

Handbook of Reference Budgets

*on the design, construction and
application of reference budgets*

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Nibud

Nibud (Nationaal Instituut voor Budgetvoorlichting) is an independent Dutch foundation which is financed by the revenues acquired from its products, the national government, and the private financial sector (banks, insurance companies). Its goal is to promote the rational planning of family finances, since this is considered to be an important aspect of family welfare.

Nibud pursues its goal by offering advice and information and providing education to the general public both directly and indirectly through their financial advisers. The latter, who are in this respect 'intermediaries' for Nibud, include public servants, teachers and all other consultants in the fields of mortgages, insurance, savings and loans.

The general public is reached not only through the mass media by means of free publicity, but also via Nibud booklets about a range of family budget topics. The 'intermediaries' are supported by way of an annual Budget Handbook (which includes a large number of reference budgets) and software. Nibud also offers instruction facilities to these professionals.

Special attention is paid to the stimulation and support of education about budgeting in schools, including by the development of suitable software. Nibud is also the main partner in a large-scale bi-annual survey of youngsters.

Nibud is not a consumers' organization. Its objectives are concerned neither with what brands people spend their money on nor their legal position. Its aims are helping people with the balancing of income and expenditure and promoting the use of financial management tools (such as estimating and book-keeping, as well as borrowing, saving, insuring) to achieve this. Of course, information about costs, subventions, taxes, benefits, and allowances is also provided.

Nibud was founded in 1980. Its office is located in Utrecht and has a staff of 20 employees.

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PREFACE

Reference budgets are patterns of expenditure for different types of households to live at a designated level of well-being. Based on household composition, disposable income and other characteristics (like housing and the possession of a car), such a budget reflects the circumstances of an individual family unit.

This Handbook is one outcome of the 'Standard Budgets' project, which was set up with the aim of promoting the construction and use of standard budgets as instruments with which to prevent and tackle over-indebtedness and financial exclusion in a variety of countries throughout Europe.

As stated in the supporting document to the most recent Joint Report on Social Protection and Social Inclusion, over-indebtedness is “a growing problem in the EU” and “can jeopardise health, family life, access to housing and employment. It badly affects the living conditions of the families involved and the education of their children.” Clearly, therefore, issues of over-indebtedness, poverty, and social exclusion are closely inter-related.

The circumstances of such households are strongly influenced by both their income and their patterns of expenditure as well as by their needs. While social inclusion and social protection policies usually have a strong focus on income, the realistic consideration of expenditure patterns, need and costs is often lacking. This is also true when it comes to the data available about this issue. The promotion of the development and utilisation of reference budgets contributes to the tackling of over-indebtedness and financial and social exclusion on an individual (household) level. They are also a useful instrument with which to provide advice about debts and debt prevention as well as information about budgeting.

At the same time, they produce relevant data for use in social policy development. The use of reference budgets can help to ensure that the real-life circumstances and needs of those who are experiencing poverty and reside in low income households are properly taken into account.

The 'Standard Budgets' project was developed as a result of some of the discussions and conclusions that were formulated in the framework to the transnational FES project: 'Financial education and better access to adequate financial services'. This was coordinated by the ASB Schuldnerberatungen GmbH. The possibility was also raised during the seminars on financial and

social exclusion that have been held with the aim of establishing a European Consumer Debt Network ECDN (again under the co-ordination of the ASB Schuldnerberatungen GmbH).

The requirement to improve concrete instruments such as standard budgets relates to the identified need to continue to extend both the scope and methods of debt prevention, debt advice and budget information work that are currently available. It is also important to link the experiences of those in these fields of practice to social and consumer policy development. The reference budgets used in the Netherlands and other countries have been identified as being valuable tools which need to be developed further and implemented all over Europe.

Reference budgets have been used in the Netherlands for more than 25 years, and similar schemes for debt prevention and debt advice are available in a number of other European countries. However, a survey on the existence of such tools and an in-depth exchange of how they are constructed and utilised has not yet taken place.

The 'Standard Budget' project's inclusion of Nibud (the organisation which introduced and has been promoting reference budgets for use in debt prevention and budget information work for more than 25 years in the Netherlands) as a core partner has ensured that the scheme is based on the Dutch best practice example.

At the same time, the application of the 'Dutch model' to countries as diverse as Austria, Belgium, Bulgaria and Spain, where reference budgets like those constructed and used in the Netherlands have not yet been introduced, will help the further evolution of this approach and increase its transferability to other nations within Europe.

Yet, the project is also built upon existing knowledge about the use of reference budgets or similar schemes in other countries (among them Germany, Ireland, the UK and Sweden), particularly with regard to the practice of debt prevention, budget information and debt advice work.

The project has drawn upon existing standard budgets and available expenditure data as well as on the experiences of those suffering poverty (low income families). The aim is to improve the availability and quality of information about expenditure patterns, purchasing power and need, and the scheme has drawn upon and contributes to the ongoing debate on minimum social

standards. Particular consideration was given to the results of the 'Minimum social standard project' undertaken under the coordination of EAPN Ireland in previous years, and the current plan included the contributions of its key actors and utilised their expertise during the Standard Budget seminars.

1. INTRODUCTION

1.1 Definition

The construction and use of budget patterns for specific types of households has a long tradition. In the literature, they have mainly been used for the measurement of poverty, and the budgets therein are typically known as *standard budgets*¹, although other terms such as “example budgets” and “budget standards” have also been used. It is our view, however, that the term “standard budgets” carries too prescriptive a meaning, with the implication being that an individual household has to comply with “the standard”. Yet, we also believe that these budgets should be used as a tool with which to help consumers and their advisors “benchmark” individual spending patterns. Accordingly, we will use the term “*reference budgets*” in the remainder of this Handbook.

Reference budgets contain a list of goods and services that a family of a specific size and composition needs to be able to live at a designated level of well being, along with the estimated monthly or annual costs thereof. They can also be related to a specific social class or occupational group.

A reference budget is an overview, often constructed by specialists, which sets out what is needed to achieve a certain standard of living. Not the real expenses of a particular household, neither the average outcome of household expenditure surveys produced by, for example, a national bureau of statistics, are regarded as reference budgets. Yet, as we shall see in Chapter 3, the results of such surveys can play an important role in the construction of these budgets.

Well-being

There are several elements of the definition referred to above that merit a more detailed explanation, the first of which is the issue of well being. In most applications a type of minimum standard of living is used. Indeed, Nibud has reference budgets that are related to a minimum income level, whereas others use terms such as *basic needs* or *modest but adequate*. Yet, Nibud also has reference budgets for higher levels of income. These may be used for the

¹ For an overview see: Gordon M. Fisher, An overview of recent work on standard budgets in the United States and other Anglophone countries, US department of Health and Human Services, 2007, page 1.

construction of credit scores (loan-to-income ratios) or as a benchmark for non minimum incomes.

Of course, it must be made clear from the description of the specific budget what level of income is being used in particular circumstances. For example, we could be speaking about a “reference budget for a household with a minimum income”. For the ‘Standard Budget’ project, however, the term “reference budgets for social inclusion” will be used.

Lists of goods and services

Another aspect of the definition relates to a list of the goods and services needed to live at a designated level of well being. Accordingly, for a reference budget for a minimum income situation, a list of all of the goods and services that are considered to be essential must be produced. Of course, the judgment about what is included or excluded is highly subjective. Choices must be made about the number of spoons, blankets, shoes and so on, and these lists are often created by ‘experts’, for example professionals working in the field of family counseling.

Having compiled the list, the items must be then priced so as to produce the monthly costs, defined as the price divided by the life time of the goods in months. The expected life span is also a highly subjective variable and is difficult to estimate for most products. Moreover, the life of an item and the price are correlated: the better the quality, the longer the goods can be used for, but the greater the initial cost. It may be that an expensive item is cheaper on a monthly basis because it will last longer, but despite this it is not affordable by a household with a low income.

Three types

Fisher² distinguishes three types of reference budgets.

- The first is the *detailed budget approach*. All of the items in these reference budgets are described in detail, and it is obvious that their development requires a great deal of investigation and, therefore, manpower.
- In the *categorical approach*, expenditure is only specified for a number of consumption categories. This produces the outcome of the detailed budget approach, but without the need for comprehensive investigations. These budgets are based on the experience of, for example, budget counselors.
- The third type of reference budget is based on *average consumer expenditure* and the results of household expenditure surveys may be used therein. A

² Fisher, o.c. page 3.

disadvantage is that actual spending may not be enough to achieve a certain (minimum) level of well being due to resource constraints.

In this handbook we will describe and use these three types of reference budgets and explain how they are inter-related.

Advantages and disadvantages

The use of reference budgets has advantages and disadvantages³. The first point of criticism is that they are neither objective nor scientific because there are many arbitrary judgments involved in their development.

Furthermore, the budgets may often reflect the ideas of experts and not those of the people involved.

Yet reference budgets can also have their advantages.

- Firstly, a reference budget is transparent, particularly when expenditure is described in detail. The number of items and their price and life span are set out, meaning that everyone can form a judgment about them.
- Secondly, reference budgets are flexible: it is easy to either exclude or include a specific item or to change assumptions as the world changes around us.
- Thirdly, reference budgets can bring about consensus on a number of highly subjective issues. They can reflect the ideas of their constructors, who are often a group of experts, or (a group of) consumers can also be asked to reach agreement about their content in so-called consensus or focus groups. If consensus can be reached, and the outcome is recognised by large elements of the population and policy-makers, this can play an important role in society. It is possible to have only members of the target group participating in the decision process, but mixed groups can also be formed to discuss the content.

One further condition for establishing consensus is that reference budgets (must) reflect the relationships that exist between actual household spending and behavioural patterns. For example, nutritionists can calculate the different (minimum) nutritional requirements for men, women and children, which can be met in a very cost effective manner by having a diet of cheap ingredients. Yet, in reality, people will have their own food consumption patterns. In other words, the diets used in reference budgets must reflect the food consumption behaviour of the target group. This, of course, also holds true for all of the other items of expenditure. The advantage of such an approach is that consumers and policy

³ See for example Fisher, o.c. page 3 and 4.

makers recognise the reference budgets as being realistic, which only increases their credibility and application.

Depending on the actual utilisation of reference budgets, the (dis)advantages may be both real and significant. If used by consumers, the benefit of transparency in the form of the details of a shopping basket can be a disadvantage because of the multiplicity of information. In these circumstances, a more categorical budget with, for example, 15 to 20 expenditure groups will be much better suited to purpose.

Reference budgets can be based on empirical data (e.g. budget surveys) or they can be constructed by budget experts. The former tend to reflect “reality”, but often reveal deficits for households with a low income. They are, therefore, not particularly useful when it comes to providing budgeting information and debt advice (where balanced budgets are needed). On the other hand, budgets constructed by experts may be criticised because of their subjective nature. It is for these reasons that a detailed and transparent process is needed to take advantage of both approaches, while minimising their disadvantages. Reference budgets can be easily produced by constructing an expenditure pattern for households with a minimum income based on the experience of, for example, debt counselors. More sophisticated examples, as developed and used in the Netherlands, are usually built in a modular way. They combine data from a variety of sources, including household surveys, and also make use of econometric techniques.

1.2 What are reference budgets used for?

Reference budgets can be used for a variety of reasons, and different forms thereof can be used in different circumstances.

Poverty measurement

Reference budgets have been widely used for poverty measurement, where a basic basket of goods and services is set up for different household types. A family with an income below this level of a particular reference budget is regarded as poor. The Dutch Social and Cultural Planning Bureau (SCP) uses a reference budget as its basis for poverty measurement.

Budget information, debt counseling

Households that cannot make ends meet can be helped by a reference budget tailored to their situation. They can compare their own expenditure to the

reference budget and get ideas about how what they spend can (or should) be reduced. By using these suggestions, problems of over-indebtedness may be tackled. These budgets are not only useful for individual households, but can also be valuable tools for debt advisers.

Households can also simulate what might happen to their spending when their circumstances change. What is the cost of having a child? Is a loan compatible with my budget? What happens if I move from one place to another?

However, reference budgets are precisely that, namely a *reference* for households' spending patterns. They are never a prescription of how an individual household should spend its money. Personal circumstances and the preferences of each family unit should always be taken into account.

Credit scores

Reference budgets make it possible to calculate what a particular household can borrow (*loan to income-ratios*). Nibud has developed a methodology based on reference budgets which can indicate whether or not a household can afford to repay a loan. Nibud also calculates the loan-to-income ratios for mortgages in the Netherlands. These ratios are included in the Code of Conduct of Dutch mortgage suppliers. Nibud also advises the financial sector about other forms of credit. Moreover, housing corporations can check the reference budgets when producing their rent-policies.

Purchasing power calculations

Reference budgets make it possible to monitor the differences in income and expenditure of certain types of household as a result of (changes in) policies. In particular, they make visible which household groups are having problems making ends meet. They can also be used to highlight the poverty trap, in which households are worse off when working than when receiving a social benefit. Indeed, Nibud advises local authorities about their policies for social assistance. For special interest groups, more specific reference budgets can be produced, e.g. for the elderly, those living in an institution, or those with a particular disability or illness. The representatives of these interest groups can make the financial circumstances that they are likely to encounter available to their members, which, in turn, enables them to establish whether or not they can make ends meet. The figures can also be given to national authorities and used as a way of demonstrating what the financial reality of those belonging to specific groups actually is, and whether introduction of new regulations would improve the highlighted financial position. For example in Sweden, social assistance is partly based on the outcome of reference budgets.

1.3 Reading guide

In Chapter 2, we will describe the theoretical aspects of designing reference budgets for a variety of purposes, whereas the more technical elements are discussed in Chapter 3.

Chapter 4 contains examples of applications, and guidelines for the dissemination of reference budgets are set out. The easiest way to distribute reference budgets is with the help of software, where the individual circumstances of a household can be entered. Such software can be used in a wide range of applications, such as in electronic cashbooks and for personal finance calculations. The financial sector can also use reference budgets to help clients decide whether or not to buy certain financial products, such as loans, mortgages, and insurance. As well as software, it is also possible to create tables for specific types of households.

Finally, Chapter 5 contains case studies from the various countries that took part in the EU 'Standard Budget' project. In chapter 6, Bérénice Storms and Karel Van den Bosch give an overview of the lessons learned from the "Standard Budgets" project.

2. THE DESIGN OF REFERENCE BUDGETS

2.1 Starting point: examples for consumers

Right from the start Nibud (a budget information institute) has used 'examples of spending-patterns' for different types of households with a minimum income.

These examples are still an important tool when it comes to providing budget information and are often sent to those who cannot make ends meet.

Nowadays, however, people can also produce a customised budget plan on the internet, using two types of reference budgets as benchmarks. Such individuals often don't have a clear idea of how they are actually spending their money, let alone being aware of how they could spend it. In these circumstances, a tailored reference budget can, in many cases, help people to make crucial decisions about their financial lives.

The group which requires budget information most urgently is, of course, comprised of those with a minimum income, and it is for this reason that Nibud has developed specific reference budgets especially for them.

There are many reasons why people cannot make ends meet and a reference budget can be a useful way of determining the cause of such difficulties.

Accordingly, upon request, a reference budget designed for those on a minimum income is sent to a consumer along with an explanation of how it should be used and interpreted. An example is set out in Table 1.

TABLE 1: A reference budget for a minimum income for couples with children
(Netherlands, January 2008)

Amounts in Euros per month	couple 1 child 8 years old	couple 2 children 6 and 14 years old	couple 3 children 10, 12 and 14 years old
INCOME			
Minimum income	1201	1201	1201
Holidays' allowance	59	59	59
Child allowance I	83	83	83
Child allowance II	77	179	273
Educational subsidy	0	49	49
Health insurance subsidy	123	123	123
Tax reduction health	11	11	11
TOTAL INCOME	1554	1705	1799
EXPENDITURE			
Rent	203	203	203
Gas and other fuels	74	74	74
Electricity	51	62	69
Water	17	21	22
Local taxes	* (45)	* (45)	* (45)
Telephone, cable and internet	46	46	46
Insurances	249	249	249
School and study costs	8	55	63
Subscription a.s.o.	*	*	*
Transport	*	*	*
FIXED COSTS	648	710	726
Clothing and footwear	132	160	185
Furniture/equipment/garden a.s.o.	108	120	129
Health	39	43	47
Hobby	*	*	*
Going out	*	*	*
Holidays and weekends	*	*	*
RESERVATION EXPENDITURE	279	323	361
Food and snacks	341	398	515
Smoking	*	*	*
Cleaning materials	13	15	18
Personal care	48	67	86
Housekeeper	*	*	*
Pets	*	*	*
Various (stamps, flowers)	23	26	28
Gifts	*	*	*
Local transport, bike	33	45	57
DAILY COSTS	458	551	704
POCKET MONEY	*	*	*
For the items marked with an *	170	121	4
TOTAL INCOME/EXPENDITURE	1554	1705	1799

Source: Nibud, Budgethandboek 2008, Utrecht, 2008, page 176.

As can be seen in Table 1, total income is not only comprised of the minimum income available on social welfare, but also consists of various other income

components to which such a Dutch household is entitled, like child and tax allowances. So, households living at the social minimum level can have a higher income because of an extra tax benefit, but never a lower one.

2.2 Use of baskets

In the expenditure pattern set out in Table 1, only the essential or 'inevitable' expenses for households of a particular composition are included and not so-called *free or optional expenditure*. These inevitable expenses, also known as the '*basic basket*', guarantee a minimum level of well being for that type of household given the current social and economic conditions in the Netherlands. The other expenses that are not included in the basic basket, such as hobbies, travel and so on, are marked with an asterisk (*). Such expenditure is either cost-free or determined individually, meaning that it is difficult to establish a minimum amount. The expenses in the basic basket are essential for almost every household unless, for example, they grow a lot of their own food. The amounts are all based on items bought new from rather cheap shops, but are not the cheapest variant in the shops with the lowest prices. Households are not expected to buy second hand goods and nor are they dependent on receiving free items from friends or family. More information is contained in the paragraph on 'pricing' that is set out below as well as in Chapter 3.

The advantage of the basic basket approach is that in most cases there is often an amount of money left to spend on either the items marked with an * or on more expensive versions of the products in the basket. However, it should be noted that achieving a scenario whereby there is spare money each month was not the aim of this budget; the components of the basket were chosen without looking at actual income.

There are a few cases in the Netherlands where the basic basket costs more than the minimum income (for example in large households or those comprised of youngsters). In these circumstances the reference budgets were published with a negative balance.

The total disposable income is the starting point for expenditure. Figures for expenses such as food, furniture, energy and so on used to be based on the knowledge of budget counselors, but nowadays these amounts tend to be based on detailed descriptions of baskets.

These particular reference budgets, where income is the starting point, are used for budget information purposes and not as an instrument for poverty

measurement. In communications about them, the figures were never described as being ‘minimum figures’, but as one example of how to spend money when living on a minimum income.

