demonstrating robust growth. In 2015, GDP growth of 7.8 per cent was achieved with growth of 4.3 per cent forecast for 2016. Job creation also continued in 2015 with employment growth of 2.2 per cent year-on-year in the first quarter of 2015. More full-time jobs are now being created and the number of people reporting as underemployed has fallen. Employee compensation rose by 5.5 per cent in 2014 (3.8 per cent per employee), reflecting a rise in full-time employment and higher working hours.

While these economic improvements are welcomed, from a policy-making perspective it is important to consider how these gains in prosperity are shared across the income distributions.

Employment Opportunities

Productive jobs are the most important determinant of living standards around the world. Better employment opportunities allow households to increase their consumption and reduce its variability.

While Ireland's labour market has shown significant improvements recently, unemployment and long-term unemployment is still a serious problem to be addressed. Figure 2 shows the trend in unemployment and long-term unemployment since 2004.

Figure 2: Unemployment Trends 2004 – 2015
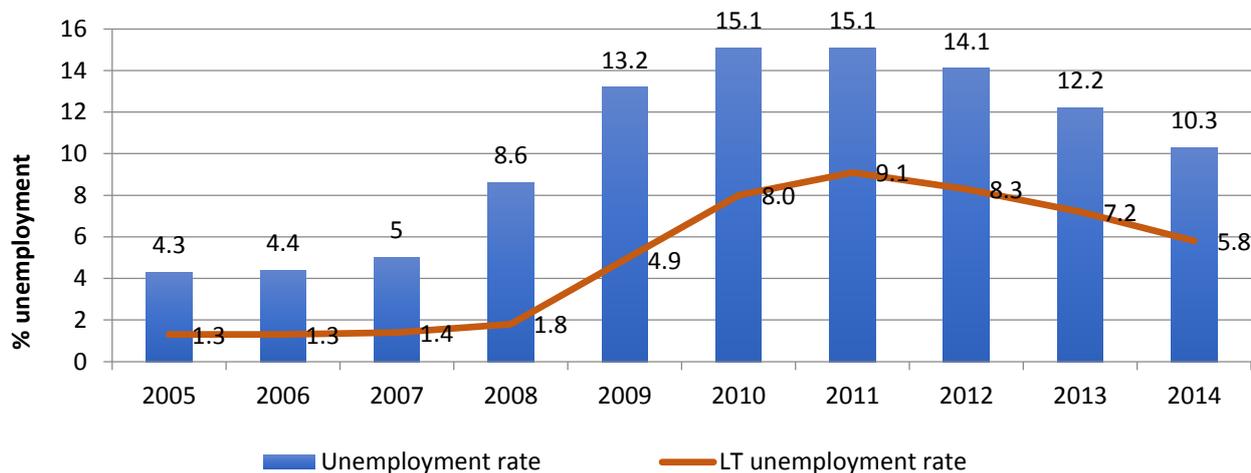
Source: CSO, Quarterly National Household Survey

Labour Activation

In recent years, Ireland has introduced a number of labour market training and activation measures aimed at reducing the unemployment rate and getting long-term unemployed people back to work.

In order to ensure that the interventions are appropriately targeted and that consideration is given to the possible complementarities or trade-offs between the pursuit of economic growth and redistribution strategies, ongoing evaluation and assessments of the programmes are required. Training and employment opportunities presented to participants should be appropriately targeted with the intention to secure sustainable jobs over the long-term. These schemes should help individuals ensure that they do not find themselves trapped in a cycle of prolonged periods of unemployment interspersed with temporary periods of employment.

As part of the Pathways to Work programme, the Department of Social Protection is committed to undertaking a number of counterfactual impact evaluations of its range of labour market programmes in 2016. The first of these evaluations was published in November 2015 - an evaluation of the impact of participation on an education/training programme under the Back to Education Allowance ("BTEA") scheme undertaken by the ESRI. The evidence from this report raised concerns about the effectiveness of the BTEA in assisting jobseekers

to transition from unemployment to employment[1]. In response to these findings, the Department of Social Protection is currently specifying a qualitative evaluation of the scheme which will form part of the 2016 evaluation timetable.