2.3 How to compose baskets

Composing baskets for reference budgets for a minimum income is a highly subjective task. There is no universal or objective way to define either the goods and services that are necessary for a household or the items that could be regarded as luxury spending.

To get a grasp of the issue of “necessity”, it may be that more abstract terms and concepts have to be used as criteria with which to assess whether articles and services should be labelled as essential. In Belgium, based on the work of Doyal and Gough⁴, the notions of “autonomy” and “health” are regarded as basic needs. Of course, more detailed concepts like that of “a decent standard of dwelling, food, clothing, security, information and communication” may be also used. Yet, in these cases a translation of these concepts into an actual basket of goods and services is still necessary, although abstract ideas may be a good basis upon which to start the discussion about whether a specific item or service should be included in the basket or not.

Because of the subjective nature of the task, a group of people, whether experts, consumers or both, should establish the contents of the basket.

Experts

As part of the job of creating a reference budget for those living on a minimum income, Nibud has to choose the expenditure that it deems is necessary for every household in the Netherlands, namely the so-called *basic basket*. This basic basket reflects a minimum standard of living, and the funding assigned for purchasing the items contained in it can be seen in Table 1. Nibud obtained advice on specific expenditure from a variety of experts, and a brief description of the contents of this basket and the specialists consulted is set out in Annex 1.

On top of these general basic baskets, some additional expenditure is inevitable for certain types of households. Older people, for example, may have higher average heating costs because they need it to be warmer and they are at home more. Similarly, people with a disability may have extra medical costs and so on.

⁴ Doyal, L. & Gough, I. “A theory of human need” Houndmills: Macmillan Education Ltd

This extra expenditure can be taken into account in reference budgets created especially for these groups. Data about these kinds of expenses can be obtained either from experts in a particular field or from specialist surveys conducted among such groups.

Finally, individual households may have their own, different reasons as to why a particular form of expenditure is inevitable. This can range from extra heating costs for an old, poorly insulated house to the giving of money to the church or other family members. Reference budgets cannot take these variations into account, and so relevant adjustments must be made at the individual level when personal advice is being given.

Focus groups of consumers

In both the United Kingdom⁵ (CRSP) and Ireland⁶ (Vicentian Partnership for Social Justice), focus groups of consumers were used to create reference budgets which represent a minimum essential standard of living.

In order to construct a 'Minimum Essential Budget Standard', people living in the households for which it is designed were brought together in focus groups to act as their own budget standard committees. Each focus group purposely included individuals from different social backgrounds and economic circumstances. Accordingly, real expenditure choices and judgements, which are made by people in real life as they actually manage their money, contributed to the final consensus. Ultimately, the people themselves are the "experts". (Middleton⁷ (2000, pp. 62-63).

Stages/phases of the Consensual Budget Standards' (CBS) Process

There are four phases in a focus group discussion of the CBS process:

1. Orientation phase

The initial phase explores the language, concepts and priorities that people use and have when thinking about spending and consumption. During this stage groups' input is used to develop a working definition of a minimum essential standard of living and groups clarify their understanding of some basic concepts

⁵ See for example: J. Bradshaw et al (2008) , " A minimum income standard for Britain"; York.

⁶ Minimum Essential Budgets for Six Households (2006), Dublin.

⁷ Middleton, S. 2000. 'Agreeing Poverty Lines: The Development of Consensual Budget Standards Methodology' in J. Bradshaw. and R, Sainsbury. (eds) *Researching Poverty*. Aldershot : Ashgate

e.g. minimum, essential and needs versus wants, as well as physical, social and psychological needs.

2. Task groups

In this phase, each budget area is considered in turn (i.e. food, clothing, personal care, household goods, household services, social inclusion and participation, fuel, travel etc.) and everything considered essential by the groups is recorded on flipcharts. Together the participants produce an agreed list of items which is reviewed in its entirety at the end of the group to see if they think that they have been either too restrictive or too generous. Any outstanding issues that the groups have not been able to resolve are taken forward to the next stage of groups. In between this stage and the next the research team compiles the lists in a spreadsheet format detailing items, quantities, retailers and the costs of the goods and services listed.

3. Check back phase

The check back groups review the lists drawn up by the task group participants to check that nothing has been included which shouldn't be, or is missing and should be added. The check back groups are shown the costs of each budget area and of the budget in total and asked if they think the budgets are too high or too low. They also help to resolve any issues carried forward from the task groups and talk about the economies of scale involved when individual budgets are combined, for example, when the coupled male and coupled female are put together in a household they need the same items of clothing but share the main furniture items. Their replacement rate of other shared goods, e.g. washing up liquid is adjusted according to the groups' decisions. The check back groups also review any changes to the diet suggested by the nutritionist and the information on fuel costs supplied by the fuel expert. If the groups agree, the changes are made, if not their comments are fed back to the expert for them to reconsider.

4. Final phase

The final phase involves three groups (parents, working age adults without children and pensioners) who examine how the individual budgets have been combined for a range of household types. They consider the budget components (e.g. food, clothing etc.) in the context of data from the Expenditure and Food Survey. Where these data contrast considerably with the MIS budgets, groups are asked to either provide a rationale to explain the differences or to revise the relevant budget areas. Groups reflect on the total budget costs and consensus is tested again, with the groups being challenged

to consider by how much they would be prepared to reduce the budget, or what items they would be prepared to remove if the Minister for Finance said it could not be afforded by the country. (Middleton 2000: 63-64).

Three different focus groups for each household

The first stage involves eight orientation groups (single men, single women, partnered men, partnered women, male pensioners, female pensioners, coupled parents, lone parents). There are 15 groups recruited in the task group stage who develop the first draft of the budget for each of 15 individuals. The third stage of groups, comprising different participants in 10 groups, consider each of the items identified by the taskgroups and makes changes – additions or subtractions – to the items, thus producing a second draft of the budget. The fourth set of focus groups, comprising 3 groups of people who have participated in an earlier stage, reviews the second draft and produces the “final” version of the different categories of the budget items e.g. food, clothing and furniture and the costs involved.

Method of validation of research process

In order to ensure the reliability and validity of the research process, a research committee of academics, experts and representatives from government departments and campaigning organizations is established, in addition to the 36 separate groups involved in developing the budgets.

In both the UK and Ireland, the stages whereby each phase of groups has to check the results of the previous phase involved different groups of people, with the exception of the final phase, where it is found to be useful to include people who have contributed at earlier stages and are therefore fully conversant with the approach and aims of the project. This was quite a time-consuming process because of the number of groups involved and the very detailed nature of the discussions. However, by including different people in 33 out of the 36 groups, a wider consensus was achieved.

In the Netherlands⁸ all of the stages were completed by the same group. With this approach there were no changes of opinion over the course of the three phases.

This procedure was repeated for three other Dutch focus groups, with the final result being four different baskets per household.

⁸ S.Hoff et al (2009), *Genoeg om van te leven?*, SCP, The Hague.

This approach has at its core the idea that if you want to produce reference budgets that are truly consensual, focus groups should be composed of those from all classes of society, and for this reason the UK and Ireland groups included people from a range of socio-economic backgrounds.

2.4 Reference budgets for higher income levels

Once the reference budgets described above for households with a minimum income were used and published by Nibud, the call came for us to also produce them for households with higher income levels, since such family units also face problems with their spending. Accordingly, the goal was to construct balanced reference budgets for different types of households with income levels above the minimum. These examples are used as a benchmark for when a household decides to draw up its own budget: if the amount spent on an item is unknown, the reference data can provide guidance. It also gives people an idea about which items they spend relatively more or less on when compared to similar households. This is important information when it comes to cutting spending and producing a balanced budget for a particular family unit.

Because higher incomes can lead to a potentially endless number of reference budgets being produced, Nibud decided to develop a computer program with which to generate them in a flexible manner. The program was designed in such a way that a reference budget can be created for all types of households and for all incomes above the minimum level. The aspect of the software that relates to expenses and the calculations about income (taxes and subsidies) is such that the program is able to cover a household's complete income and expenditure. It can also be used on a family's behalf by intermediaries like debt counselors. Not only can reference budgets be calculated with the software, but rights to national subsidies and tax deductions are also covered. Tables with reference budgets for those with higher incomes are published yearly⁹. See Table 2 for an example.

⁹ Nibud, Budgethandboek, published yearly.

Table 2: Reference budgets for households with an income up to € 5,000 per month
(Netherlands, January 2008)

Composition of the household:	House:								
2 adults	Rented house, average rent								
1 child 1 - 12 years old	Town house								
1 child 13 - 17 years old, secondary school	Central heating								
	5 rooms								
TOTAL INCOME	2005	2250	2500	3000	3500	4000	4500	5000	
TOTAL EXPENDITURE	1877	2005	2250	2500	2894	3122	3348	3578	3803
Rent	366	375	384	403	420	420	420	420	420
Gas and other fuels	74	76	78	80	82	82	82	82	82
Electricity	62	64	66	68	69	69	69	69	69
Water	21	22	23	23	24	24	24	24	24
Local taxes	45	46	49	50	51	51	51	51	51
Telephone, cable and internet	46	55	72	83	95	97	99	101	103
Insurances	249	249	249	249	249	249	249	249	249
School and study costs	55	55	55	55	55	55	55	55	55
Subscription a.s.o.	25	40	66	90	121	135	149	164	178
Transport	45	69	120	172	257	309	360	412	463
FIXED EXPENDITURE	988	1051	1162	1273	1423	1491	1558	1627	1694
Clothing and footwear	160	160	160	160	182	210	237	265	292
Furniture, equipment	93	110	145	180	234	265	296	327	358
Maintenance house, garden	27	33	41	48	53	53	53	53	53
Health	43	43	43	43	43	43	43	43	43
Hobby, going out, holidays	60	93	161	230	342	409	475	542	608
RESERVATION EXPENDITURE	383	439	550	661	854	980	1104	1230	1354
Food and snacks	398	401	411	423	446	462	478	494	510
Other household money	108	114	127	143	171	189	208	227	245
DAILY COSTS	506	515	538	566	617	651	686	721	755
BALANCE		0	0	0	106	378	652	922	1197

Note: The figures in the first column represent basic expenditure.

Source: Nibud, Budgethandboek 2008, Utrecht, 2008, page 206.

The starting point for the reference budgets for those with higher incomes is actually the budgets for households with a minimum income. Households in the former category spend more on most items, but there are also scale-effects; although the total amount spent on food rises, the average spending per person in the household goes down. Most of these effects were calculated with the data from the Household Budget Surveys conducted by the Statistics Office. In this way, 'average' expenditure is worked out for a particular type of household with a particular total disposable income. To conduct the calculations for such a household, information about its expenses as well as its total disposable income is needed. Only a few variables have to be considered:

- composition of the household, age, sex of the members, and the school the children attend;
- owned or rented house;
- type of house: e.g. flat, country house, detached house;
- type heating: central heating or not;
- number of cars: per car: the new value, the number of kilometres driven per year and whether the car is bought new or second hand;
- own risk medical insurance.

A complete reference budget can be calculated with information about these variables and the total disposable household income. With this approach there is no need to specify a detailed basket of goods and services for every household and income level. For an in-depth explanation of the data and calculations, see Annex 1.

There are some disadvantages with this method. Trends in expenditure on, for example, furniture are calculated with income data up to about € 5,000 per month, and a simple linear regression is often used. Yet it is doubtful whether the extrapolation to incomes greater than € 5,000 a month is valid, but because no other data is available this is the best approach at the current time.

Another point to note is that the expenses are calculated as an average per item for that type of household with a particular level of disposable income. But sometimes people cannot afford to spend this average amount on every item. Consequently, the total average expenditure calculated by the software will exceed the disposable income for some income levels, especially the lower ones. However, since we use the reference budgets for budget information purposes, a recalculation must be made in order to make them balance.

2.5 Balancing the budget

There are several ways to balance the reference budgets, but an important point to note is that the expenses must never be below the basic expenditure level. This guarantees a minimum standard of living. Two of the methods used to make the budgets balance are as follows:

A) All expenses are adjusted proportionately, but they must never be less than the basic expenditure level. If, for example, the total of the calculated expenses is €2,500, while the total disposable income is €2,200, all of the items in the basket must be reduced by $(25-22)/25$ percent, provided that this does not mean that the family is spending less than the minimum amount. After one attempt at creating the budget it is possible that it will still not be balanced because one or more items could not be reduced by the full required percentage due to the minimum basic expenditure requirement. If this is the case, the procedure is then repeated until either there is a balanced budget, or all items are at the basic expenditure level. If the latter is the case, achieving a balanced budget will not be possible; the income is not enough to cover basic expenditure.

B) The second method is to adjust expenditure on an individual item by the proportion by which it exceeds the basic amount. Accordingly, an expense that exceeds its corresponding basic amount by more than another item does will be adjusted by a proportionately greater sum. Again, it is important to note that the basic basket is always the bottom line when using this approach.

Nibud took the decision to use the second method on the basis that it is easier to adjust individual items to get a balanced budget.

This method of producing reference budgets for higher incomes can only be used when the items (not the amounts) in the budgets and the life-styles of both income groups do not differ greatly. When there are huge differences between groups of households in, for example, housing conditions or food consumption (such as own food production), separate calculations must be made.

Another approach is to conduct additional calculations for optional items in the basket, such as a car. If a household has a vehicle, the costs thereof are calculated; otherwise the cost of public transport is included. Other optional items may be smoking, a motorbike, a caravan or a second home. The costs of such additional items must be substantial, or they will have very little impact on the total budget. Moreover, relatively large groups of people should make use of

these items and their costs should not vary much. As very few people own a second home in the Netherlands and, if they do, the costs differ a great deal, including such an item in Dutch reference budgets provides no useful extra information.

2.6 Grouping the households

When a computer program is used to calculate a reference budget for a certain type of household, it must be flexible enough to produce something which is relevant for all possible types of family units, taking into account the precise age and income of the family members. However, when reference budgets are designed to be published in print, choices about what to include must be made. These selections should be such that with a minimum of selection criteria a maximum number of households can be represented. For information purposes, people should be able to recognise their circumstances in the households described and the selections must be distinctive: the minimum incomes or the expenses must differ (significantly) to justify the production of a specific reference budget.

For the Netherlands, some basic types of households were selected based on household composition since they have a distinct minimum income: singles, single parents and couples. For single person family units, no distinction is made between men or women; the incomes are the same, and the expenditure does not differ very much (save for food, see Chapter 3). The selection of the ages of the children is more or less arbitrary. Finally, reference budgets are also produced for singles and couples aged 65 and older who have retired. This has resulted in the production of the following budgets for those with a minimum income:

- single, younger than 65;
- single, older than 65;
- couple without children, younger than 65;
- couple without children, older than 65;
- couple, younger than 65, one child aged 8;
- couple, younger than 65, two children, 6 and 14;
- couple, younger than 65, three children, 10, 12 and 14;
- single parent, younger than 65, one child aged 8;
- single parent, younger than 65, two children, 6 and 14;
- single parent, younger than 65, three children, 10, 12 and 14;

In the reference budgets for households with a minimum income, it is assumed that all of the groups rent a property. The rent in these budgets is equal to the amount a household has to pay itself, including any rent subsidy received. This is a rather small sum, and so for those with higher incomes budgets are also produced which contain an average rent figure (see Table 2). Moreover, because newcomers to the housing market pay rather more than the average, reference budgets for higher incomes were also created with even higher rents (one and a half times the average). The same criteria are used for home owners. For those with higher incomes, the same types of households as those listed above are covered, but four reference budgets are published per type of household:

- average rent;
- 1 ½ times the average rent;
- average mortgage;
- 1 ½ times the average mortgage.

An example is contained in Table 2.

The method of grouping households referred to above applies to the circumstances in the Netherlands. In other countries, however, other considerations or target groups can result in different types of households being relevant. The reference budgets discussed are published annually in the 'Nibud Budgethandboek', and are widely used by budget advisers as well as by policymakers at financial institutions when producing credit scores, for example.

2.7 Local and regional reference budgets

The selection of the types of households used in the printed Nibud reference budgets was explained in the previous paragraph. Of course, software does not have the same restrictions because it is able to calculate budgets for all types of households and incomes. There is, however, another question to consider: should there be reference budgets for a local or regional level?

Nibud decided not to produce these budgets because neither the baskets nor the costs vary much in the Netherlands. As mentioned earlier, the prices are set at such a level that almost every household can get the included items for those sums. Of course, there are always exceptions because, for example, older people are sometimes unable to get to the shops selling low cost items. Municipal taxes can also differ at the local level, but although the differences between cheap and expensive communities are substantial, this amounts to only

a small element of total expenditure (about 2½ % on average). For national use, an average local tax rate is sufficient.

The Minima Effect Reports are set out in paragraph 4.2. These are purchasing power calculations at the local level that are used to advise local authorities on their income policies. Of course, the local figures are used in these calculations. In the United States, there is a project which develops reference budgets at a local level: the Self-Sufficiency Standard¹⁰. Reference budgets at the local level are also developed in Switzerland¹¹.

Whether local or regional reference budgets should be produced very much depends on the situation in a country and the target groups. If there is a rather unequal income distribution in a nation, even at the minimum level, separate reference budgets can be produced for these groups or regions. Moreover, quite different living conditions, for example a household's self sufficiency due to its own food production, can also be an argument in favour of taking this factor into account. See the work of the Norwegian Institute, SIFO, for an example¹².

2.8 Monthly averages

A reference budget contains an expenditure pattern of a specific type of household living at a designated standard. It is a long-term average of spending on different budget items. For things such as furniture or a car it can be an average over several years because of how long such goods last. The reference budgets in the Netherlands contain average monthly amounts because most wages are paid monthly. If in other countries salaries are paid at other intervals (weekly, four-weekly), it would be wise to reflect this in the reference budget. We must, of course, bear in mind that the average reference budget does not reflect the actual spending of a household. The rent may be paid each month, but electricity could be paid every quarter whereas the subscription to a newspaper or an insurance premium is due only once a year. Moreover, income is not always the same each month. The salary may be a consistent amount, but items such as child allowances or subsidies may be paid only a few times a year.

These fluctuations can lead to expensive and cheap and rich and poor months. This means that while the average reference budget appears to be satisfactory, there may be serious liquidity problems for households in reality.

¹⁰ See: <http://www.sixstrategies.org/>

¹¹ See: <http://www.schulden.ch> (go to the downloads)

¹² See: http://www.sifo.no/page/Links/Meny_engelsk_hoyre/10418/10424

Table 3: Example of a yearly overview of expenditure

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ave
INCOME													
monthly income	2250	2250	2250	2250	2250	2250	2250	2250	2250	2250	2250	2250	2250
holiday pay					2400								200
child allowance	550			550			550			550			183
tax repay							800						67
end year's pay												2200	183
Total income	2800	2250	2250	2800	4650	2250	3600	2250	2250	2800	2250	4450	2883
EXPENDITURE													
Rent	800	800	800	800	800	800	800	800	800	800	800	800	800
Gas and other fuels		160		160		160		160		160		160	80
Electricity	70	70	70	70	70	70	70	70	70	70	70	70	70
Water			125						125				21
Local taxes	100		300			200							50
Tel., cable, internet	65	65	65	65	65	65	65	65	65	65	65	65	65
Insurances	225	225	225	225	225	225	225	225	225	225	225	225	225
School, study costs				100		50			300				38
Subscription a.s.o.	650			90									62
Transport	60	840	60	360	420	60	60	60	60	200	60	60	192
FIXED EXPENDITURE	1970	2160	1645	1870	1580	1630	1220	1380	1645	1520	1220	1380	1602
Clothing and footwear	100	30	350	400	15	15	50	0	400	50	300	200	159
Furniture, equipment			50			300			20	30	200		50
Maintenance house				300		45	20	20					32
Health			60										5
Hobby, holidays etc.		80			400			1200					140
RESERVATION EXP.	100	110	460	700	415	360	70	1220	420	80	500	200	386
Food and snacks	500	500	500	500	500	500	500	500	500	500	500	500	500
Other daily costs	125	125	125	125	125	125	125	125	125	125	125	125	125
DAILY COSTS	625												
Total expenditure	2695	2895	2730	3195	2620	2615	1915	3225	2690	2225	2345	2205	2613
Balance	105	-645	-480	-395	2030	-365	1685	-975	-440	575	-95	2245	270
Starting buffer: 1000													
Buffer	1105	460	-20	-415	1615	1250	2935	1960	1520	2095	2000	4245	

The table before contains a yearly overview of the (planned) expenditure of a household per month. Some of these figures can easily be obtained from a bank-book. The reference budget gives the monthly average over a year, at least for the items that are paid for at least once annually. For items that are not purchased very often, like a car or furniture, only the real expenditure that year is set out in the table. So, for example, the reservations (savings) for a new car of say € 80 per month are noted and included in the monthly balance (buffer). This money stays in the bank account and should eventually be enough to enable the household to buy a new car in the future. The model can be expanded with other detailed information, such as the cost of all of the different forms of insurance, the items of expenditure related to a car, or the various income sources. The monthly balances can then be combined with the (total) bank balance so that an overview of the household's liquidity is produced, namely the balance of the bank account or the so-called buffer. An example is given in Table 3. Note that without the starting buffer, the household could well have serious problems in February.

This way of modelling can be extended to cover an overview of a much longer period. In this way, decisions about investments and savings over between five to ten years can be planned, for example to cover the cost of a new car, new furniture or for property repairs.

3. THE CONSTRUCTION OF REFERENCE BUDGETS

In this chapter, we will describe the construction of reference budgets in more detail.

When creating a reference budget, we like to know as much as we can about the circumstances of an individual household. Yet, it is very difficult, if not impossible, to estimate the exact spending habits of an individual family unit simply from its characteristics.

Each household has its own preferences. Many of these are the result of emotional and psychological factors. Although it may be tempting to look further into these matters, we will instead limit ourselves to clearly measurable elements which influence spending. This is particularly because both households and their advisors should be able to access the input-data easily.

3.1 Spending categories

There are millions of possible ways that a household can spend its money. Indeed, in supermarkets alone people have to choose between thousands of different products. However, since we do not want to produce budgets that are so detailed, it is necessary to group types of spending together. The criteria for this can be considered as follows:

- What are the clear categories in terms of how items or services are paid for? If you get different bills for gas and electricity, you could treat the two services separately.
- What items should be left to the individual household to decide? We don't really care what a person eats; we are only concerned that his spending on food does not exceed € xx per week.
- Necessity: which individual articles or services are necessary? If health insurance is regarded as being essential, it should be entered as a distinct category.
- The identification of cost-bearers (see below).

It is always possible to create additional categories. For instance, you could group all of the different forms of insurance under the header "insurances". Another example, spending on heating, electricity and water, could be

categorised as “energy”. Alternatively, you could group all of the expenses relating to a car together (petrol, taxes, insurance, and repair costs).

One possible way of classifying expenditure is to use the Eurostat-classification method.

Eurostat classification

The system used to categorise spending in Eurostat publications of expenditure surveys is constructed in digits and known as the Classification of Individual Consumption by Purpose adapted to the needs of Harmonized Indices of Consumer Prices (COICOP-HIPC). One digit is the main classification, while two and more relate to further specifications. Finally, (with nine digits) all of the goods and services are classified. Annex 2 only contains Eurostat classifications up to four digits because the results are not published for a lower level than this. This classification scheme has been designed by statisticians, and is part of the complete system of the National Accounts. The same classifications are also used to measure inflation. This makes it possible to use the (partial) price indices to update the reference budgets from year to year.

Frequency of payments

There is an issue as to whether the statistical classification system used by Eurostat is appropriate for the presentation of reference budgets for information purposes. Nibud uses another scheme, which is based on frequency of payment and whether spending on an item is on a contractual basis. Expenditure is classified by Nibud into three main groups:

A: Fixed expenditure

This is expenditure that tends to be arranged on a contractual basis, such as rent, a mortgage, subscriptions and so on. The payment of these expenses is often made according to fixed terms, whether annually or once a month etc. Because of the existence of a contract, a household cannot reduce such expenditure in the very short-term. However, when possible, other (cheaper) contracts for items in the basic basket, like housing and energy costs, should be entered into to ensure that these basic needs are met.

B: Reservation expenditures

Reservation expenditures are made on irregular time intervals. Some of this spending is significant, such as on a car or new furniture. Often, a household has to save for a long time to be able to buy these items. Unlike forms of other expenditure, these savings are not real expenses but an average of what

households spend on such products over one or more years. In one particular month or year these sums can be zero, whereas in another they may be hundreds or thousands of Euros.

C: Daily costs

Daily costs include daily and weekly expenditure on matters such as food and personal care. They tend to be rather flexible.

Annex 3 contains an overview of the Nibud classification system. Some items are split into sub-groups to make them clearer. This approach to classification applies to the circumstances in the Netherlands. In other countries, however, another form of categorisation may be more suitable, or there may be items that must be added or omitted. When designing a classification approach, one must bear in mind that the items being considered must not be too insignificant, although this is inevitable sometimes. In the Dutch example water is such an item, but every household is confronted with a separate bill for it so it must be included in the list.

The daily costs are sometimes split up into minor items for information purposes: what belongs to a particular expenditure group must be clear to the user and a figure for such an item can sometimes be very informative. For instance, personal care: is it regarded as being part of “daily costs” or not? Smoking is another example: it may be informative to show how much the habit is costing.

The Nibud classification of sub-items provides an opportunity to present reference budgets at different levels. See Annex 3 for the Nibud classification system for these items.

Necessity

Other ways of classifying expenditure for use in reference budgets may be also be helpful. For example, for the applications of the reference budgets we shall consider in Chapter 4, it will be important to know what expenditure can be adjusted and what cannot. Two aspects are important here: the necessity of the expense and how likely it is that the household is able to make changes to what they spend on it. These are important factors when giving personal advice to a client.

Knowledge

Another form of classification of expenditure can be related to the extent to which people know or can easily retrieve information about their own spending. This is an important factor when advising a client: which figures must the client provide himself and for which items does the advisor have to rely on reference data? For most households the fixed expenses are known, or are easily retrieved from a bank-book. Likewise, most people know what their daily costs are. Expenditure on items like vehicles or furniture is more difficult. Most people do not know how much they have spent on average on furniture in the last five years. In these circumstances, data from reference budgets will provide them with additional information.

3.2 Cost-bearers

After identifying the spending categories, we then have to recognise which household characteristics have an impact on the level of expenditure on these groups of items. We will describe the factors which influence spending as *cost-bearers*.

Different spending categories can have different cost-bearers. Some of them are connected in an obvious way: the spending on food is, for example, influenced by the type of people in a household (their age, their gender), the number of people (because of economies of scale) and income. On the other hand, the type of dwelling or the value of a car does not have a direct effect on what is spent on food.

Other cost-bearers may be the result of national regulations. For example, spending on health insurance in the Netherlands is connected to the number of adults in a household and is unrelated to income or the number of children in a family unit.

So, it is important to identify the various cost-bearers for the different spending categories. Indeed, perhaps you should even reconsider the distinctions between the various spending categories if you cannot identify a logical cost bearer for a specific grouping.

3.3 The role of income

Income should not play a role when defining the basic basket (see Chapter 2, paragraph 2.2). Its contents are based on what is considered to be necessary for a household, irrespective of the money it receives.

It is, of course, tempting to check whether households living on a minimum income can afford the basic basket and which of them are worse off. However, despite this, income should not be the basis for selecting the items that are contained in the basket.

For those with higher incomes, the basic basket is not the best way to reflect their circumstances. These households can afford more “luxury” items and will also spend money in other categories, such as on cars or holidays abroad. As these family units have so many options, we simply cannot produce specific, detailed baskets for them. Some prefer to have a bigger car, whereas others want to have a long holiday abroad or buy a more expensive house. So, if we want to consider the spending patterns of households with a higher income, we cannot use a detailed approach to do so. We, therefore, have to limit ourselves to more general spending categories such as “recreation”, “food”, or “mobility”.

Gross or net income?

For information purposes, it is better if a budget reflects as much as possible the actual choices made by households. Only the spending for which the family unit is actually responsible should be included. If taxes and social security payments are automatically deducted at source, there is no point in including these sums in a spending category. Of course, you have to adapt the definition of income to fit the choice process.

Another issue is the subsidising of costs. If a subsidy means that a product is sold at a lower price, we should not increase the income of the household by the amount of the subsidy, but should instead denote the actual price at which the household can buy that item.

If, on the contrary, the subsidy is actually given to the household so that it can buy the product at market price, we should increase the income by the subsidy and denote the actual cost of the item in the budget.

So, if low-income households can go to the theatre and get a discount, we should include the discounted price but not increase their income. If, on the other hand, families receive extra income with which to pay for visits to the theatre, we should include that extra money in the total income and reflect the actual market price of a theatre ticket in the spending category.

3.4 Empirical data: univariate analyses

To “predict” the spending categories discussed, analyses of National Household Budget Surveys can be conducted. In these surveys, a sample of households

records its spending, and in this way empirical data is available to those who may need it.

A simple way to analyse these surveys is to calculate the average expenditure on particular spending categories for different household groups. However, the samples are often too small to enable detailed average budgets for all kinds of family units to be produced.

In the Netherlands, and probably also in other European countries, income and family size are important cost-bearers. We utilise the following approach to produce average budgets:

- 1) Group the households with the same size of family together and count how many there are with that composition in the sample. Say, 315 households with one person and 235 with 2 people.
- 2) Sort these households into equal groups of at least 50 based on income. In this example it would be $(315/50=6.3)$, i.e. six groups with 1 person and $(235/50=4.7)$ is four groups with two people.
- 3) Calculate the average budgets for these groups. This is the average net income and the average amount spent in the various spending categories.
- 4) Normally, when calculating these averages, you will not get a round, neat average income (for example, € 1500), but instead something like € 1479. However, when producing reference budgets for households with an income of say € 1500, you can interpolate between the results of the surrounding incomes.

Note that these are average budgets and are not balanced. In the Netherlands, we often find that total spending exceeds total income, especially for those on lower incomes. There can be various reasons for this:

- Households did not include all of their income
- Households experienced a fall in income during the year or did not receive income over the whole period.
- Households may have used savings to cover their expenses
- Households may have borrowed money

These latter two explanations may particularly apply when large items have been purchased, like a car, or when there have been renovations carried out on a house.

As they are not balanced, we cannot use these budgets for informational purposes.

Another disadvantage of these average budgets is that only two household characteristics/cost bearers are taken into account, which is not specific enough. If we want to add more, the amount of available data is often insufficient to enable reliable results to be calculated. Moreover, the household characteristics often are correlated. Those with children have a higher income on average, and they are more likely to own their home and so on. To take these aspects into account simultaneously, we have to turn to multivariate analyses.

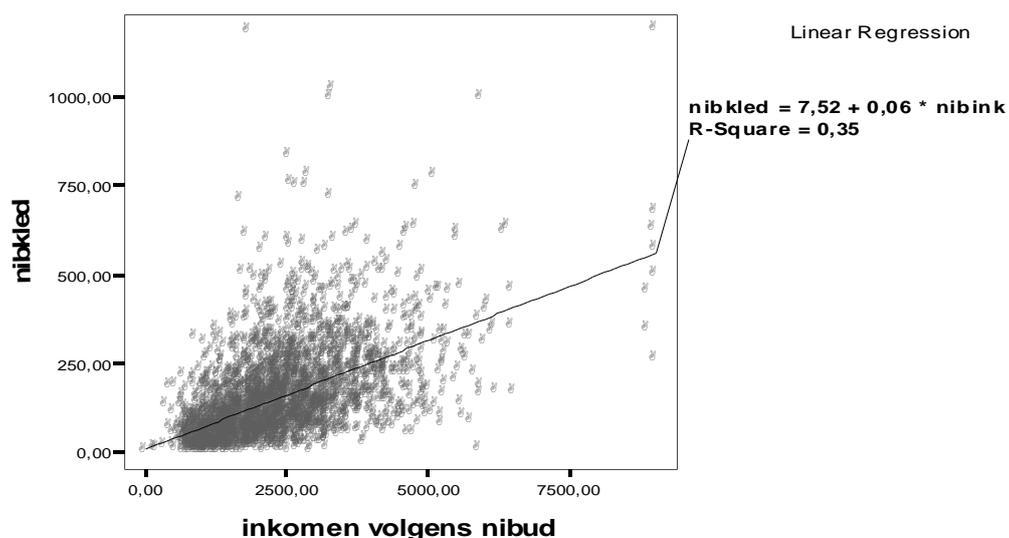
3.5 Empirical data: multivariate analyses

With multivariate analyses, you are able to see the quantitative influence of all possible cost bearers, including net income. Currently, the most common form of analysis used is a *regression analysis*, which is included in most statistical software packages.

We will not elaborate on the fine details of this method, but will instead only describe its relevant aspects.

With regression analysis, an attempt is being made to predict the endogenous characteristic y (the expenditure) of household i on the basis of other exogenous characteristics (x_1, x_2, x_3) from household i .

In a formula this is: $y(i) = b_0 + b_1 * x_1(i) + b_2 * x_2(i) + b_3 * x_3(i) + \dots$



This graph is an example of how it works. Each household is depicted as a small circle. On the horizontal axis is the monthly disposable income and on the vertical axis is the average monthly spending on clothing. A regression analysis calculates the best fitting line through this cloud of points. The notion of best fit means that the total distance from all points to the line is as little as possible. In this case, the regression analysis produces the following formula:

Monthly spending on clothing (y) = 7.52 (b0) + 0.06 (b1) * monthly income (x1).

So, if the monthly income of a specific household is €2000, a prediction of its monthly clothing spending is $7.52 + 0.06 * 2000 = 128$ Euros.

You can improve this estimate (reducing the distance from the actual point to the prediction) by inserting more household characteristics as predictive variables, for example the number of people in the family unit.

In such a case we try to predict the spending on a particular category of household characteristics like income, composition, characteristics of the house, and so on. In fact, you should try to include all possible cost-bearers.

We can also try to explain human behaviour from some of a household's characteristics. As how we behave is typically dependent on psychological and sociological factors, this explanation will not be perfect; far from it. In reality, you will probably be able to explain less than 50% of the variations in actual spending. In the graph set out above, income predicts 35% of the variations in spending on clothing.

A regression analysis also provides an overview of which household characteristics have a significant influence and which have only a marginal impact. With this information, you could improve the model and leave out the characteristics which do not have a significant effect.

Some cost-bearers are fairly logical. You can also use the multivariate analysis to investigate whether other possible characteristics have an influence.

However, when doing this, you have to be aware of the risk of *spurious correlation*. Spurious correlation occurs when one characteristic, A, is closely related to another characteristic, B, and B is closely related to C. Therefore, A is also related to C, but this does not mean that A is caused by C.

For example, more babies are born in regions where storks are seen more frequently. It is tempting to conclude from this that the storks bring the babies. What is happening in reality, however, is that storks tend to live in the countryside. This is also where more religious people reside. They tend to have

larger families than non-religious households, who are more likely to live in the city, where there are fewer storks.

You should also be careful not to enter either too many household characteristics or those that are difficult to establish. Households have to give their input to establish a reference budget for themselves. They will hesitate to do so when they are asked to provide too much data or data that they will not be able to find easily.

Possible alternatives and extensions

Sometimes you do not have access to micro-data and have to make do with tables of averages. In these circumstances, you should try to estimate the income elasticity of the various expenditure categories. The income elasticity of an item is the percentage change of expenditure on it if income rises by 1%. Consider this table:

Income	1000	1400	2000	2500
Food per month	200	250	300	330
Increase		50/400	50/600	30/500
Increase in %		12,5%	8,3%	6,0%

The average income elasticity is 8.9% $(=12.5+8.3+6.0)/3$.

Nibud has conducted regression analyses for about 20 spending categories which are independent of each other. We did not, however, carry out cross-analyses in which the spending on one category influences the spending on another. This would only lead to circular reasoning. The only exception is that we have included rent in order to estimate the value of the dwelling. This value is an input for the calculation of local taxes, which depends on house prices.

In the economic literature, there is a stream to estimate *complete demand systems*. As well as household characteristics, price information is also taken into account to explain spending. If the price of an article rises, it is to be expected that spending on that article will be lower. And if the prices of other goods rise, it could be that spending increases. To estimate these effects, you need to have *longitudinal* data, i.e. data over time.

The Dutch Budget Survey is cross-sectional in nature, and so we have limited ourselves to household characteristics only.

3.6 Experience of counselors and experts

The disadvantage of the use of budget surveys is that they are dated. The last available results may be from a couple of years earlier. When changes occur in the legal arrangements for a certain spending category, the outcomes of the budget surveys can no longer be used to inform the public. In these circumstances, we have to adapt the outcomes with the use of other data sources.

We also make changes when other data sources provide more accurate estimates. For the costs of a car, we use samples from the Consumer's Union and the Driver's Association because their data is more relevant and detailed than the information in the budget survey.

For a number of spending categories it is possible to get help from expert organisations. Likewise, organisations which represent special interest groups like the elderly, people with a disability, ethnic minorities, and large families can also be consulted.

These bodies are particularly interested when adjusted reference budgets for their specific groups are being developed.

3.7 Prices

For reference budgets based on average consumer expenditure (either from surveys and/or experience) there is no need for specific pricing data, but if the budgets are made using baskets the items must be priced. There are different types of prices that can be used.

First are fixed tariffs or prices. For some types of goods (energy) there are nationally or legally fixed prices, or ranges of prices, and in these cases the fixed price is used in the budget. For other items, there may only be a few suppliers and a consequent narrow range of prices. Energy suppliers which cannot be chosen freely by consumers or the limited number of newspapers in the Netherlands are examples. In these cases a (weighted) average price can be a good solution.