Other evaluations to be conducted in 2016 include:

- Intreo Process Reforms
- JobBridge
- Back to Work Enterprise Allowance
- Community Employment
- TÚS
- Gateway

The outcomes of these evaluations should help to inform future policy regarding how best to target funding for labour market activation schemes. The evaluations should show the impacts of the range of labour market programmes for the targeted groups in terms of employment opportunities and outcomes and the effectiveness of these schemes with regard to securing sustainable employment outcomes for participants.

As the economic recovery continues activation schemes play an important role in supporting those who have the capacity and the desire to work to participate in the labour market. Job creation is not sufficient of itself to generate full employment. Even at the peak of the Irish boom, about 150,000 people were in receipt of Jobseeker payments and a further 200,000 working-age people were in receipt of other welfare payments such as the one-parent family allowance and disability payments[2]. Ongoing evaluations of these schemes are therefore important in order to assess the additionality of Government spending in this area.

Income Inequality

As the economic recovery continues and as the numbers in employment begin to improve, issues relating to household living standards, and the distribution of earnings and income become key areas for consideration.

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[1] The ESRI findings represent a purely empirical exercise aimed at producing a counterfactual estimate of the BTEA programme. The evaluation does not contain any qualitative information regarding the individual experiences or processes. It also does not assess the quality of the employment outcomes for BTEA participants who found employment on completion of their course. Further analysis is therefore required in order to identify what is driving the negative results on the BTEA scheme's effectiveness as an activation programme.

[2] Department of Social Protection. (2016). *Pathways to Work 2016-2020.* Dublin

Figure 3: Composition of Income by Decile (2013)
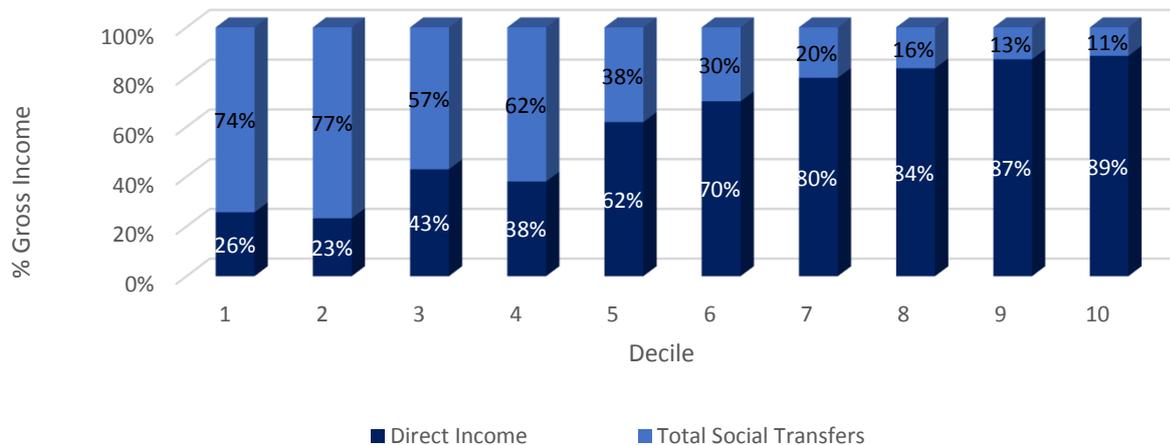
Source: CSO, Survey on Income and Living Conditions

Figure 3 shows the composition of total income by decile. For the bottom two deciles, it can be seen that social transfers make up approximately three-quarters of total income. 75 per cent of these social transfers relate to unemployment benefits and family/ children related allowances. For the top two deciles social transfers comprise just over 10 per cent of total income with old age related payments and occupational pension payments making up 65 per cent of these transfers.

Direct Income Distribution

Collins (2015) examined the overall shape of the earnings distribution across the state and in particular sought greater clarity around the nature of low-pay in Ireland using 2013 micro-data from the CSO's Survey on Income and Living Conditions ("SILC") dataset.

In 2013 the median market income (representing the income of the middle earner in the direct income distribution) was €23,701. In the same year the mean market income was €32,042.

Figure 4 shows the distribution of direct income[3] across different income levels, grouped in €10,000 income bands. The graph highlights the trend towards labour income inequality. Based on the 2013 data, it can be seen that one-quarter of all people with a direct income receive less than €10,000. Over 55 per cent of people with a direct income earn between €10,000 and €50,000 while 13 per cent of people with direct incomes earn over €60,000.