However, there are many items which have a wide variety of prices and are of varying quality, such as furniture and clothes. As mentioned earlier, there is also often a clear relationship between the price of a product and how long it lasts. For these goods, Nibud uses the micro data from the price index surveys produced by the Consumer Prices Division of the Dutch Central Statistics Office which gathers information about prices to measure inflation. Thousands of prices for particular items are recorded to calculate the price index. For something like a coat, all coats are sorted by price, with the cheapest first and

the most expensive at the bottom of the list. The price which is at 25 percent of this list is the one used in the basic basket. It is assumed that an item with that price will correspond to the assumed life-span. So, if 400 prices are recorded and we sort them from cheap (no. 1) to expensive (no. 400), the price of the 100th article is taken as the price for the article in the basic basket. This concept of the 25% is known as the first-quartile. Nibud conducts its own research for goods that the Statistics Office does not measure.

Every five years we use the Statistics Office's databases to measure the first quartile prices for a great many articles. In the years in between, we use the published price indices.

A price index measures the development of the prices of goods and services of a consistent quality over time. Price indices are published on a particular year basis, for example 2000, 2005 and so on. Different series can be linked to each other so that longer series can be made. The way to update prices with a price index is as follows:

Suppose that the price of an item in 2006 is € 18. The price index for that product for 2006 is 110 and 112 for 2007 (on the same basis, the 2005 index is, say, 100). The price for 2007 is then: (price 2006 / index 2006) times index 2007 is: $(18 / 110) * 112$ is € 18.32.

Note that it is important to choose a price index which represents an item best. Sometimes there is no problem in doing so; the item in the basket fully coincides with the reported price index. If not, you have to choose the next best, for example by using the price index for women's clothing to update the price for dresses.

Another problem arises with items that improve in quality. As stated above, the price index measures the price of a product of a consistent quality. However, because of rapid developments in technology, many electronic goods become obsolete within a short period of time. As a result, the price index for electronic equipment can decrease over the course of a year, while the shop price remains the same or increases although the product (say a computer) is of a better quality. In these cases the price index is unhelpful. For other items, such as food, energy or clothing, this problem rarely arises.

3.8 Updating the reference budgets

Reference budgets are highly dependent on prices, income and changes in subsidies, whether they are used for poverty measurement or budget information purposes. In the Netherlands, social welfare benefits and subsidies

change twice a year, in January and July. This means that Nibud also updates the reference budgets at these times.

Prices change continuously, and when a detailed basket of goods and services is used, updating it can be a lot of work, particularly when an overall price index is not being used and individual prices in shops have to be recorded. For this reason Nibud uses – if possible - detailed partial price indices to update the basket. The prices of clothes, food and furniture are updated with the most detailed price index possible. Other costs are easier to obtain, like the price of energy, newspapers or mobile telephones. For some items there are also specialist institutes whose figures can be input into the Nibud reference budgets.

Stability

If new, improved data becomes available, or if the content of the basket alters, there may be sudden “jumps” in the reference budgets over time. Sometimes, new data leads to unexpected changes. For example, expenditure on an item may rise for single person households and fall for larger families. For reference budgets that are used for information purposes, this is not much of a problem; the new examples are a better estimation of reality and should be used. For reference budgets that are used for policy purposes, however, sudden changes may cause confusion for policy-makers. In these circumstances, you could mitigate the changes by taking the average of the old and the new budgets. Yet, you should be aware that if the budgets are used as a “minimum”, the actual “minimum” must be used and not an average. People on minimum incomes are dealing with the reality of current prices and needs and not average prices or needs from the previous year.

3.9 A roadmap for making reference budgets

The reader may be somewhat overwhelmed by all of this information and at a loss as to where to start. For this reason, in this concluding paragraph we will now set out some guidelines about how to get going and what steps must be taken in the process of creating reference budgets. It is first important to define the goal and type of reference budgets that you intend to produce, since this will give you a clear idea of what type of data you will need. Then, in what follows, the various steps you have to take are set out.

In general, the best way to approach creating reference budgets is to start simple and expand where possible. Expansion can be done in a couple of ways:

- By increasing the number of households.

- By creating reference budgets in a more systematic way.
- By producing reference budgets for different purposes.

Decide what you want to produce: a reference budget for information purposes, one with which to measure purchasing power (or poverty measurement) or both. Paragraph 2.1 explains the differences. A budget for information purposes may be a good starting point as it is less risky. In the process of developing such a budget, you will discover which expenditure can be estimated well and which is based more on experience. If you are convinced of your results, you may feel confident enough to take the next step and create a budget for poverty measurement.

Classify the expenses. Nibud has an example you can use, but others can also be helpful. You can do this on two or more levels: classes and sub-classes. Note that, ultimately, all of a household's expenses must fit into the classification system chosen. Sometimes, detailed expenses must be classified (but not always published) in order for you to know where to include them. For example, are stamps included in transport, communication or daily costs? You could also look at the HICP- scheme (see Annex 2).

Decide what type of expenses you want to have in the reference budget. Will they be minimum figures, modest but adequate figures, reasonable living costs, or averages? This has an impact on the construction of the reference budgets (which items are in the basket), the prices and the way the budgets will be used. Moreover, when publishing what you have produced, you will have to carefully explain how you approached this issue. As a first step, it is a good idea to draw up a budget for a working 4 person-family just to get a grasp of what is involved.

As a second step, you could try to come up with a basket for a single person living on the edge of poverty. What are his or her basic needs? Reference budgets based on detailed baskets require you to take two steps: first the construction of the baskets and secondly pricing the items. The baskets can be formed by experts or by consumers through focus groups. The types of shops where the products should be bought must also be defined. See also point 3 and Annex 1 of the handbook. Nibud's baskets can be used as a starting point. You could also start with your "experience-figures" and see if you can change some of them with more objective data. When producing general budgets, budget information experts like debt counselors often have a good idea of the spending potential of households with a low income. Try to find out why they construct

their budgets in the way that they do. What (implicit) rules do they take into account?

Another way to start is to use the averages of the National Budget Survey for low-income groups, which normally show deficits. What kind of “luxury spending” could be removed from these average budgets? For what expenditure could you find better data?

As a third step, you might think about how the basket would change if it was for a couple without children instead of a single person, or if it was for a couple with one child. Would age or the housing situation matter? So, start with a simple household and try to expand from there to other types of family units. What “rules” do you use to construct the baskets for these other households?

Try to gather price data. Even when pricing the items of a basket you can start with catalogues or an online-shop, or by just looking around a shopping-mall before attempting to get the data in an official way.

How will the reference budgets be published? When they are published in print, you must choose the types of households for which you want to produce a budget. Specify the members of the households as precisely as possible: ages, gender, children’s school, type of house and so on.

For a software program, on the other hand, you have to specify rules (like a child means an extra € 40 for clothing). But, once you have done so, it will be possible to calculate reference budgets for different types of households, even those with seven children.

Global reference budgets as an information tool can be produced by hand and updated easily. Creating budgets by using software requires additional investment, but with a simple spreadsheet it is possible to come up with a useful tool that can be published on internet too. More sophisticated software, however, can be used in different ways and can generate additional profits.

Try to expand the reference budgets for different purposes. Could you find reliable data about the expenses of higher income groups? Or can you perhaps specify “additional” baskets for those expenses that may not be absolutely necessary for each household? Often, the items that are the subject of discussion when identifying the contents of the basic basket could be “parked” in an additional, metaphorical basket.

4. THE APPLICATION OF REFERENCE BUDGETS

Reference budgets are produced with a particular use in mind, and in the previous chapters a number of possible applications, such as providing information and assisting with purchasing power calculations, have already been mentioned. In this chapter, and based on our experiences and the existing literature, we will explain the different ways in which reference budgets are utilised in more detail. As well as the budgets for information and purchasing power calculation purposes already referred to, we will also discuss how they are applied in the fields of poverty lines, credit scores and personal finance planning. These applications highlight that such budgets have a broad use and may also be of interest to commercial firms in, for example the financial sector. Accordingly, at the end of this chapter we will spend some time on the issue of the commercialisation of reference budgets, i.e. how to finance them. As has been described earlier, the development and updating of reference budgets is a costly process. This can be funded by subsidies, but it is also possible to earn some money from reference budgets in the market.

4.1 Information

Reference budgets are a rich source of information for a wide range of applications. An initial distinction can be made between whether information is required about the whole budget or just a part of it. Information about a complete budget can be printed in leaflets or made available as software or on the internet. Indeed, the latter two options¹³ make it possible to present a consumer with figures which are tailored precisely to his or her circumstances. Moreover, calculations such as totalling up expenditure and checking balances against total disposable income can be conducted automatically. Additional information can also be provided about how to make a budget balance and where there are opportunities to make cutbacks in spending. From a prevention point of view, this is a perfect tool to use to advise people how to spend their money and how to avoid getting into problematic debt.

Whether or not people are able to create budgets themselves is also a relevant issue, which largely often depends on the medium used. People with reading

¹³ On the Nibud website you can calculate a reference budget for your own household: <https://service.nibud.nl/pba/ad.aspx>.

problems may be better off with a software tool, as are those who have difficulties with maths. Of course, not everyone is confident in using the internet, and some may lack the skills needed to manage these types of software applications. Written information has the advantage that a user can utilise it to produce a budget at his own pace and is able to read the instructions beforehand. If, however, an individual cannot draw up a budget on his own, help from a counselor may well be needed.

In Sweden, the Konsumentverket issues a leaflet¹⁴ which households can use to do the calculations themselves. For each expenditure category, the reference figures are given per cost-bearer, e.g. the cost of food for an 18-30 year old man and the cost of home insurance for a family unit with three people in it. With this information, households can compose their own reference budgets.

Information concerning just a part of a budget also has a wide range of applications. For example, it may include data about energy consumption on different energy saving programs or the long-term costs of furniture. Being aware of this will enable people to put aside a reasonable amount each month to deal with such eventualities. Moreover, the chance to incorporate the monthly cost of a new car or a new house into a budget is also a benefit of an application of this type. More details will be given below in the paragraph on credit scores.

Costs of children

Another very different application of reference budgets is to split them into expenditure or costs per person. This makes it possible to calculate the costs of children, a boarder, or a live-in parent, for example. Questions about these issues are often put to Nibud and special leaflets, brochures and software have been produced to provide guidance.

When baskets of expenditure are created independently of income, the total (minimum) costs thereof also reflect the differences in the costs of an additional person. For example, if the basket of a household containing a man and a woman costs € 1000, and that of a family unit with a man, wife and a child aged five is € 1200, the costs of that child are € 200. However, as we have seen, Nibud uses balanced reference budgets with income as the starting point. These types of budgets do not reflect the real costs of a specific person in the

¹⁴ See http://www.konsumentverket.se/Documents/ekonomi/koll_pa_pengarna_2008.pdf

household because income is the restricting variable. People cannot spend more than they earn in the long-term. The same holds true for global reference budgets that are created without detailed baskets, or the results of budget surveys.

To use these global budgets for calculations such as the cost of children or to work out the financial contribution that should be made by adult children who continue to live at home, we need to split the household spending into two parts: expenses for the specified person(s) and those for the rest of the household. For this purpose, Nibud has developed so-called *distribution codes* for all items of expenditure. A distribution code tells you the element of the total expenditure per item that can be assigned or distributed to a certain person (or persons) in a family unit. Annex 4 sets out the codes for the distribution of a household's expenditure between parent(s) and child(ren). These were developed in cooperation with the Statistics Office in the Netherlands to enable the calculation from expenditure surveys of what children cost. These costs are used for policy advice about child allowances or for working out child maintenance.

Likewise, if you have been able to specify the costs of children, this information can be used as a “building block” when constructing reference budgets.

4.2 Purchasing power calculations

With help of reference budgets, it is possible to compare the financial circumstances of different types of family units. For example, you can see whether the minimum income of a certain group is sufficient to cover the spending in the appropriate reference budget. And, if this is the case, how much money is “left over” to cover possible individual inevitable spending or free expenditure?

It may be that some groups on a minimum income only just manage to make ends meet while others have quite a bit of money left over. In the Netherlands, we tend to see that large families cannot cover the costs of the basic basket from the minimum income, whereas single parents can do so with less difficulty. This can be interesting information for the government departments which are responsible for providing the minimum income, giving them insight into which groups are at greater risk of financial problems and which need extra financial support.

In the Netherlands, the living standards for those on the minimum income are primarily decided on a national level. The insight that low-income families with

children are the most vulnerable financially led to some changes being made to the subsidy structure for children.

Local governments can also provide support to low income families in the Netherlands, and Nibud gives advice to quite a number of them in the form of a so-called *Minima-Effect Report* which contains local reference budgets.

For most goods, we can use national figures; the key spending determined locally is local taxes, appropriate rents in a particular area, and the subscription costs of local sporting clubs, etc. Of course, local arrangements are also taken into account. For example, some local governments issue city-cards with which low-income groups can buy some products at a discount.

By using reference budgets it is possible to compare which groups are worse off in a locality. Households can be categorised according to their household composition, household costs or their health status. Another grouping is made with regard to income: is someone working at a minimum wage really better off than someone living on social assistance? We sometimes find these kinds of poverty traps in municipalities which have extensive programs for households receiving welfare benefits but nothing for those on incomes just above the minimum level.

We can also compare the difference between the minimum income and the cost of the basic basket over time. Did this figure rise or fall over the past year(s) for the various groups of households?

Nibud also calculates the effects of new government regulations, wage and price developments on the budgets of about 100 standard households. This is done twice a year: in September, when government plans are announced, and in January when the new regulations passed by parliament come into effect.

4.3 Poverty lines

The basic basket can be regarded as containing the bare essentials for a household. It is, therefore, tempting to use the costs thereof to establish a poverty line; someone may be described as poor if he cannot meet the costs of the basic basket.

A benefit of this approach is that unlike the more mathematical methods, there is a direct link with what a household actually spends. If preferences shift over time, the basic basket will be changed, and because of that the poverty line does as well.

Yet it is our view that the basic basket is not enough to establish the poverty line. The main concern is that it does not take personally inevitable costs into account. These, which include items such as additional expenditure on health, may be an important cause of (the feeling of) poverty. For other expenses, like “social participation”, it is quite difficult to choose precisely which products or services should be included in the basket. For one person this could be a cinema ticket, while for another it could be the costs of a sport or an occasional visit to the pub.

Accordingly, “additional” baskets can be produced to demonstrate some of these extra costs. Annex 1 sets out how Nibud achieved this.

The Dutch Social and Cultural Planning Bureau has experimented with the use of the basic and additional baskets as a basis for establishing a poverty line. More information is contained in its report¹⁵ and book¹⁶.

4.4 Political implications

As mentioned in paragraph 2.2, reference budgets for households with a minimum income that do not have (individual) extra costs, reveal that basic social assistance in the Netherlands is enough to enable a family unit to live at this minimum level of well being. The budgets can be used as a benchmark and were developed without the sensitivities or tensions that can be caused when measuring poverty. Subsequently, however, these budgets have also been used as a poverty indicator, although not by Nibud.

Because of their transparency, other parties and groups are eager to use reference budgets to support their particular points of view. Some politicians argue that the minimum income level is enough (there are rarely any deficits), while others maintain that the minimum level is inadequate (see what you cannot do with such a budget).

Moreover, because of the budgets’ transparency, politicians, interest groups, the press and individual citizens’ organisations regularly criticise them during their arguments. Often, this criticism is focused on details which barely affect the budgets overall, but it can cast doubt on their designers.

It is for this reason that it is crucial that reference budgets are produced by independent and neutral organisations which cannot be accused of bias.

¹⁵ Beyond the Breadline, SCP, The Hague 2008, downloadable from <http://www.scp.nl/english/publications/books/9789037703719.shtml>

¹⁶ J.C. Vrooman (2009), Rules of relief, institutions of social security, and their impact, SCP, The Hague.

Nibud has always pointed to the main goal of the reference budgets, namely to be an information resource for the public. It is up to other parties to draw conclusions which might apply to wider elements in society. Nibud can, of course, advise on how this can be achieved and will issue warnings if its guidance is ignored.

Nibud's answer to the question of whether the social minimum is enough to make ends meet is as follows. If we look at the reference budgets we have produced, we see a positive result. That means that it is possible to make ends meet if:

- The household asks for all of the income support it is entitled to; and if
- The household can manage its money very, very well; and if
- The household does not have major extra, personally inevitable costs.

Of course, meeting all of these three conditions is not easy for someone living on a minimum income.

4.5 Credit scores, rent norms

Nibud calculates three kinds of reference budgets for an individual household: a minimum, a reference/example and a balanced budget. If you confront the costs of these budgets with the income of the household, you are able to see whether there is room for other expenditure.

Ideally, an individual household will use the reference budgets to create its own individual budget. Upon doing so it will be possible to see whether a new financial obligation, like a mortgage, can be afforded.

However, financial institutions normally apply "average" figures to determine whether or not they are prepared to grant a loan to an applicant. In such a case they can also make use of reference budgets. Nibud has developed a methodology to apply to mortgage applications which is used by the National Guarantee Fund for Mortgages. Since 2007, it has also been part of the code-of-conduct for all Dutch mortgage issuers. These professionals have to comply with the system or must be able to provide good reasons as to why they have deviated from it for an individual client.

We will describe the methodology below:

Point of departure

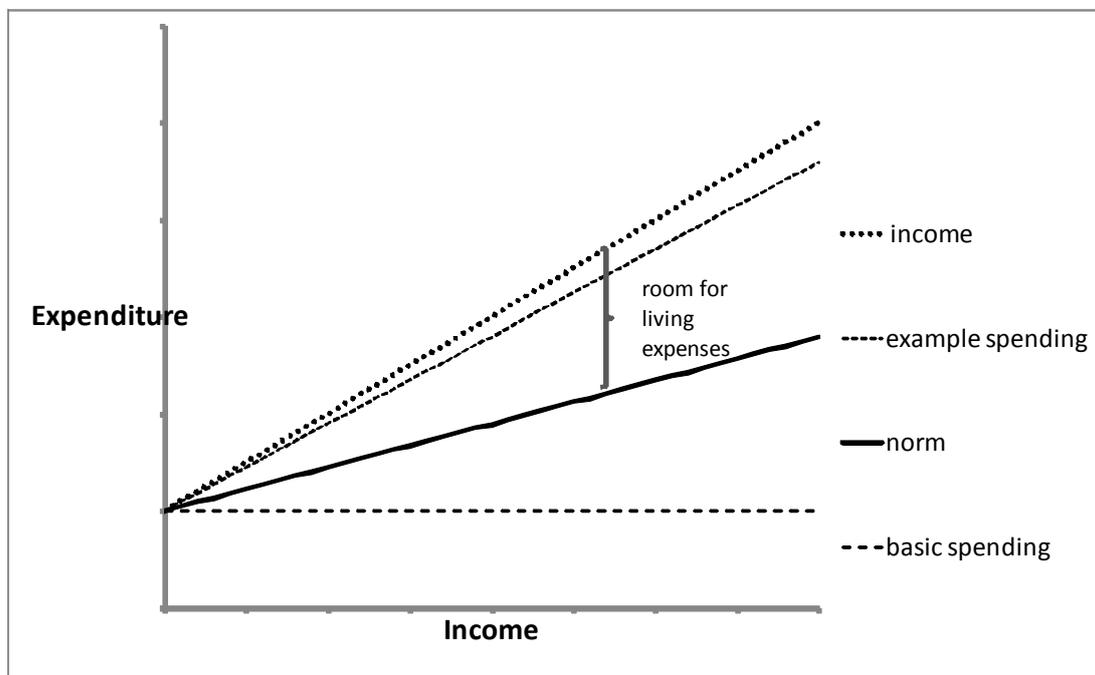
Nibud distinguishes between *reference budgets for a minimum income* and *reference /example budgets*. The former set out the minimal essential costs for a particular spending category and are influenced by household composition but

not by income. The latter are the average costs of a comparable household with a comparable income. These figures depend on both household composition and income.