Collins' paper references a growing body of international research which suggests that the pattern observed in Figure 4 can be partly explained by the segmentation and polarisation of the labour market by skill-level. He notes that this long-term underlying shift towards the hollowing out of middle-paying jobs can be

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[3] Direct income captures the market income received by employees, the profits of the self-employed and other "unearned" income including rental income, private pension income, investment income and interest income.

attributed to a number of factors including advancements in technology which tend to benefit higher-skilled workers more than others.

Figure 4: Ireland's Direct Income Distribution, 2013
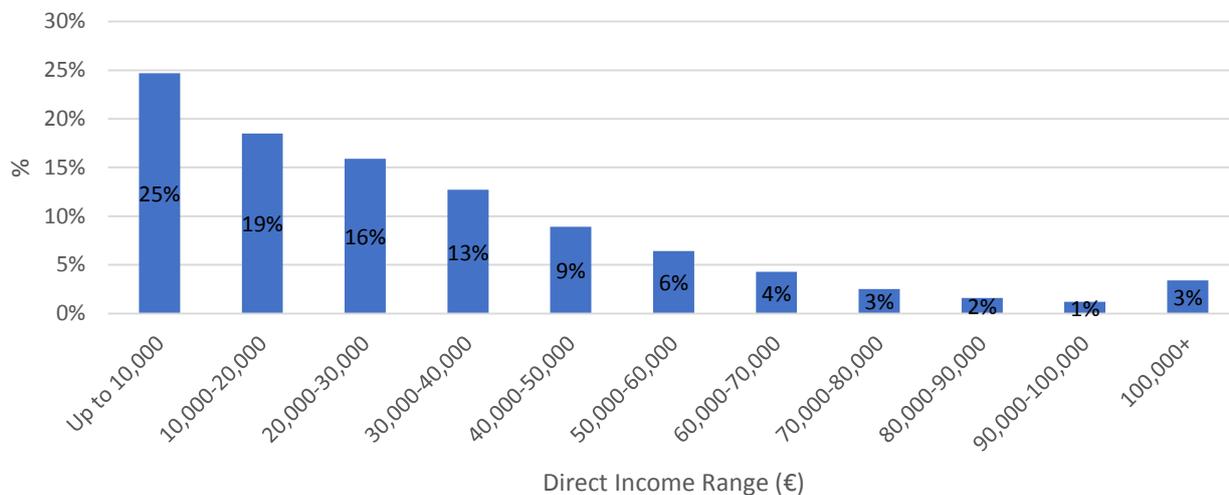
Source: Collins, M. "Earnings and Low Pay in the Republic of Ireland: A Profile and Some Policy Issues". NERI Working Paper, 2015/29.
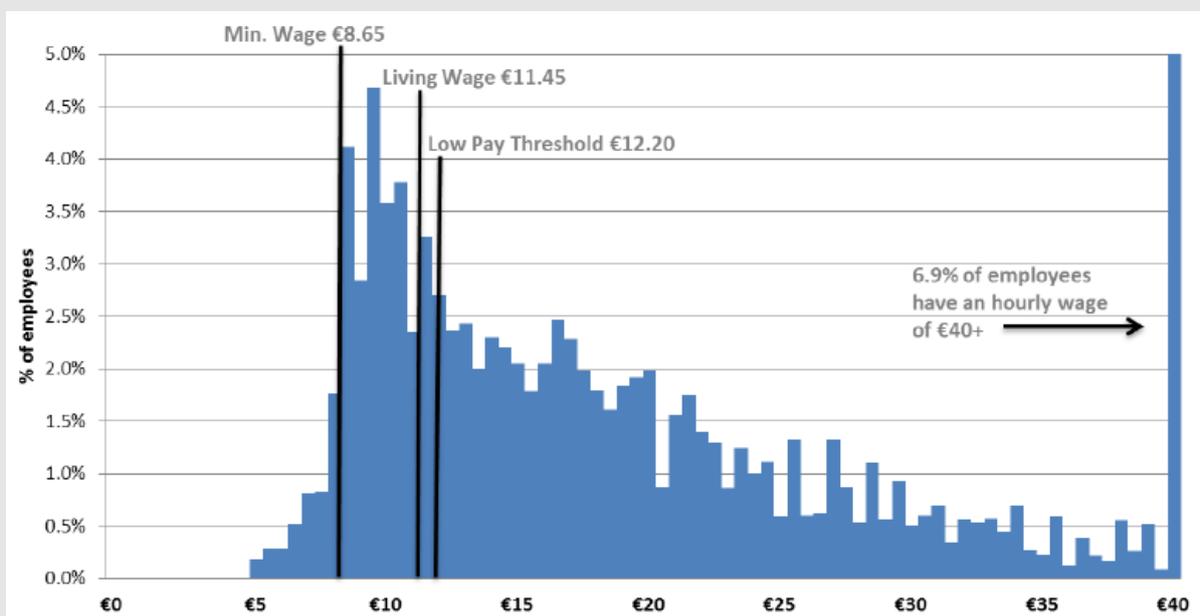