The starting point for loan-to-income ratios is that the reference budgets for a minimum income should still be available to households with the lowest incomes having a maximum mortgage. For higher incomes, the amount of the other costs should be the average of the minimum and the example budgets.

After subtracting the mortgage costs from the net income, there is an amount left over between the minimum and the example expenditure. It would not be realistic to assume that all expenditure will be at a minimum level when taking out a maximum mortgage. However, with a maximum mortgage thus specified, a household has less to spend than comparable households of the same household composition and with the same income.

This method is a “net-net” method. As interest payments on mortgages are tax deductible, the resulting spare money in the budget is recalculated into a gross amount.



Description of the data

The loan-to-income ratios are the norms for safe and responsible lending. According to these norms, with a maximum loan there is enough money to

finance other household spending. The calculations are produced for a single-earner household of two people without children. Both the costs of and the subsidies for children are not taken into account. Simulations of other household types demonstrate that this variable does not really affect the outcomes. However, extreme situations are not taken into account.

To prevent sudden changes, for example when new data for food costs is available (every five years), we use the average reference budgets of the past four years.

The loan-to-income ratios for mortgages are calculated before the start of each year. For year t , the ratios of year $(t-1)$ apply. This is caused by the time that passes when waiting for the tables to be approved and then entered into a bank's software.

This means that the fiscal and social legislation of year $t-1$ is used. It is only when large system changes take place, like those in the Dutch health system in 2006, that calculations can be made under the new legislation.

The loan-to-income ratios are presented in two tables. One is for households up to the age of 65 and the other is for family units older than this. This is because the latter are taxed differently.

Both tables take into account differences in interest rates. Both also have five columns with increasing interest percentages. The table starts with the gross minimum wage and continues up to € 100,000. You can see the table for households below the age of 65 in Annex 5.

The percentage in the table represents the percentage of the gross income that can be used for gross mortgage payments.

Special aspects

This method coincides with the Norms and Conditions of the Dutch Mortgage Guarantee Fund. Special attention should be paid to the following aspects: Account should be taken of a household's other financial liabilities (for example alimony and other credit agreements) when calculating what is available for mortgage payments;

For a two-earner household, the loan-to-income ratio for the highest income should be chosen. That ratio may then be applied to total income;

A different method is used to account for loans for which interest is not deductible from income tax;

Possible available wealth components, like savings or investments, do not play a role when calculating loan-to-income ratios.

4.6 Simulating the future/ life-time expenditure patterns

Having created a reference budget for one year, it is easy to extend it for a longer period, especially when the calculations are done by software. Every year that a person increases in age, his or her income can be expected to be the same or to grow by a certain percentage annually. Other variables can also change, like the type of school the children attend, or they may leave home altogether. Yet others will remain stable for a longer period, such as the house lived in or the type of car owned. These changes can be accounted for in the calculations so that an overview of the lifetime spending of a household can be produced. All changes in expenditures become visible, as do changes in allowances, tax reductions etc. when an income model is combined. The effects of mortgage, rent or credit agreement payments can thus be shown in this type of simulation.

Because the annually calculated budgets are constructed as a balanced budget, it is possible that there will be no deficits. However, there can be differences in terms of welfare between two balanced budgets: two households with the same disposable income but a different number of family members can have a balanced budget, but the one with fewer people can do more with its money. Comparing the figures for the different expenditure items provides insight into the issue of welfare. As the margins for a balanced budget are greater for those with higher incomes, such calculations for households with lower incomes have to be more effective: here it is more difficult to make the budgets balance. The calculations considered above are used in personal financial planning, but are often complemented with 'what if' calculations: what happens to my family if I die? Or: is my retirement pension enough to maintain my standard of living? These calculations are typically only made using income as a variable, but alterations in the number of people in a household, retirement from work, or disability will change the expenditure patterns of a household as well. When a risk analysis is conducted to calculate the effects of what would happen if the breadwinner in a family dies, it is clear that there will be an impact since the deceased will no longer be generating costs or income. This is why it is important to take these possible changes into account.

4.7 Financing the construction of reference budgets

The construction of reference budgets – particularly when detailed baskets are used – is a lot of work. The same is true when it comes to producing budgets for credit score purposes or for personal use on the internet. The question is whether these costs can be (partially) earned back. Public funding is one

possibility, but in the free market, as well as web sponsoring through the use of banners, there are a number of other ways to earn money from reference budgets. In these circumstances, arguments in favour of commercialisation must be weighed against the benefits of providing free budget information.

An internet application involving free personal budget advice attracts a lot of people to it. Nibud, therefore, uses its website to also sell products to these visitors via a web-shop, thus generating some income. An alternative would be to charge for the advice itself, which is relatively quick and easy to organise these days with, for example, a credit card or a mobile phone.

But there are more ways of making money than just charging for services. Several financial institutions are interested in reference budgets as a way of demonstrating their sense of social responsibility. So, banks, insurance companies, mortgage suppliers or credit institutions could pay to set up a link on their websites which connects to free personal budget advice for their clients. Another option is to sell the calculation data (under certain conditions, such as a guarantee that the budgets will be represented correctly) so that companies can use it on their own websites in a manner which best suits their purposes. This can be done technically with a so-called *dll* (dynamically linked library), which only conducts calculations since it needs all of the variables which determine expenses (cost-bearers) to be input into it; the reference budget is an output. It has no page design for input or output: that must be produced separately. Nibud uses the *dll* of its reference budgets internally in combination with, for example, Excel to produce tables for the Budget handbook or for local purchasing power calculations.

5. Case studies

5.1 Introduction

This chapter contains case studies from the partners involved in the 'Standard Budget' project. The reader will also find contributions from other European countries which use reference budgets for a variety of reasons.

This information may assist future organisations which want to start to construct reference budgets in their own countries. It also provides more insight into the possible problems that may be encountered, along with advice about how to resolve them.

The case studies are described with the following issues in mind:

- Organisation/process
- Terminology
- Data available/in existence and sources
- Stakeholder identification: stakeholders are defined as people and institutions which contribute something to the process of developing the reference budgets and/or have an interest in and use reference budgets (direct and indirect beneficiaries).
- Methodology
- Goals (purpose, household definition, minima (e.g. clothes) – types of applications)
- Actions (steps, development of process)
- Challenges and lessons learned
- Validation
- Costs, time and effort
- Future steps
- Communication/PR

5.2 Austria

Authors:

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Organisation of the process

Seven steps were crucial in the development process:

1. Deciding on the research team responsible for developing the reference budgets;
2. Deciding what kind of reference budgets would be produced and for what purposes;
3. Beginning research into whether similar studies have already been conducted in Austria;
4. Identifying the stakeholders and experts in diverse fields;
5. Carrying out research and keeping in contact with researchers in fields which are specifically related to the budgets;
6. Calculating expenditure in close cooperation with experts and those experiencing poverty/with a low income;
7. Reflecting on the figures and methodologies used and, if necessary, making some changes.

Terminology

In Austria, the search for the right terminology for the phrase “Standard Budgets” involved several lengthy discussions with diverse stakeholders such as researchers, debt counselors, social workers and members of the Austrian Anti-Poverty Network. The term “Standard Budgets” did not seem appropriate for use in the German language because it evokes associations with an average or ‘normal’ budget. In fact, a modest, albeit adequate, budget was to be developed, excluding luxuries, but including necessary expenditure. Furthermore, it was seen as important to choose wording which is not judgmental, includes private households, and places the emphasis on expenditure.

Ultimately, the stakeholders involved in the project agreed on the term “Reference Budgets for Essential Household Expenses” (in German: “Referenzbudgets für notwendige Haushaltsausgaben”).

Stakeholder identification

Stakeholders were defined as people and institutions which could/would contribute to the process of developing the reference budgets, as well as those

who have or had shown an interest in and will probably make use of them (direct and indirect beneficiaries).

The Austrian stakeholders are:

- Final users – clients of debt advice services, those on a low income, and anyone interested in checking his/her household budget;
- Experts (expert organisations in the diverse fields of expenditure);
- Social services which give advice to people;
- Scientists conducting research into poverty, debt, minimum incomes etc.;
- Debt advice services;
- Public authorities - e.g. the Austrian Ministry of Social Affairs, Employment and Consumers' rights;
- The national office of statistics;
- The asb – project team;
- (Banks/credit institutions).

Methodology (including “data available/existing and sources”)

Different methodologies have been used to calculate the diverse categories of expenditure, namely:

Primary data

Where data was unavailable or was inadequate for our purposes, we conducted our own research in shops, catalogues, and on the internet

Secondary data

Data obtained from expert organisations, researchers, the national office of statistics, and fixed tariffs

Workshops/discussions with experts (social workers, debt counselors) and people who have a low income/are experiencing poverty

Most of the categories are based on so-called basic baskets consisting of detailed lists of goods (amounts and life-span) converted into monthly costs. These goods are inevitable for each household and are all newly bought (no second-hand items).

Pricing

Modest but adequate figures were used. There was no inclusion of the very cheapest prices as it is not always possible to find these for each product and service. Moreover, it would also be too time consuming to look for the cheapest items in all categories.

The first quartile (25% above the cheapest price) or average figures were used depending on the category.

The data used for the development of the reference budgets is from the years 2007 and 2008.

Economies of scale have been taken into account in relation to the size of the household (e.g. furniture, equipment, and energy).

NOTE: available data from the national office of statistics was often useless for our purposes and/or was inadequate for the development of reference budgets. It is also of limited use for the tasks of household budget planning and giving debt advice.

Goals

Purpose

The Austrian reference budgets were primarily developed to be used for budget information and debt advice purposes, since the asb Schuldnerberatungen is the umbrella organisation of the Austrian debt advice services. The budgets are intended to serve as guidelines and provide support to debt counselors in their daily work. Furthermore, they will also be used as tools for debt prevention work as they represent a good way of advising people about the real costs of living. In particular, young people who leave their parents' home and move into their own house/flat are often unable to estimate correctly what sums of money will be needed for fixed and daily expenditure.

The purpose of developing reference budgets was to calculate the actual costs of a basic standard of living which meets an individual's physical, psychological and social needs, and enables people to adequately participate in today's society. We, therefore, did not aim to calculate the amount of money needed to purely survive (no calculation of vital minimum standards) but instead preferred to estimate a household's actual needs and come up with a budget that will enable people to lead a decent life (life + dignity): *"Having a life, not just staying alive!"*

Bernadette Mac Mahon of the Vincentian Partnership for Social Justice

Types of household/household definition

After extensive research, the expenditure patterns of the following five household types have been created thus far:

- Single person household (male/female; age: 25 to 51 years)
- Single mother with one child (8 years)
- Couple without children (age: 25 to 51 years)
- Couple with one child (8 years)
- Couple with two children (7 years + 14 years)

Assumptions

To ensure that the Austrian reference budgets can be used as guidelines for as many consumers as possible, it has been necessary to make assumptions about what will be relevant and valid for the majority of Austrians. In so doing, a certain degree of simplification has, therefore, been unavoidable.

Our basic assumptions are:

- no regional differences;
- accommodation is rented – no property/no condo; and
- no car (despite the fact that the average monthly costs for a car are calculated, since some people living in the countryside need a vehicle, a car is quite an expensive cost factor).

Types of applications

As the reference budgets are intended to be used as a tool in the daily work of Austrian debt counselors, a specific IT instrument will be developed for integration within the software of debt advice centres. In addition, a self-explanatory tool will be implemented on the web-portals of these Austrian debt advice centres (www.schuldenberatung.at). It will be accessible to everyone who is interested. Explanatory details and further advice will be an integral part of this tool.

Actions

The following steps have, so far, been taken in the development of the budgets:

I. Preparatory work

Decision made about expenditure items: a first draft of a basic reference budget for a couple with two children was sent to debt advisers and social counselors, asking them to come up with estimates of the necessary expenditure according to their experiences in their daily work.

The results were discussed in June 2008 at a first national workshop with

debt/social counselors, researchers and ministry representatives, and in May 2008 at the 1st international project seminar in the Netherlands.

II. Determination of the classification of expenditure

Expenditure has to be classified in some way or another. The approach taken in the Netherlands (Nibud) was used as a guideline and then adapted to the Austrian situation. According to the praxis of debt advice, various forms of expenditure have been put into three main groups:

A. Fixed expenditure (“Fixe Ausgaben”): such as rent, heating, electricity, telephone, and insurance. These expenses are often contractual and the payments tend to be made over fixed terms and for fixed sums.

B. Reservation expenditure (“Unregelmässige Ausgaben”): such as clothes, furniture, and equipment. Some of these expenses are fairly significant (e.g. furniture) meaning that a household often has to save for a long time to be able to afford them. These are represented in the budgets by average monthly amounts rather than actual sums spent. It is particularly important that those with a low income save some money (if possible) for the more major investments such as home appliances.

C. Household money (“Haushaltsausgaben”): such as food and personal care. This category concerns daily and weekly expenditure, which is rather flexible.

III. Calculation of a basic budget for a single person household

The basic budget for a single person household has been created independently of information about assumed income, and is based on research and data obtained from a number of different sources and using a variety of approaches. Intense research into each item of expenditure started in the summer of 2008. Then, in October the same year, we presented our first reference budget for a single household at the second international budget seminar in Spain. At that time, however, we had not yet defined the food basket, which required extensive research.

This basic budget for a single person household has, more or less, served as a prototype for the other Austrian reference budgets.

IV. Calculation of basic budgets for households with more members

Budgets for households with more members and with children have also been calculated based on the approach used to develop the single person household basic budget. Ultimately, five different household types (which can be seen as typical of Austria) have been considered (see “Goals”- “Types of household”).

V. Discussion/reflection on the budgets with “budget experts” (debt counselors, social workers, people with a low income)

During the course of the national workshops, the basic budgets developed by the asb project team were discussed with debt counselors and those actually experiencing poverty. Revisions of the budgets were made as appropriate.

VI. Relation of the budgets to income (note: this step is still open and will be discussed further)

The next step in the development of reference budgets is their extension to households with higher incomes. Budgets for diverse incomes need to be calculated so that people with a particular level of income can compare their personal expenditure with that suggested by the reference budgets, identify differences, and thereby receive feedback on their own budgeting.

Challenges

The development of reference budgets for Austria has to be regarded as fundamental research. So far, no comparable projects, studies, or tools have been realised. Finding a good starting point was, therefore, as crucial as it was time consuming. The instructions from Nibud have been of the utmost importance. Nevertheless, a complete replication of the Dutch model has not been possible due to the local peculiarities of Austria.

A series of fundamental services are organised on a regional rather than a national level in Austria and costs can vary from region to region. Finding an adequate approach to apply to households in all of the nine federal states has, therefore, been very demanding.

Specific challenges

Food

We started on the basis that each person should have the opportunity (or, in other words, the money) to eat a healthy and well-balanced diet, regardless of whether or not they actually choose to do so in reality. Research into food poverty reveals that people living in poverty eat unhealthy food not just because of a lack of knowledge, but instead due to both a lack of income and certain consumption patterns related to this. Based upon this insight, and the fact that healthy people make less demands on national economies, our calculations have been based on diet plans that were developed for different age groups (10)

and genders by two dieticians. In total, 600 daily diet plans for 30 days based on nutritional requirements and Austrian eating habits were developed.

Pricing was equally demanding, since the most popular food store chains in Austria do not publish their price lists (even for research purposes). The available data on food costs collected by the national statistics office is likewise not particularly useful for reference budgets as it simply reflects the (often unhealthy) eating habits of Austrians. It also has to be assumed that if people have little money, they will spend little of it on food and probably buy cheaper items than those who are wealthy.

Original price surveys had to be conducted (via price research in supermarket chains, advertising folders, research on the internet). The prices used for the budgets are average prices; special offers were not considered.

Finally, a special computer program provided free of charge by the dieticians was used to combine product prices with diet plans.

Economies of scale for households with more than one member were used according to calculations made by the national office of statistics: 1st adult=1; 2nd adult= 0.8; 1st child=0.6, 2 children: 1st =0.6; 2nd child: 0.1.

Public transport

In Austria, public transport is not nationalised and prices thus vary from region to region. Finding an approach that is suitable for all of Austria has proved to be difficult.

It has also been difficult to decide how many kilometres per month an individual will travel on public transport.

Rent

The starting point was to decide on an adequate size of apartment for one person, two people, etc. Existing guidelines produced by the Austrian public rent aid authority were used. These suggested a 50 m² apartment for a single person, 60 m² for a couple etc.

The next step was to discover the average national price per m² for renting an apartment, which is information that has not yet been officially collected and published. Moreover, regional price differences are rather significant.

Ultimately, the annual price comparison lists for estates, published by the Austrian Federal Economic Chamber 2001 – 2008, served as the basis for the calculation of an Austrian average m² price.

School costs

The cost of a school education and school related costs, as well as the costs of after-school care, have also been difficult to calculate as they vary from one community to another. Moreover, the costs of after-school-care depend on the income of an individual household.

Social participation

Having the opportunity to participate in social activities and being able to enjoy a cultural life is important for all members of a society, including those with a low income and those who are experiencing poverty. If the concept of social inclusion is to be taken seriously, all households need to be able to participate in the social and leisure activities which are considered to be “normal” in their community. They, therefore, need to have access to the necessary resources. The decision about the amount to allocate to social inclusion activities and participation in them has proved to be both difficult and, inevitably, subjective. Consequently, scenarios of possible activities that can be undertaken with a certain amount of money were constructed and calculated, starting from a general consideration of a modest but adequate lifestyle.

Lessons learned

- Transparency and traceability of the methods and data used are the requirements for long-lasting tools.
- A clear definition of the conditions of the reference budgets is important.
- The exchange of information, experience, and realities is what makes this tool practical.
- It is important to keep the target group and the application of the budgets in mind at all times.

Highlights

- Positive response to our requests from different experts – they were open to discussions, interested in the topic, and are disposed to support us even if they do not have concrete data.
- Reference budgets seem to be instruments for real lives which are really needed but have never been developed before. This was a real source of motivation for us!

Validation

The validation of the approaches and data/resources used is one of the most important steps within the process of the development of reference budgets.

Even though the calculations and analyses are based on intensive research, the attempt to be objective, reliable and meet the needs of the majority of relevant households by also using the knowledge and experience of experts in particular fields, means that the data still reflects individual opinions. Feedback, therefore, has been regularly sought from counselors at social organisations and debt advice centres, as well as from representatives of the target group (people with a low income, people experiencing poverty, etc.).

In Austria, the reference budgets have been dowsed in “reality” by putting them up for discussion with debt counselors and those who are poor and then adapting them as appropriate.

How to get in contact with NGOs/NPOs and people on a low income

As the asb is a member of the Austrian anti-poverty network, it was fairly easy to get in touch with NGOs and draw their attention to and awaken their interest in the EU ‘Standard Budget’ project and the development of reference budgets. It seems that the budgets will be an instrument that is useable by them in a number of different social fields. We had a similar experience with the debt advice services.

People with a low income can be addressed/reached via the Austrian anti-poverty network and, more specifically, through its project/campaign “Become Visible”, which encourages those experiencing poverty to organise themselves. These people usually know precisely what their costs of living are because being able to calculate their expenditure is of the utmost importance due to their lack of money.

How to keep the Reference Budgets up to date

Keeping the figures up to date is vital. In Austria, this will generally be done in a similar way to how this process occurs in the Netherlands (see paragraph 3.8). This means that the budgets and all expenditure on individual items will be updated every year by means of detailed partial price indices. Every three to five years, the content of the baskets will be checked and, if necessary, adapted and newly calculated.

A special challenge will be getting the resources together for updating the reference budgets.

Future steps

- Elaboration of the Austrian reference budgets and finding a way to guarantee that keeping them up to date will continue to be possible.
- Development of reference budgets for households with more than two children and for retirees
- Including reference budgets in the asb seminars “FinanzCoaching”, which concern over-indebtedness and ways of fighting and preventing it. These seminars are held for social workers and other interested professionals who might be contacted at work by people with debt problems
- Exploring whether it is possible to develop a Budget Advice Service in Austria in one form or another

Communication/Lobbying

Objectives

At a meeting of the managers of the Austrian debt advice centres it was decided to use the reference budgets to jointly lobby for an increase of the “Pfändungsgrenze” (=income which cannot be seised and remains at the debtor’s disposal).

Ways of using the budgets in relation to poverty measurement, minimum income and other social policy measures have also started to be explored with the other members of the Austrian Anti-Poverty Network, Die Armutskonferenz. This will also be further discussed with the scientific community working on poverty in Austria.

The Austrian ministry of employment, social affairs and consumer protection has been involved in the process of developing the budgets and is financially supporting their further development and application.

Ways of making use of the budgets with regard to responsible credit availability will also be explored in dialogue with financial service providers and political decision-makers.

Tools

The booklet on reference budgets for Austria will be a key tool when it comes to future communication and lobbying.

The booklet – and thus the budgets themselves - will be presented to the media and interested stakeholders by the end of 2009 or the beginning of 2010.

Articles on the budgets and their possible use will be published in various professional journals and the mainstream media.

Workshops to explain the budgets have already been held and will be arranged again in the future at various times.

Human-resource allocation for the development of reference budgets

Researcher (MK): total of about 850 hours in 18 months => about 11 hours per week on average

Researcher (CL): total of about 620 hours in 18 months => about 8 hours per week on average

Project and PR coordinator/Supervisor (MM): total of about 77 hours in 18 months = about 1 hour per week on average

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(a specific web link for the web tool that is to be built will be available later)

Organisation/process

29-30 May 2008: Haarlem seminar

Stakeholder and available data identification; contact & collect

The first step was to identify the stakeholders and the data available about this issue. Because of the federal structure of Belgium, this was essential because regional divisions can lead to a lack of partnerships as well as to a lack of communication.

16 October 2008: First Belgian seminar

Based on this first identification round, the organisation of the project implementation stage was designed in order to meet the needs of the key stakeholders and improve general collaboration. This was the result of the first seminar organised in Belgium, when all of the identified stakeholders were represented.

Partnership development with:

- The Flemish team working on the definition of a minimum standard
- The Walloon team which will test the transposition of the Flemish

results to Wallonia

- The debt counsellors' representative
- Social credit providers

Research for RFA, with exchanges with standard budget (SB) and national partners.

- Social credit budget collection and analysis: to provide a benchmarking tool based on a “real constraints” budget from a low income household
- Presentation to particular stakeholders (debt counsellors/focus group/Walloon statistical institution)

Presentation of the results during the second Belgian seminar. Identification of the challenges and demands and the need to improve, disseminate, and validate the SB process.

Terminology

During the first Belgian seminar, a rather intense debate focused on the use of term “Standard budget”. Many people were concerned that the word “standard” could be seen as referring to something other than what is intended (is it an average? A common national consensus? A minimum?). Above all, in the French language this word evokes a real sense of a “norm”, which was unacceptable to many participants.

After further discussions, we concluded that the term “reference budget” is both more appropriate and more neutral. It is also flexible in that more information can be usefully added to it, e.g. a “reference budget for social inclusion”, or a “reference budget for essential household expenditure”.

Data available/already in existence and identification of other data sources

National statistics data:

Household Budget Surveys (HBSs), which are carried out in all EU Member States, are mainly focused on consumption expenditure. Their primary aim (especially at the national level) is to calculate weightings for Consumer Price Indices (CPI). Unfortunately, their sample sizes are too small for the purpose of producing reference budgets for particular households (single person, single parent with one child, a couple etc.) with a particular range of incomes.

On the other hand, the prices of the goods and services collected for the CPIs can be a useful source of data.

Regional Flemish data collected for the purpose of drawing up a minimum budget (based on a detailed basket of goods and services)

Implemented in Flanders, and partially financed by the National Scientific Policy, a study has been launched with the aim of producing a normative minimum budget for households. A second phase has been organised to check the relevance of the results and their applicability in the Walloon and Brussels regions (see more about this later in this paper).

The Walloon Federation of Municipalities Service for Social Action finalised a study in 2008 related to “the basket of the housewife ... in poverty”. It is based on interviews with people experiencing poverty (between 55 and 70 active respondents).

Anonymous budgets from social credit beneficiaries.

A social credit provider (Credal Plus) has launched a form of credit that is available to people experiencing poverty (households with restricted incomes). The customers' budgets, which are constructed during the credit rating process (based on effective data), have been provided to us for in-depth analysis.

Stakeholder identification

This step has led to *partnerships* with:

The Flemish research team working on the definition of a minimum standard. It is attached to a Walloon team which will transpose the Flemish results. This study is financed by the Belgian Scientific Policy Administration.

Debt counsellors from the Walloon and Brussels regions who will use and provide feedback on the standard budget.

The social credit company (Credal Plus), which has provided us with the anonymous budgets of its beneficiaries to enable us to create an average budget from real “income restricted” households and allow benchmarking. So far as the prevailing circumstances in Belgium are concerned, the following form of cooperation was agreed during the first national seminar. In order to provide useful feedback for the Flemish team, it has been decided to:

- Implement a complementary SB based on social credit budgets (RFA)
- Promote a test by debt counsellors
- Facilitate contact with stakeholders for focus group creation
- To organise the giving of feedback during the second Belgian seminar. This will provide an appropriate mutual learning tool.

Exchanges and contact with:

- Researchers and institutions dealing with poverty issues and the measurement thereof;
- Administrations: (a) social security, b) social inclusion, c) national office of statistics;
- Various social workers who are currently dealing with issues of financial education and how to balance a budget for people in difficulties;
- People experiencing poverty and/or over-indebtedness.

Methodology and action

We will describe respectively the methodology used by the research team to produce a minimum normative budget for households, as well as that used to analyse the budgets of social credit customers. This will allow us to conduct benchmarking between a theoretical approach and one using effective data from those in deprived circumstances.

A) Flanders research methodology¹⁷ synthesis:

Basket content:

The theoretical basis for the criteria used to build the basket of goods and services is “a theory of human need”. The crux of the theory is that, in order to be socially included, and able to play various roles, such as friend, husband, neighbour, father, and colleague, everyone needs health and autonomy. To achieve this, a minimum basket of goods and services is required.

Health implies: nutritious food, protective housing, appropriate health and personal care, suitable clothing and a refreshing night's rest.

Autonomy implies: security in childhood, significant primary relationships, mobility, cultural participation and entertainment and physical security.

Selected living conditions:

Choices regarding family model and living conditions:

A limited number of households – single person and a couple with/without children - have been chosen. They vary in the number and ages of the adults and children (albeit there are no babies and no retirees)

Selected living conditions: healthy, active, unemployed, tenant, no high school students and no car.

17 An extensive description is available in Dutch in: Storms, B., & Van Den Bosch, K., (2009) “Wat heeft een gezin minimaal nodig? Een budgetstandaard voor Vlaanderen” -, p.59 – Theoretisch kader, ACCO edition.

Pricing

Pricing is directly influenced by the criteria identified for each area of expenditure. The prices and the shops they have been obtained from have been significantly adjusted thanks to focus group information.

Two detailed examples: Food criteria: recommended dietary allowances (Hoge gezondheidsraad, Vlaams Instituut voor Gezondheidspromotie) - Food basket: healthy, varied, and balanced. The prices are the lowest (provided by a particular supermarket company) plus 10%, which represents the prices generally available in the shops used by people living in poverty.

Clothing criteria: Must protect against all weathers (no car!), be decent, boost self-esteem, be non-toxic, new, and enable people to shop, visit friends, go to parties, work in the garden, and take up sport (jogging, swimming). Shoes and coats should be high quality and cheap, but not the cheapest items.

B) Social credit budget analysis methodology

Population: all of the budgets were completed during 2007 and 2008

Validation: sample containing a minimum of 50 units

Remaining household profiles: low income (in order to meet social credit requirements), single person homes from Wallonia & Brussels, single from Wallonia, single from Liège, single from Brussels, and unemployed single from Wallonia & Brussels

The main conclusions from the benchmarking conducted with these “real” budgets are:

Identification of restricted expenditure: phone and mobiles (around 100%), food (from 30% to 44%), health care (from 55% to 70%), pets (from 160% to 400%), birthdays and gifts (from 110% to 340 %).

Identification of better covered expenditure: clothing and shoes (from 22% to 37%), body care (from 30% to 54%), and leisure (from 41% to 66%).

Overall, the minimum reference budgets are more restricted than the social credit customer versions, essentially because of the differences that exist in disposable income and the level of debt and credit used.

It has also been underlined that in a rather large section of the population, the following expenditure items exist but have not been selected because of the behavioural or normative hypothesis: alimony, tobacco, alcoholic beverages, and interest rates on bank accounts.

Goals

So far as the committed stakeholders are concerned, various goals have been identified.

For the Flemish research project:

- to measure the extent and depth of poverty and social inclusion;
- to use SBs as guidelines for determining additional income support, debt rescheduling, and the settling of income maintenance;
- to evaluate the adequacy of minimum income protection in Belgium;
- to encourage Belgian and European politicians to work towards a socially inclusive society (i.e. a society in which everyone can participate in a minimally acceptable way).

For the Walloon researcher:

- to check the Flemish output regarding Walloon potential specificities, to organise consultations (focus group), and to check if the notion of a “national minimum basket” makes sense.

For the RFA related to social credit budgets:

- to propose a comparison with real “constraint” budgets and analyse the similarity and differences in typical expenditure.

For debt counsellors:

- to test a tool which may help them in their professional lives, and to compare their personal references and knowledge to other references.

Budgets for the Belgian research and projects

The Katholieke Hogeschool Kempen dedicated € 120,000 to the production of a minimum basket for Flanders over a three year project (2006-2008).

The Belgian Scientific Policy gave € 150,000 for a one year program (2008-2009), mainly to develop household profiles complementary to the above mentioned study, and to check compatibility with the reality in Walloon and organise focus groups.

The EU Mutual Learning on Standard Budgets project dedicated € 51,000 for a one year program (2008-2009), which includes the dissemination of the budget (seminars, publication etc.).

Challenges and lessons learned

Basket composition for particular expenses: food, housing, scholarship fees, and public transport subscriptions. Because of the federal structure of the country, there are differences in the regulations that exist in particular areas (e.g. maximum scholarship fees have only been established in Flanders). Likewise, the market (rents can differ greatly all over the country) and the social institutions available may differ from one region to another. This has serious

impact on household spending, making the validity of a national approach to budgeting questionable.

Health expenditure: how to guarantee appropriate access to health care? The amount estimated in the reference budget is not enough when people are unwell. In Belgium, the measure implemented to guarantee such access is inefficient and continues to be a major issue. It is quite common for those who are in debt to have high hospital bills. The amount included in the budget for this item should, therefore, be regarded as the maximum available for health care. Unfortunately, if this is to work, the healthcare system has to be designed appropriately, and it is questionable whether this is the case in Belgium.

How do we adequately integrate people living in poverty into the process? The theoretical and normative approach developed by the Flemish team, which includes the use of focus groups, continues to be perceived as very rigid, particularly for food expenditure. Many of those in the focus group implemented by the Walloon researcher reacted very strongly and negatively to this, because it was regarded as being too far from their reality and, therefore, appears to be very normative.

How do we integrate differences that may occur within a country? (City/rural – regions)

How do we reconcile a theoretical approach and social reality?

It seems that when the reference budget expenditure patterns are too far from social reality, it is very hard for them to be accepted by people experiencing poverty. This highlights the issue of social inclusion: if the reference budget is built to identify a basket of the minimum goods and services that are needed to avoid being poor, how close does this consumption have to be to national (socially accepted) habits, even if they are not recommended?

Investments/significant expenditure: how do we deal with the issue of significant expenditure or the need for savings? Do we have to consider what is an appropriate level of savings or possible access to credit?

Validation

Validation or consensus?

Due to the debate and the various reactions of stakeholders, we believe that the validation step is not only a question of “quality”, but also concerns transparency and consensus. Validation is not a scientific process but a social one. It will take

time because all stakeholders need the space to learn about the reference budgets and how to use them. A way of collecting their feedback should, therefore, also be designed.

Reference budget up-dating

Another important challenge is how to keep the data updated. It is thought that the content of the basket could be reconsidered once per every four to five years, and the pricing should be looked at again at least once a year. Yet, who will be able to do this and with which budget?

Future steps

These include developing specific support for the easy dissemination of our work to the public, social workers, and debt-counsellors, etc.

Training material for financial and budgeting education purposes should also be developed.

Communication/PR

The communication of our work will be reinforced by its publication at a time to be finalised, but also by the various communication tools available to our association, such as a website and a free magazine (more than 100,000 copies distributed).

5.4 Bulgaria

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Organisation

29-30 May: Haarlem seminar

During the seminar in Haarlem, a conceptual model of Marketing Balanced Budgets (MBB) (Figure 1) was presented.

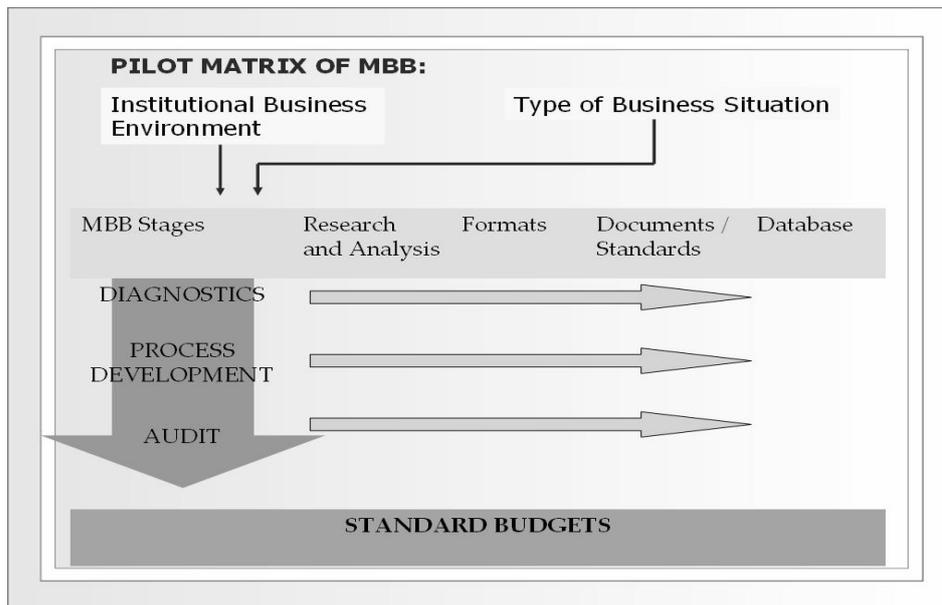


Figure 1. Pilot matrix of the Marketing Balanced Budgets (MBB) process

According to the MBB model, the process of the development of standard budgets starts with the identification of the type of business circumstances in existence at a country and/or industry level, including the stage of societal development. Another important factor initially under consideration is the institutional business environment.

Three types of business circumstances were proposed based on the Adult Financial Capability Framework (Figure 2). These can be regarded as stages or levels of business or economic development. The basic level is characterised by inadequate capacity on the part of market “players” (financial organisations, institutions, and households). The result is unreliable and inaccurate budgeting formats. The second level is characterised by an inadequate capacity on the part of the market “players” who require local budgeting formats. The third level allows the development of national budgeting formats because of the availability of precise information and metrics and because of the adequate capacity of the market “players”.

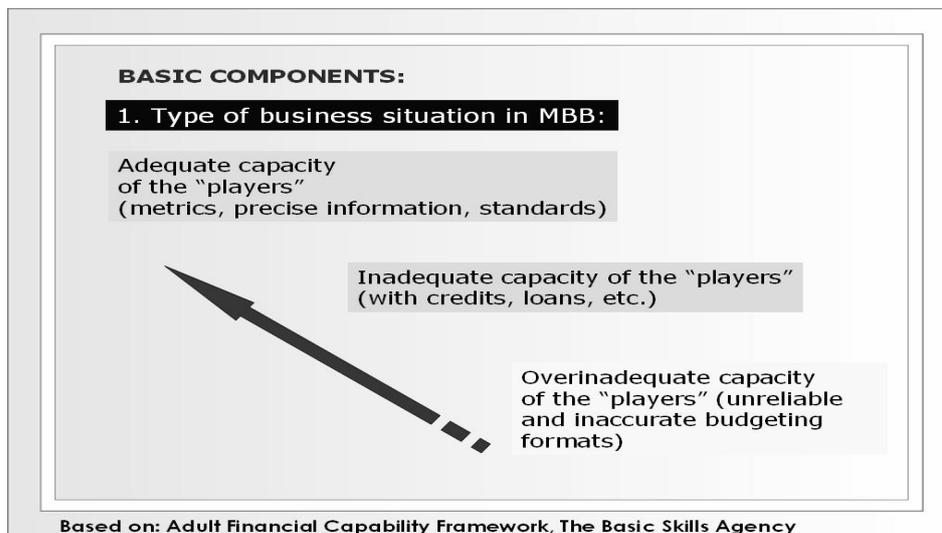


Figure 2. Types of business situations in the MBB process

Based on the aforementioned theoretical background, we suggest the following requirements of the MBB model when it is used for developing standard budgets:

Budgeting period

The budgeting period could be short-term (up to 3 years), medium-term (from 3 to 5 years) or long-term (above 5 years). We propose to use a short-term budgeting period for Bulgaria because our economy is still in a stage of rapid development, hence the economic and social conditions are changing.