Box 1: Minimum Wage

A lot of attention has recently been focussed on the benefits associated with increasing the statutory minimum wage. International evidence suggests that a relatively high minimum wage narrows the distribution of labour income and that moderate increases in national minimum wage levels are unlikely to have significantly adverse effects on employment[4].

In the Department of Social Protection's most recent SIA of the welfare and income tax measures in Budget 2016, it was found that an increase in the minimum wage had the biggest beneficial impact on households in the 4th quintile. This finding is somewhat at odds with conventional thinking around this issue. However, there are a number of reasons why this might be the case. Firstly, the proportion of the labour force earning the minimum wage is just 5.5 per cent, a relatively small cohort for analysis. Secondly, there are many more people working in households higher up the income distribution and therefore these households include a larger number of people working for minimum wage. Many of those on the minimum wage include students and young adults who may be working in part-time employment and living with others who earn substantially more than the minimum wage thus pushing up the total household income.

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4 Low Pay Commission. (2015). *"Recommendations for the National Minimum Wage".*

Collins (2015)[5] seems to take account of this when profiling the hourly earnings distribution and includes markers for three earnings thresholds. The first threshold is the minimum wage (€8.65 per hour in 2013); the second threshold is the living wage (€11.45 per hour) as established by the Living Wage Technical Group in 2014; and the third is the low pay threshold (€12.20 per hour in 2010) produced by Eurostat and calculated as two-thirds of the median hourly earnings. Collins uses SILC hourly data to estimate and update of the Eurostat threshold in 2013 prices and estimates it to be €11.45 per hour, in line with the Living Wage estimate.

Figure 5: Distribution of Hourly Earnings and Selected Pay Thresholds, 2013

Source: Collins, M. "A Profile of Those on The Minimum Wage". NERI Working Paper, 2015/27

The graph shows that 25.6 per cent of employees have an hourly wage rate of less than €11.45 and when this threshold is extended to the Eurostat low-paid threshold 30.3 per cent of employees lie beneath the €12.20 per hour line.

These thresholds provide much greater insight into the distribution of earnings and the inequality of income. It suggests that rather than focussing on the changes to the minimum wage, more attention should be paid to the number of employees categorised as "low-paid" and seek to identify where these sit on the distribution.

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[5] Collins, M. "A Profile of Those on The Minimum Wage". *NERI Working Paper, 2015/27*. Dublin, The Nevin Economic Research Institute.

This paper identifies household employment opportunities and income levels as two of the key tangible gains from economic growth that should be assessed. However, assessing how the prosperity gains from economic growth are shared across the income distribution is a very broad and difficult exercise. A number of tools and metrics exist that can be used to inform assessments of the impact of economic growth. For example:

- The SWITCH model allows for the redistribution of income to be assessed through impact analysis of changes to tax and social welfare policies.
- The at-risk-of-poverty rate and the Gini co-efficient can also be used to gauge the level of inequality across households and how they evolve over time.
- Statistical analysis of labour market data, such as job creation and labour market activation supports, can assist efforts to assess who is benefitting from job creation and state investment in employment supports to help people on the Live Register back to work.

4. Tax Policy

Direct and indirect tax contributions have significant implications for household spending and outcomes. Apart from direct contributions from earnings through income tax, households also contribute to the Exchequer through indirect tax measures e.g. VAT, excise duties, levies, and local taxes and charges.