Goals and objectives

Our goals and objectives can generally be defined as the various benefits within the relationships between governments (local or national), financial institutions (banks) and clients (households, etc.). We believe that some modification of the methods for developing standard budgets according to the goals is required. Based on our preliminary research and the fact that Bulgaria is still at the stage of inadequate capacity (see Figure 2), we consider that standard budgets should be used for informative purposes.

Requirements of traditional/standard budgets

Due to the reasons set out above, we propose to supplement our standard budgets with the opportunity to conduct alternative forms of calculation of expenses.

The MBB model relies on three basic principles:

- Identification of the markets and “players” within the budgeting process:
 - Goals of Standard Budgets
 - Target groups
- Conformity between the players’ financial competencies and financial skills:
 - Formats of Standard Budgets
 - Target groups
- Conformity between the legal and customer norms and requirements
 - Methodology

Based on the aforementioned theoretical background and the secondary data about the economic and social situation in Bulgaria collected, we decided upon the following:

To develop standard budgets for informative purposes;

To develop a classification system of expenses based on types of needs and the purposes of the budgets;

To use averages when measuring household expenses;

To start with a standard budget for one person.

17 July 2008: First Bulgarian Workshop, Varna

The main topic of discussion focused on possible problems with both secondary and primary data collection so far as the information’s reliability and validity is concerned. The following specific characteristics of the Bulgarian situation have been summarised as follows:

- Substantial regional differences in consumption (for religious or minority reasons) and expenditure patterns depending on location (village, small town, city);
- Many households produce their own food or receive it from their relatives. They are, therefore, almost completely excluded, not only from financial services but from the market as well. The result is a decreasing or a lack of monetary expenditure on some items in the basket;
- There are many households, especially in regions with very high unemployment rates, whose members work abroad illegally or semi-legally and send money back to their relatives. This is impossible to assess;
- There is a lack of experience in and knowledge of how to develop baskets for the purposes of reference budgeting and how to pass this information on to experts in this field.

Due to the specific situational factors referred to above, we decided to use focus groups as a starting point in our data collection process and to use averages for the income figures as well as for the categories of expenditure. This meant that a structured questionnaire could be used as a tool for primary data collection. Because of regional differences, as well as differences between urban and provincial towns, as a first step we agreed to produce reference budgets only for Varna (Municipality of Varna) and to use them as a pilot framework for the future development of reference budgets on a national level.

2 February 2009: Second Bulgarian Workshop, Sofia

During the second Bulgarian workshop, a number of different methods for gathering primary information were presented and discussed, as was a preliminary version of the questionnaire. Several comments and suggestions for future consideration were also made. Terminology was a particular topic of discussion, especially in relation to types of income – minimum income, decent income, disposable income - as was the categories of expenditure to be included in the questionnaire.

The discussion was centered on the difficulties in implementing reference budgets in practice, especially in terms of social policy, due to the very low levels of income in Bulgaria and huge regional differences in both income and expenditure patterns. It is for this reason that it was agreed that, from practical point of view, it is reasonable to start by introducing reference budgets on a local level (municipality) and then disseminate the experience and knowledge gained in terms of standard of living to similar municipalities. Achieving the national implementation of reference budgets might be expected when Bulgaria reaches the appropriate stage in its economic and social development.

Because of the major differences in the living standards in different regions of Bulgaria, it was decided to only develop reference budgets for the town of Varna as a pilot study.

Terminology

During the preparatory work for the first partners' meeting and the first Bulgarian workshop, we reviewed some of the specialist literature and documents in order to clarify the terminology. We discovered that the most common terms are as follows:

- Household budgets
- Household spending
- Standard of living
- Cost of living

During the first and second Bulgarian workshops, there was a debate on whether the phrase “standard budget” is appropriate. It was agreed that the word “standard” is not because it has a well-defined and concrete meaning in the Bulgarian language, and is associated with a norm which should be followed, even from legal point of view. Participants in the workshops agreed that the word “standard” should be replaced by “reference”, which is regarded as reflecting the meaning and the purpose of the proposed methodology. Accordingly, it was finally decided to use the term “reference budgets” instead of “standard budgets”.

After the discussions during the workshops, we decided to use following terms: Minimum income, decent income and disposable income. The operationalisation of these terms, which were used in the questionnaire, is as follows:

Minimum income: The minimum amount of money needed by the household to cover its basic spending

Decent income: The amount of money needed by the household to live a decent life (not a luxury one but a good life)

Disposable income: The amount of money currently used by the household to cover expenditure, including savings

Data available/in existence and identification of other sources

National Statistical Institute

The Household Budget Survey is conducted as part of the task of gathering social statistics, and its main focus is on households' income, expenditure and consumption. Data are provided on a monthly basis. The monthly budgets of the surveyed households are obtained from the information contained in two diaries (each covering a period of 15 days). The data are summarised and presented in the form of average values and relative shares. The annual estimates are derived as arithmetically weighted averages of the monthly figures obtained from groups formed according to the following respective indications - number of persons in the household, number of those in employment, number of children, etc.

Confederation of Bulgarian Trade Unions

The newsletter "Standard of living" is the successor to the magazine, "How we live." Subjects covered in various editions of the former are structured as follows:

- Section I. Inflation
- Section II. Cost of living
- Section III. Salary
- Section IV. Employment and Unemployment

GfK ConsumerScan

The ConsumerScan survey is based on a sample size of 2000 households. It tracks panel research, with the focus being on FMCG (fast moving consumer goods), consumer durables and the print media.

We started our work with an analysis of its publications and plenty of secondary data.

Stakeholder identification

During the first Bulgarian workshop it was decided that our **stakeholders** can be divided into three groups:

1. Ministries, local governments and institutions

- Ministry of Finance
- Ministry of Labour and Social Affairs
- National Statistical Institute: Assoc.prof.Dr. Mariana Kotseva, Chairperson
- Municipality of Varna: Assoc.prof.Dr. Borislav Borisov, Deputy Mayor on Budget and Finance
- Municipality of Bourgas: Gergana Ilieva, Chief Expert
- Varna Regional Administration: Boyan Dimitrov, Deputy Governor
- Regional Employment Agency – Varna: Plamen Nachkov, Director and Katya Antonova, Chief Officer of Employment Services
- Varna Chamber of Industry: Vesselina Kostova, Chief Expert
- Varna Chamber of Commerce and Industry: Ivan Tabakov, Chairperson
- Agency for Social Assistance – Varna: Maria Chankova, Director

2. Banks and other financial institutions

- First Investment Bank, Varna branch: Teodora Mateeva, Deputy Manager
- EIBank: Daniela Bozinoва, Manager Corporate Communications
- Benchmark Finance Holding: Milen Polimenov, Varna branch Executive Officer

3. Educational and consultancy organisations

- University of Economics – Varna
- Varna Free University
- Shoppix Bulgaria Ltd
- Partnership for Marketing Development

Methodology and actions taken

Step 1: Collection of secondary data

We started with data with which to measure the trend of the cost of living in Bulgaria for the period 2001–2008.

Based on secondary information we produced the following summary:

- The poverty line is based on a consumer basket of 77 goods and services which are vital for physical survival. It equates to 186.44 BGN per capita.
- The cost of living per person in a four person household (2 + 2) equates to 532.19 BGN.
- The total income per individual in a household (274.74 BGN) equates to 57.3% of the funds necessary to meet the cost of living.
- 27% of households are below the poverty line (186.44 BGN).
- The share of households with a total income above the cost of living level is 10.5%.
- At the end of March 2009, the cost of living reached 479 BGN per person in a 2 + 2 household. This means that such a household will need 1916 BGN to meet its needs according to the requirements for calorie content.

As a next step we developed a standard budget for a household of two parents and two children by using secondary data that had already been collected.

Our input data were:

- The minimum monthly salary in Bulgaria, which is 220 BGN or 2,640 BGN annually.
- Basic minimum income (BMI) - 40 BGN.
- Differentiated minimum income (DMI) – 144 BGN

According to the data from the National Statistical Institute, the monetary income of households (average per capita) for 2007 was 2,831 BGN, while the total income was 3,347 BGN. Total income of the family = 2 x 3,347 = 6,694 BGN.

Food and non-alcoholic beverages account for the largest share in total consumer expenditure, with this even increasing during the period under review. The fact that the majority of households spent a large and increasing proportion of their incomes on essential items is an indicator that the country was progressively becoming poorer, with major income differences between the richest and poorest social groups. The period was characterised by a low standard of living, low income levels, and extremely high inflation.

The reasons for the significant growth in expenditure on health goods and services were, firstly, the introduction of payment for healthcare services, which had been provided free of charge during the communist period; secondly, the growing awareness of such services as people gained better access to information, and there was greater choice in terms of medical specialists and treatment; and thirdly, the ageing population.

The increase in expenditure on communications was in line with the global trend towards the growing use of computers, the Internet and mobile phones, and was also driven by the rising prices of land-line telephones and the Bulgarian tendency to spend more on technology as earnings and social status improve. Moreover, the number of young adults, double-income no-kids, and single-person households increased, with parallel increases in their aggregate incomes and spending power. These groups are all significant consumers of communication products and services.

As far as expenditure on hotels and catering is concerned, its increase is connected to the expansion of the sector to accommodate the growing number of conferences and presentations, participation in exhibitions and trade fairs, business meetings, team-building exercises, business trips, company parties and other events held in the country. In addition, the number of people staying in hotels for holidays grew with the increases in their incomes and the development over recent years of winter, rural and spa resorts.

Spending on non-essential/luxury products is negatively related to spending on food products. When the latter rises, the former declines as a percentage of overall consumer spending, reflecting the fact that poverty was, on average, increasing.

Some of the data about prices was very difficult to find. We mainly used information from websites and observations made in shops. The information about rent was found from online advertisements.

It was difficult to define a single lunch, dinner and coffee price outside the home, since it depends on people's habits and their needs. The same is true for the prices of clothes, shoes, books and other products which depend on individual attitudes.

We also, again, faced differences between the regions.

Step 2: Focus group interviews

As the next step in our analysis, we conducted three focus groups interviews with representatives from three types of households: single person, a couple, and a couple with a child. These were videotaped and watched carefully

afterwards. We used the results to develop a structured questionnaire for face-to-face interviews.

Step 3: Operationalisation of the terms

Disposable income: what is your household's monthly budget?

Minimum income: what is the minimum monthly budget your household needs in order to make ends meet?

Income for a decent life: what is your household's monthly budget for a decent life? What will you need to live a decent life?

Loans	Monthly credit installment
Credit cards	Monthly payments for credit cards
Overheads	Electricity, water supply, phone, mobile phone, internet
Food	Food products which are prepared at home, incl. beverages
Lunch out/coffee	Eating out with family or friends, restaurants, cafe
Household materials	Laundry detergent, cleaning materials, towels, toilet paper
Personal hygiene	Toiletry articles, cosmetics, hairdresser
Clothes/ shoes	Clothes and shoes, incl. dry cleaning, shoe and bag repairs
Rest and free time	Incl. sport, games, books, CDs, membership of different clubs
Insurance	Incl. social security
Household items	Furniture, appliances, TV, computers

Step 4: Development of a questionnaire and field work

The primary data collection continued with an online survey and face-to-face interviews. The online questionnaire is divided into three modules: Module A: general questions, Module B: questions about planning and spending the monthly budget and Module C: demographics. We used a Shoppix database which has more than 3000 registered mystery shoppers, of whom approximately 700 are active. A final selection of 41 shoppers who matched the demographic criteria was made and a survey was given to them with a one week time limit for completion. Generally, the field research included the following steps: first, sending an e-mail to the shoppers asking them if they would agree to take part in the survey and to define their household type. Secondly, the surveys were assigned to these shoppers' accounts. Finally, there was confirmation of completed surveys and their receipt back into the Shoppix system.

The questionnaire for the face-to-face interviews was divided into five modules as follows:

Module A: Basic habits and possessions.

Module B: Planning and spending the household budget

- What is your disposable monthly household budget in BGN?
- Monthly spending by cost groups in BGN
- How much do you need as a minimum to cover your spending?
- How much do you need to live a decent life?

Module C: Problems in planning and spending the household budget

Module E: Using consumer credit

Module D: Demographic questions

Step 5: Data processing and analysis

Some of the key findings include the following:

- 76.7% of the households do not have health insurance;
- 70% of the households do not have life insurance;
- 43.3% of the households have lunch/dinner out 2 – 3 times a month;
- 20% of the households use ½ of their monthly budget to pay for credit;
- 66.7% of the households do not have a credit card.

Our final results are presented in tables, in which the average budgets of single people, couples, and couples with children are set out.

After an analysis of the results, we conducted a few more focus group interviews. We then presented the reference budgets which had already been developed and asked the following question: if you had to cut your total household expenditure by 10%, which categories would be affected?

Challenges and lessons learned

We summarised the challenges into the following four areas:

- Balanced or unbalanced?
- Traditional or standard budgets?
- Social or marketing budgeting?
- Statistics or metrics?

Validation

The act of validation is a difficult task, especially when it concerns socially sensitive issues. In our case it was even more complex because of the differences in the standards of living in different regions and because our society is far from mature.

Another challenge is that such results are often used by politicians for political reasons, which purposes are very different to the goals of the reference budgets.

This is why it is very important to achieve a consensus between stakeholders on the following issues:

- Budgeting period
- Goals and objectives of reference budgets
- Methodology (traditional, baskets, averages)

Cost estimation for developing RBs in Bulgaria:

Activity	Time needed	Costs¹, EUR
Gathering secondary information ²	1 person/week	depending on the position
Conducting 1 focus group interview	2 persons/week	240
Developing questionnaire, incl. posting it on the web	1 person/week	depending on the position
Printing questionnaire	1 day	depending on the sample size and the number of pages
Field work (online questionnaire)	3 weeks	depending on the sample size (10 EUR per respondent)
Field work (face-to-face interview)	3 weeks	depending on the sample size (5 EUR per respondent)
Data processing ³		

¹ Costs are approximate numbers

² Includes only free information on the Internet

³ Greatly depends on the sample size, the number of missing answers, type of scales used in questionnaire

Future steps

- To prepare and publish a handbook on MBB, including the methodology for developing reference budgets
- To develop a curriculum for a short course in reference budgets
- To develop a website providing a tool for calculating a reference budget

Communication/PR

The communication plan includes distributing free excerpts from the handbook and launching the website. We also plan to write a scientific paper on the topic and present it to a conference.

The results can be found on www.themdi.net

5.5. Spain

Developers:

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1. Organisation and goals

ADICAE, as an organisation which advises over-indebted consumers and warns about the risks of taking out credit, has undertaken the development of reference budgets (RBs) as a tool with which to raise consciousness in households about their levels of expenditure and capacity to bear the impact of different debt repayment schedules, just as the costs of unexpected or life changing circumstances. In this sense, this tool puts our technicians in the role of debt advisers, but it will also be made available to social workers and neighbourhood associations, as well as to any household that wants to reflect on its domestic finances. Budgeting and financial planning is crucial if a household is to gain control in this area, and also promotes awareness of social problems and enhances a sense of citizenship.

Having experienced first-hand how many households are often on the brink of financial problems and have had to give up some essential items in order to meet their housing costs, ADICAE will also promote the use of RBs as an indisputable reflection of how many family units struggle to make ends meet compared to other countries in which the cost of living is similar but incomes are much higher. Purchasing power has been affected by the cost of private housing and deteriorating labour conditions. Policy makers should, therefore, rely on RBs as an indicator of the support needed by households to put them on a level playing field in terms of quality of life, inclusion and opportunities for all.

RBs aid social inclusion: there is a budget to assist with the sound management of domestic finances and credit, while another highlights the life essentials that should be guaranteed for all.

The initial priority was to shape a balanced budget for a typical household (in composition and circumstances) so that it could be used as a reference point by as many family units as possible, with its basket satisfying the need for social inclusion experienced by the lower-middle classes. This first RB would also constitute a good starting point for further discussions about where the line for social inclusion lies in terms of coverage of basic needs. Likewise, it would assist with the development of references for households with a different number of family members, or those facing specific financial challenges.

The process ended with the balancing of a budget for a household of three members with an income of € 1900 per month (€ 22,800 a year). The level of income/expenditure in the first RB corresponds to an extended reality: as the Living Conditions Survey states, 33% of households consisting of three people have an income under € 19,000, while another 41% are in similar circumstances (from 19,000 to 35,000), or are at risk of being in this precarious situation if any members of the family unit lose their jobs. These better off households also need to be careful with their spending and finances as they have little room to manoeuvre, and a reference budget will serve to inform them about how they can make savings or cut expenditure, while still feeling socially included. In spite of the so-called consumerism embraced by the middle classes during the years of economic boom, excesses have always been identified as such and a RB can help to control them. Moreover, by further reducing spending on some of the more controversial categories, such as savings, social participation, holidays, or other reservation expenses, the rest of the budget can still work as a reference point for households with a lower income.

In any event, ADICAE and its associates concluded that this balanced budget for a household of the composition referred to above should be taken as the threshold below which people cannot comfortably make ends meet. After all, the basket decisions were taken on the basis of principles of austerity and reasonable social habits, and after being confronted with the opinions of our associates on what should be defined as a minimum. That being said, our first balanced budget can also be regarded as containing no more and no less than the essentials for a decent life, holidays and savings included, reflecting the daily reality or aspirations of the largest section of the population in Spain.

According to OCDE criteria, only the households with three members whose annual income is under € 12,966 (15.6%) would be below the poverty threshold.

2. Data available/existing sources

National Institute of Statistics:

- Household Budgets Survey 2007
- Living conditions Survey 2007

Expert validation:

- Primary data/pricing: Internet catalogues for the most popular stores in Spain, insurance calculators, broker's websites for rental figures, fixed prices for public transport and text books, etc.)
- Secondary data (Ministry of Industry and Environment, publications from other consumer associations, previous studies by the ADICAE on insurance and real estate, expert web pages and forums, etc.)

Public validation:

- Questionnaire results: 80 respondents. Participants were consumers actively involved in defending consumers' financial rights and were conscious of the goals being pursued with the development of RBs.
- Two focus groups.

3. Stakeholders

- Consumers - reached by our mail-shots, publications and the web.
- Public social services and consumer offices.
- NGOs, foundations, and neighbourhood, family and immigrant associations, all of which have close ties to reality and what people need.
- Other consumer associations conducting research on costs for various sectors.
- Secondary schools for professional education which are always very concerned about giving advice to their young students on labour and consumer rights.
- National office of Statistics.
- Bank of Spain and Banking Associations.