Box 2: Distribution of Total Tax Revenue in 2015

- ❖ *Total tax revenue (incl. PRSI) was €53.9bn at end 2015.*

- ❖ *Income tax (including USC) makes up 34% of total tax revenue.*

- ❖ *VAT and excise duties contribute a further 32%.*

- ❖ *Focussing impact assessments solely on direct income tax provides a limited picture.*

- ❖ *It is important to identify who are the main contributors to the other tax categories and what proportion of their gross income these tax expenses represent.*

Source: Department of Finance.

- Income Tax
- VAT
- Excise
- Corporation Tax
- Stamp Duties
- PRSI
- Other
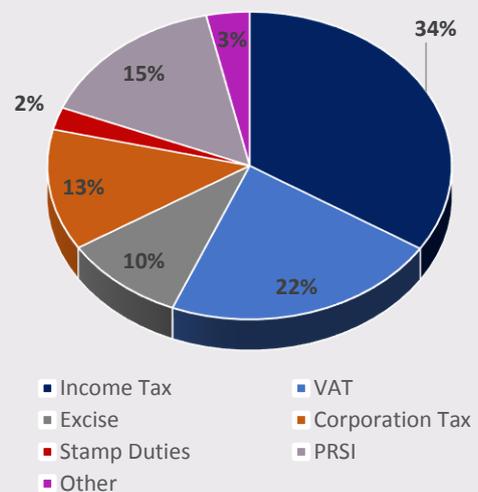
Who pays what?

Using data from the CSO 2009-2010 Household Budget Survey ("HBS"), the NERI Institute published a paper estimating the direct and indirect taxation contributions of Irish households. Figure 5 shows the breakdown of tax paid by each decile as a proportion of gross income (Micheál L. Collins, 2014).

Figure 5: Direct, Indirect and Total Household Taxation as % Gross Income
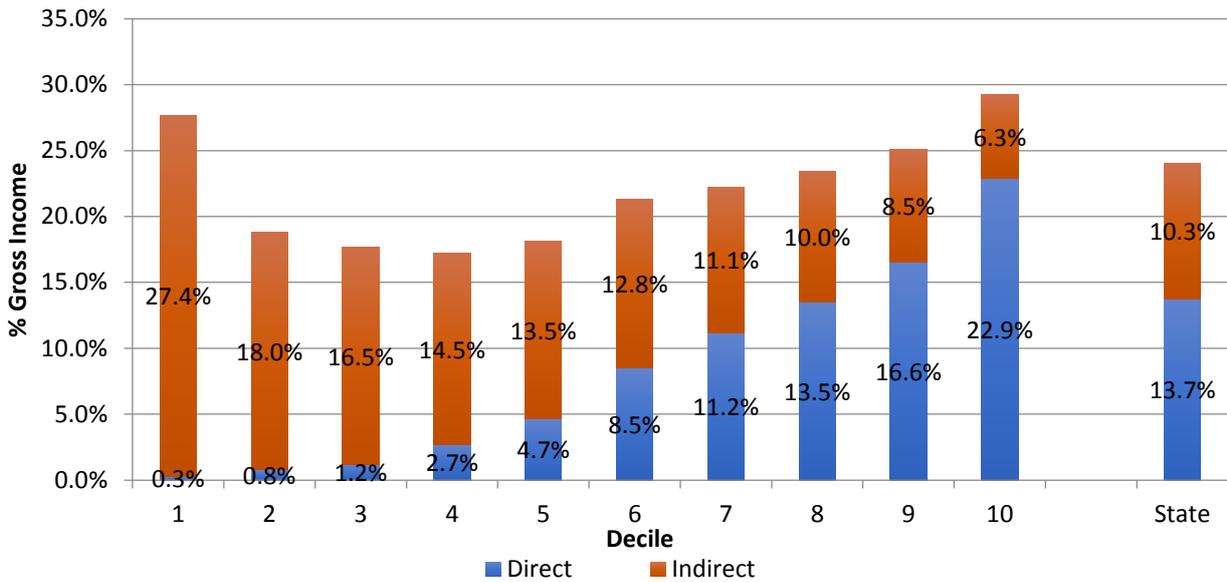
The graph shows that across the income distribution, three deciles contribute taxation to the Exchequer at above the average level – the top two deciles and the bottom decile. This gives a U-shape to the overall household tax contribution curve indicating that households at the bottom and the top of the income distribution contribute the most to total tax revenues.

This perspective indicates that assessing tax contributions by income taxes alone offers a somewhat limited and incomplete picture of the distribution of tax contributions across society. Changes to indirect taxes (i.e consumption and excise duties) will have more significant impacts on households in lower deciles as these taxes constitute a larger proportion of their income (although, as noted in Section 6, the appropriate base for assessment of indirect taxes is household expenditure). Assessments of both direct and indirect taxes are therefore desirable in order to understand the regressive or progressive nature of tax policies.

5. Provision of Public Services

Aside from direct income and social welfare transfers, household living standards are also affected by the cost of living and the level of goods and services publically provided and available to them.

In 2013, Ireland was the 3rd most expensive location in the euro area for consumer goods and services. Irish price levels were 16.8 per cent above the euro area average. Prices were above the euro area averages for 10 out of 12 categories of goods and services. Areas where costs are particularly high include health insurance costs, education costs, house prices and other miscellaneous items.[6]

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[6] National Competitiveness Council, Cost of Doing Business in Ireland 2015.

While decisions regarding public spending on services typically have no direct cash impact on households, they represent a benefit in kind to households and will affect their welfare.   However, the impact of public service spending decisions is substantially harder to evaluate than decisions that relate to taxation or the payment of cash benefits. The size of the impact will depend on, among other things, what households are using the service and what is the value of the service to them.

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Box 3: Composition of Gross Voted Expenditure

❖ *Spending on Social Protection, Health and Education make up over 80% of all expenditure.*

❖ *While Social Housing and Transport constitute relatively small proportions of total government expenditure, these are public services that can have significant impacts on household outcomes and living standards and therefore worth including in budgetary impact assessments.*

Pie chart values: 38%, 14%, 1%, 4%, 17%, 26%

Legend: ■ Social Protection   ■ Health   ■ Education   ■ Justice   ■ Transport   ■ Other
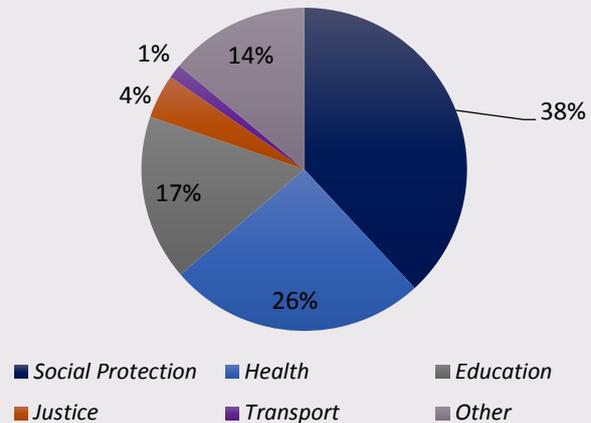
Source: Expenditure Report 2016.

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How to Measure the Impact of Public Expenditure - Previous Work Undertaken in this Area

(1) UK Office of National Statistics ("ONS")

The UK Office of National Statistics ("ONS") estimate the value of the benefits in kind received by households from the State by assuming the value to be equal to the cost of the provision incurred by the State. While there are caveats to using this approach, it is one of the few practical approaches to measuring the benefits associated with public spending policies.

The UK analysis identifies six categories of expenditure for assessment: education, health, housing subsidies, rail and bus travel, and school meals.

(i) Education

The ONS use a comprehensive dataset to review the breakdown of the cost of education by pupil by category (i.e. primary/ secondary/ post-secondary/ special needs/ higher level). Furthermore, data from the Living Costs and Food Survey (LCF) enables the benefits to be attributed to households depending on the numbers of people in the household recorded as receiving each category of state education (students living away from the household and children in private schools are excluded).

(ii) Health

The value of NHS services received are calculated as the sum of the estimated benefits from the three categories below:

1. Hospital & community health services (e.g. acute services, maternity services, mental health services, and admin, etc.).   Expenditure on these services is apportioned amongst a range of age cohorts in the same proportions as the last available data.

2. Average cost of GP consultations and annual number of consultation received by people according to age and gender.

3. Pharmacy services – data is available on total prescription cost and total number of prescriptions issued. The cost is then calculated per person per year and applied to all individuals.

(iii)   Social Housing

The value is estimated by looking at the total amount of housing subsidies paid to local authorities, housing associations and registered social landlords by region. Registered tenants are then allocated a share of the region's total subsidy based on council tax band of the dwelling and the weighted average (by type of property) property price within each region. Housing subsidy amounts do not include rent rebates or allowances.

(iv)   Transport

In the case of rail transport, the value of public spending on this service is allocated across households based on their stated spend on rail travel as recorded by LCF Survey.

(2) OECD - The Impact of Publicly Provided Services on the Distribution of Resources

In 2012, the OECD published a paper which looked at how the income distribution in a number of OECD countries changes when the value of publically provided services to households are included. The approach taken was similar to that used by the UK Treasury as outlined above. Five key areas of public expenditure were examined and the methodology applied the assumption that the benefit of the publically provided service was equal to the cost. This assumption was applied to all expenditure areas apart from social housing. For social housing, the value was derived from the prevailing market rent at the time.

(i)   Education

Each student that participates in a publicly funded education institution is assigned a value that equals the cost of producing the service in the corresponding level of education. This data is obtained from the OECD Education Database for OECD countries, which distinguishes per student expenditures for pre-primary, primary, lower-secondary, upper-secondary, post-secondary non-tertiary and tertiary education. All education expenditure amounts are imputed to the identified beneficiaries and then added to the income of the households where they live, by average public spending per student at the relevant educational level.

(ii) <u>*Health*</u>

The OECD study applies an insurance-value approach for health care services. This means that that every individual is assumed to receive a public benefit determined by the average spending on his/her group, irrespective of whether actual use of health care services was made. The groups are determined by age and gender. Health expenditures per age group as a percentage of GDP per capita – so called "age profiles"- are used to estimate of the insurance value of health care services for each individual. Income of the households is then increased with these amounts.

(iii) <u>*Social Housing*</u>

Estimating the distributive effect of social housing is difficult, as it requires quantifying the aggregate size of the implicit benefits provided. To estimate the income value households derive from living in social housing at lower rent, the imputed rent is estimated. There are three potential beneficiaries of imputed rents identified: owner-occupiers, rent-free tenants and tenants with below-market rent (including social housing and rent-reduction by employers or relatives). Then using information from those households living in the private (non-subsidized) rental market, a rental value for all property of tenants in the social rental sector is estimated.

(iv) <u>*Early Childhood and Childcare*</u>

Amounts per user of pre-primary education are derived from the OECD Education Database. An hourly price is derived by dividing this benefit by average hours of use. The value is based on the real use of these services by an hourly basis in order to allow for differences in the intensity of use.

(v) <u>*Long term Elderly Care Services*</u>

In-kind benefits for elderly people fall into two broad categories: (1) Home-help services and (2) day care services. The second category can include both nursing homes and institutions that are not designed specifically for people with extra care needs. Using the proportions of users by age group for each category, the amount of public spending on each age group is derived. This amount is further divided by the total number of people in the age group in question to determine the volume of spending and the user profile. This results in a monetary value per person in each age group which is then allocated to individuals in the dataset.

(3) <u>*ESRI – Measuring who Loses Most from Public Service Spending Cuts*</u>

In 2014, the ESRI published a paper which looked at the difficulties associated with measuring the impacts of changes to public expenditure policies and identifying who wins and loses from such changes. The paper also examined the approach undertaken by the UK treasury (as detailed in the previous section) with a view to whether a similar distributional model, which takes account of the impacts of public spending, could be developed for Ireland.

The ESRI paper identified the fact that recent attempts to assess the value of spending on public services (i.e. as seen through the ONS and OECD studies) tend to equate the value of the service to the cost of its provision. While the ESRI acknowledges the fact that this is a useful starting point in the absence of a standardised method to estimate willingness to pay for public services, it highlights the need for caution when applying such methods. Directly equating cost and valuation implies that the value is the same to all those who use a public service of similar cost. In fact, there is good reason to believe that the valuation of certain public services will vary with household characteristics and, in particular, household income.

The ESRI observe that the ONS model of the UK Treasury is incomplete as the distributional impacts of much of government activity is not modelled. The model only takes account of expenditure on items where it was considered that the end user could be identified. As a result, just over half of spending on public services could be included in the analysis, over 80 per cent of which was spending on either health or education.

However, notwithstanding this, the paper concluded that it is worth developing a similar type of model in order to facilitate a deeper and more complete understanding of the impact of budget policies in Ireland. However, this was tempered with the caveat that such an exercise would be a reasonably large job requiring additional resources and any outcomes would likely be imperfect given the nature of the exercise.

6.   Proposed SIA Framework and Next Steps

Sections 2-4 set out the rationale for developing a new SIA framework to supplement the existing approach as undertaken by the Departments of Finance and Social Protection (and externally by the ESRI) each year. These exercises are published as composite documents outlining the distributive impacts of social welfare and direct tax measures post-budget each year. The assessments are typically published immediately after the publication of the Budget in October.

As micro-simulation modelling techniques will not be appropriate for assessing the impacts of all policy measures, separate exercises will be necessary. A new SIA framework should broaden the scope of the analysis and incorporate factors other than direct tax measures and social welfare policies. The new framework proposal involves establishing an IGEES SIA series of papers for publication throughout the year which will supplement the micro-simulation exercise undertaken at Budget time.

As a starting point, these papers will be point-in-time exercises examining current expenditure in any given policy area in order to establish a baseline position. The baseline position should clearly identify the level of spend in a given policy area, what the key drivers of spend are and generate a profile of who the recipients of this spend are.

Following this, the baseline position could then be revisited in the event of a Budgetary policy change. It may be possible to carry out an assessment in order to identify how the policy has altered the baseline position e.g:

- has the policy change resulted in quantifiable gain/loss to existing recipients? Who has gained/lost the most/ least?
- has it altered the profile of the recipients?
- has this resulted in a change to the key drivers of spend in this area?

By establishing an initial baseline, this approach also has the potential to incorporate a multi-annual dimension to policy assessment. The impacts of public spending measures (which may have behavioural and/or time-lag effects on households) could be assessed over time e.g. childcare initiatives, investment in public transport, and the introduction of free medical care for certain age-cohorts, etc. The results would therefore not only relate to "cash" or "first round" effects of policy changes but they could also potentially take account of changes in behaviour as a result of a policy change over time.

It is recommended that the framework be established under a two-strand approach.

Strand 1:

The Departments of Finance and Social Protection should continue to conduct the current SIA exercise of the proposed tax and social welfare measures set out in the Budget each year and published immediately post-Budget.

The possibility of extending this exercise to include the impact of indirect taxes will also be explored by the Department of Finance. Given that the most appropriate tax base for the analysis of indirect taxes is household expenditure, it would seem appropriate when the latest iteration of the Household Budget Survey is completed in 2017 that further analysis of the incidence and impact of indirect taxes would be conducted by the Department of Finance. The Department of Finance will also, in conjunction with the ESRI, explore the possibility of extending the SWITCH model to incorporate indirect tax measures (currently, the SWITCH model relies on SILC data which does not include household expenditure and so cannot be used for the assessment of indirect taxes).

Strand 2:

Strand 1 should then be supplemented with a series of papers which will identify a number of key public expenditure policy areas for assessment.

In this regard, four key expenditure categories have now been identified under the new framework. These categories include: health, education, childcare, and social housing. The categories have been chosen based on (1) the scope to carry out such an assessment within each of these areas; (2) the significant portion of

public expenditure spent in these areas; and (3) the fact that these areas remain high priority topical issues and have been subject to budgetary changes in recent years.

When a policy area is identified for assessment within one of the given expenditure categories, a baseline position paper should be prepared. This should identify the amount of spend in the specific policy area, the key drivers of this spend and a profile of recipients should be created.

In subsequent years, a follow-up exercise should be conducted in the event of a substantial policy change to this area. The baseline may be revisited and an assessment may be carried out in order to identify if:

- the policy change resulted in quantifiable gain/loss to existing recipients and who has gained/lost the most/ least.
- the policy change altered the profile of the recipients.
- the policy change resulted in a change to the key drivers of spend in this area?

Together, the two strands will provide a more informative and comprehensive view of who benefits from Budget policies by taking account of both direct and indirect tax measures and also assessing who is benefitting from specific public expenditure measures.

In advance of progressing with any paper, a Working Group will be established with the Vote Sections concerned. The Working Group will determine the exact scope of the papers under consideration and identify any potential issues (e.g. data gathering, methodology, etc). The Working Group will also be responsible for preparing the publication timetable.

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