4. Actions and methodology (steps, development of process)

The construction of a RB for Spain relied on a statistical, expert and consensual approach. We started working with data for households with a low level of spending which had been published by the Household Budgets Survey 2007 (HBS). This was an interesting way to start thinking about a basket costing a modest but adequate amount which corresponds to the average spend of lower-middle income households (although well above official poverty line calculations). Ultimately, how social inclusion is experienced by the lower-

middle classes depends on their patterns of needs/expenditure. These statistics were contrasted to a process of pricing goods per item, according to criteria of reasonableness. Then, finally, all of the figures were adjusted slightly to balance the budget for a household with an income of € 1900 per month, which reflects generalised precarious conditions. The outcome served to provoke the giving of feedback by our associates, whose common sense led to the final results being adjusted. In this way, we could provide a reference budget which reflects the circumstances faced by most of the Spanish population and is, therefore, useful for budget and debt advice purposes. It can also be presented as a consensual minimum for a decent standard of living.

The categories set out in our tables should not be seen as inflexible, as they necessarily reflect simplifications, exclusions, or generalisations. There are items such as social participation, savings, and holidays that are flexible enough to be replaced by other expenditure depending on a family's special circumstances or tastes.

A) Type of household

RBs were initially produced for households comprising two employed adults and a 16 year old child. They are assumed to rent a three bedroom apartment in Madrid and use public transport to go to work. The child goes to a school located in the same district where the family live, using public transport only on his spare time over the weekends. They do not have any health problems and are covered by the universal benefits of the Spanish social system in respect of education, health and retirement.

We then created a RB for two adults and two adolescents. In order to balance their budget on the basis of the same employment circumstances as a three member household, this family will have to cut down on savings, holidays, social participation, etc. in order to make ends meet.

We next drew up a RB for a couple with no children. This type of household will have the same economic circumstances, but will be able to save more money each month for other future projects.

Finally, we produced a RB for a single person household (male or female) with a salary of around € 1000 a month. He/she will have to either share an apartment with someone else, live away from the town centre (assuming higher transport costs) or stop saving money.

We have also separately calculated the impact that a baby would have on a family's finances.

These choices correspond to a typical profile of a Spanish worker. Around 60% of Spanish salaries are lower than € 1000, so a RB balanced for an income of € 1900 not only serves financial advice purposes, but is also the best starting point for the production of what would be a minimum expenditure pattern for social inclusion.

B) Questionnaire sent to ADICAE's associates

Two versions of the questionnaire were offered to our associates in order to obtain first hand information about the realities, desires and demands of Spanish households. Answers to this questionnaire were also collected during our first workshop. The average figures, setting aside the greatest extremes of the sample as being unrepresentative, were used to focus or slightly correct the expert approach. In what follows we reveal extracts from both versions, illustrating how we presented the project and the way in which consumers were able to help with our task:

i) In order to get an initial idea of average expenditure levels per type of family, and to enable us to assess the issue of well-being among Spaniards, we asked: "Now, we will present you with an anonymous survey which will let you tell us about the composition of your family, your average monthly expenses, and the minimum amount you consider to be necessary to have a reasonable standard of living. The average expenses are to be put in the first column, reflecting the real estimated expenditure each month or year for different categories in the shopping basket. The minimum expense requires consideration of the basic consumption level that cannot be gone below by a family with the same composition as yours, on the basis that with less it is not possible to live a satisfactory life. This minimum expense can be over the minimum declared expenditure."

ii) Once we had received our first results, we wanted to get feedback on the reasonability of the minimum standard we were suggesting. Accordingly, we asked: "The figures shown in the enclosed table depend on the composition of the chosen family, as well as on the quality and amount of the products included in the shopping basket. We have focused on a "modest, but adequate" expenditure level, according to the notion of a responsible consumer and reasonable social habits. Although we know that all of you will spend your money in a different way to what is set out in the table, we would like you to:

- Consider if this level of expenditure is enough for a family with three members, and decide if it contains all of the expenses that have to be faced in reality. Please indicate how much of the spending can be reduced in the different categories if at all, or tell us if it should be increased to reach a minimum level that cannot be gone below to maintain a satisfactory standard of living according to current social standards.

C) Available statistics

Having gathered dozens of responses to the first blank questionnaire, we saw that there were many hints about expenditure distribution as well as plenty of contradictions. This meant that an expert verification of reasonable minimum expenditure was needed: the sample was not big enough to give us a clear idea of either real average spending or minimum/aspirational expenditure. For this purpose, we used the average expenditure data available for a household of three people, with the lowest expenditure level recorded by the HBS broken down into five COICOP-HBS categories. From the official statistics, some items were ignored or eliminated, and many were redirected to other categories:

- i) Some important items such as housing (either renting or buying a property), a car, vacations, the cost of a baby, or furniture were studied separately and without taking into consideration the obscure official statistics.
- ii) Due to their superficiality or singularity, some items were regarded as expenditure for social participation/leisure: tobacco, long distance travel to visit family, jewellery, expensive food etc.
- iii) Health was only taken into account in terms of pharmacy expenses (including glasses and contraceptives) and the dentist, since these are not covered by the public system. The decision was, however, made to encourage households to make provision for this occasional but necessary expenditure.

D) Pricing

Each of the items included in the basket, including assumptions about their quality and quantity, were decided upon by the ADICAE: the different categories of expenditure in the HBS were adjusted on the basis of patterns of responsible consumption, product obsolescence and social habits. They can be defined as the minimum goods and services necessary for an appropriate standard of living in accordance with current social standards.

We created RBs for households living in Madrid, but, apart from the cost of housing, prices in other regions of Spain do not differ much. The prices chosen are for brand new products. A satisfying second hand acquisition requires a

level of expert knowledge that cannot be expected of a typical consumer. The resulting categories have been differentiated by frequency of payment, i.e. whether an item is used a lot (food or housing) or only occasionally (yearly, due to obsolescence), and do not rely on whether there is a contract for payment. Specific baskets for those owning a home and/or a car, and having a baby were created separately. These were presented only as optional scenarios so that any household could conduct projections if it was changing its circumstances in these ways.

I) Type of housing

83% of Spaniards own their home, while only 10.7% rent. The figures are very similar for those with the lowest educational levels, or those with an income between € 19,000 and € 25,000 per annum (84% versus 9.8%) which is our target household's income range.

Accordingly, we decided to present two different scenarios depending on the housing situation:

House rented: this won't include any taxes or insurance connected to the property since the landlord will be responsible for these costs.

House owned: this will include monthly mortgage repayments, taxes, insurance policies, and building service expenses (every family living in the same building pays proportionately for maintaining the stairs, electricity, and cleaning in the common areas).

For our first balanced budget we opted for a rental scenario, in order to preserve the appropriate level of expenditure in the other categories. Having a mortgage is then an option for better off households, or for a later time, once enough money has been saved to make it affordable.

Access to social housing is a lottery upon which no household can rely and it is only open to poorer families.

II) The choice/need to have a car

Despite the existence of an extensive public transport system, workplaces are sometimes well away from any bus or train routes. Owning a vehicle may, therefore, well be the only way to get to work for a significant number of households in Madrid. As a result, we decided that it would be helpful to calculate the costs of financing a car on the basis that this is a necessity for a particular type of household, although we didn't include this expense in the

basic budget. We calculated a repayment loan plan for two different scenarios (four and eight years) which also included taxes and the monthly expenditure on petrol and insurance. Of course, if a household has a car, expenditure on public transport would have to be reduced by the appropriate amount.

III) A baby

Having a child is expensive, not only because of what it costs to bring him or her up, but also because of the limited government financial assistance that is available (€2000). Total monthly expenditure has been reduced by dividing this sum up over 24 months (83.3). The affordability of an extra child will be determined by the possibility of being able to rely on the help of the grandparents (€300 per month for a nursery school). As with the car, increasing the size of a family by having a baby has been left as a choice that is not included in the monthly basic budget and requires savings to be a realistic option.

IV) Savings

As a consumer association, we believe it to be extremely important for households to allocate some of their total income to savings, even though this is not common in Spanish households: 80% were not able to save any money in 2007, and 30.5% do not have enough money to deal with unforeseen expenses (to the amount of €550). Apart from the money needed to meet occasional spending that doesn't arise in a typical month (e.g. the dentist, house maintenance products, school books, insurance, holidays, furniture and electrical equipment), it is recommended (and the budget is balanced on this basis) that 5% of income should be saved each month in order to deal with expenditure on income tax, unforeseeable costs (lawyers' fees, administrative fees) or other very occasional expenses (house repairs/alterations). Such a step will, of course, also provide a financial cushion which will enable a family to avoid taking on a large amount of credit when considering making an investment in the future.

V) Lump sum for social participation

The variable of emotional fulfilment is impossible to quantify, and even it was, social inclusion is achieved not only with expenditure on socially determined consumption habits, but also with the satisfaction of other basic needs along with the services provided by the welfare state which are the pillars for an autonomous and healthy life that allow a family to stay together and enjoy opportunities to be an active citizen. Our RB for lower-middle income households draws the line below which a family unit could not reasonably enjoy

a decent, socially included, life (autonomy, opportunities, participation, psychological well-being) even though households living above this level may themselves feel excluded when compared to other social benchmarks.

A lump sum of € 141 was set aside for expenditure on visits to family, sport, leisure, pets, culture, newspapers, eating out, bars, tobacco, jewellery, cosmetics, cologne, a TV licence, or any other goods considered essential by a household to achieve some degree of psychological well being. No matter how this individual form of participation in society may be satisfied, this lump sum has been agreed as being enough to reasonably cover this important dimension of being human.

This sum is very similar to that declared by our associates for households of three and four members. For those whose expenses for social participation fell below what is reasonable (between € 100 and € 300 for more than three quarters of respondents), it amounted to an average of € 165 per month. However, it should also be borne in mind that expenditure on such items is the first to be reduced. Accordingly, this was the category treated with the most flexibility when finally balancing the RB for a determined level of income.

Holidays were regarded separately as an occasional expense that needs providing for. Thirty three and a half percent of households are unable to enjoy a week's vacation, but then this isn't necessarily only a factor in low income families.

E) Public validation

The adjusted figures for each category were compared to those produced by our associates and then increased slightly whenever they showed a deficit. So, if an associate who was managing to survive with difficulty stated that a minimum level of expenditure for a decent life should be greater than actual spending on a determined item, the amount allocated to it was increased.

This phase of the process requires engaged participants, because it needs to be thought about carefully. It is for this reason that those who are actively involved with the ADICAE in defending consumer rights were considered to be eligible participants. In this context, we held our first national workshop in which 253 associates and other interested parties shared information on how debt can push someone below a minimum standard of living, thus revealing the importance of an educational and preventative tool like budgeting.

During the autumn of 2009, two small discussion groups met. The eight participants, who came from diverse social backgrounds, debated the notion of what the medium income of a Spanish household, with both adults working in low paid jobs, would be. It was finally agreed that a sum of around € 20,000 per year was appropriate. This meant that a budget balanced at € 1900 per month would be useful as a non-rigid reference point for all households. Mixed groups of consumers considered what the right balance was between what some thought to be the bottom line to which they could cut their expenditure without becoming socially excluded, and what others experienced as basic needs that are covered with difficulty or to which they aspire. The concrete figures of expenditure distribution that resulted from our first RB were considered to be a good reflection of common needs, except for the areas of food and social participation, which would fall short. All agreed that giving information about car costs was indispensable, and that having priced the cost of a new-born baby would considerably enhance the usefulness of the tool. A household spending more in these categories would necessarily have to take the money from savings or reservations, and then finance other specific items of expenditure with credit when they arise. We were reminded that we have to be very certain about the pricing we assigned to this optional spending, because there is a risk of misleading people when they make important life decisions. Due to time restrictions, it was decided not to evaluate the baskets item per item (other than hygiene and the telephone), with just the general criteria for product quality and obsolescence being considered. The conclusion was that, even if more might be spent in these categories, it was objectively bearable to live on the level of expenditure that we, as experts, had determined. An important and reassuring conclusion is that none of the participants in this focus group, or the recipients of the questionnaire, attacked our efforts as being subjective or forced and, thus, lacking practical application.

Given the theoretical and political complications posed by the use of reference budgets in the design of public policies, it was noted that the ADICAE's main goal as a Consumer Association should be the development of RBs as a tool for budget and debt advice for different types of households.

In December 2009, a second national workshop will be held in order to present the results of our investigations to public administrations (social services, consumer offices, secondary schools) and civil organisations (EAPN Spain and others) interested in fighting against and preventing social exclusion.

F) Can this balanced budget, which reflects a modest but appropriate level of expenditure, be proposed as a reference for social policy?

While building reference budgets for social inclusion, it becomes necessary to consider the main social benefits available to families in our country. There are national rates that are accepted and used by all public bodies when distributing any public allowances. The IPREM was introduced in 2004, and is the benchmark in Spain for calculating the income threshold for many purposes (housing assistance, scholarships, and unemployment benefits). It replaces the SMI, whose use was restricted to the workplace. Since its inception, IPREM annual growth has been lower than that of SMI, restricting access to lower income families.

There is no national minimum income scheme in Spain. However, there are some in autonomous regions. Combating poverty by means of cash benefits and covering basic needs are some of the principles that this policy is based on. It is a subjective, non discretionary, right, and is sometimes subject to budget availability. It generally lasts for 12 months but can be extended. Claimants need to have been a resident of the region for a certain period and they must participate in an individually tailored reintegration program. An amount of € 370 is fixed for Madrid by the so-called 'Minimum Allowance for Integration' scheme. This guaranteed minimum will be increased for the second dependent family member by € 111 and there is a supplement of € 74 for a third and subsequent members. So, a minimum income scheme for a three person household in Madrid will be € 555 a month.

The current recession, and the hardship and uncertainty it has brought to most households, constitutes such an emergency that at the current time there may not be enough public appetite for the kind of debate raised by our RB. In fact, by October 2009, 10.65% of households in the country had no-one in work and their benefits were running out.

Given this situation, we cannot advocate that the ADICAE's RB should become a replacement method of calculating the minimum allowance, but the budget does reflect a shrinking purchasing power that should be borne in mind when considering widening the policy of access to social housing, lump sums for specific needs, etc.

5. Challenges and lessons learned

The biggest challenge is the implications of decisions that are taken unconsciously, which might even appear to be naturally driven, but really shape the usefulness of the resulting RB. In this sense, it is very important to be transparent, not only about the way baskets were built and priced, but also about many other assumptions about what social inclusion is claimed to be.

Having set our main goal as creating a budget information tool that serves working class households in increasingly precarious circumstances, which represents the biggest sociological reality in Spain, we have produced a RB that can be defended as delimiting the basket of minimum essentials for a decent, socially included, life: this is ultimately determined by the level of expenditure among the popular classes. The problem is that even though we pretend to point at a reasonable minimum basket, which is some way above the reference point for actual poverty lines, leaving this minimum at the level where households face some degree of struggle to make ends meet can be seen by general public as legitimising the status quo.

The responses to our questionnaires revealed contradictions and imbalances which reflect the little control that households have over their budget planning, reaffirming that the value of a RB lies precisely in its capacity to confront a consumer with the gruesome details of his finances. Even though at this first stage we were able to reach some conclusions on good and bad consumption habits, the obsession with the methods used implied by a democratic approach was distancing us from producing a useful tool with which to make an impact on social policy. Consumers have difficulty in estimating reservation expenses, so we had to complement our investigations with an expert approach, first of all deciding subjectively what was in the basket and what was not, and pricing this list with the help of the EPF and price catalogues. Only then, once we had a clear enough basis, did we submit the RB to public scrutiny.

The validated figures will ultimately be published in terms of categories and not by items, thereby avoiding accusations of social engineering: the objective has been to expose reference figures that are reasonable and adequate for a decent life as agreed in public debate, but with every household being able to adjust the weighting given to different items according to their own experiences and needs.

6. Future steps and communication

Along with the Consumers and Users Council of the Ministry of Health and Social Affairs and the trade unions, the ADICAE will focus on defending the RB

as a budget information tool in the context of our common demand for a public network of budget and debt advice services. The material produced by the ADICAE has been designed to include: budget information, tables of RBs and advice about how to interpret and use them, information about managing debt, tips for responsible and clever consumption and savings, a table with which to create your own budget, general claims for more consumer protection, better public services, and a sustainable economy, etc. We will also consider creating a specific web application, or adapting the one developed with our project partners.

The ADICAE's associates, who participated in the focus groups, encouraged us to investigate the extent to which consumption patterns go up or go down for households with different income levels. This helped us to construct references for budget information even for family units spending less than the amount that had been definitely established as the minimum needed to cover essentials. The factor of variation for the different categories, since a change in income doesn't affect expenditure distribution in a homogenous way, can be deduced from the HBS statistics.

A RB for a single adult with dependent children must also be developed, as this type of household is most affected by the difficulties caused when having to face unforeseen expenditure. They also have problems heating their home and affording holidays.

Even though the ADICAE is quite confident about the public diffusion of its claims, we will certainly need support and the recognition of other civil organisations which are fighting against poverty if we are to lobby for the use of RBs for social policy purposes. On the 14th of December 2009, we will hold a national seminar about the use of RBs for debt and budget advice, and responsible credit and social policy, with the final vindication being public support for such an approach. A lot of attention will be paid to make sure that RBs are not being used to justify the economic pressure on the popular classes.

5.6 Finland

In Finland, the National Consumer Research Centre (NCRC) is responsible for compiling reference budgets. The country's reference budget project is part of wider research in which the consumption based approach to basic security is applied and consumption is related to analyses of basic security and general

well-being. The project started in February 2009, and the NCRC's team consists of five researchers.

Terminology

The budgets produced in Finland before the country joined the EU project were known as commodity baskets. We now use the term 'reference budgets', because it is relatively unambiguous in the Finnish language. The term 'standard budget', on the other hand, is normative and does not properly describe our goal of creating budgets on the basis of a decent minimum consumption level.

Stakeholder identification

In Finland, the stakeholders are defined as institutions and people who participate in the process of developing reference budgets and/or will use them (direct and indirect beneficiaries).

Academy of Finland (financing the project)
NCRC – project team
Social Insurance Institution of Finland, KELA
EU Project and the development of reference budgets
Guarantee Foundation
Counsellors in the field of debt advice and their clients
Experts (expert organisations in diverse fields)
Consumer Agency in Finland
National Institute for Health and Welfare, THL
University of Helsinki

Data and methodology

Different methodologies have been used to compile our reference budgets. The guidelines have come from the earlier research into commodity baskets by Aatola and Viinisalo (1998), and in the current project we are updating and modifying these.

The primary data comes from the focus group discussions organised separately with consumers and experts. Each consumer group had to attend three rounds of talks. The consumers, from various backgrounds and residential areas, primarily came from the NCRC's Consumer Panel. Additionally, some heavily indebted participants were reached via the Guarantee Foundation. The role of the focus groups has been to define essential and necessary consumption in the different stages of life. As well as discussions, the participants have also produced long lists of commodities and kept diaries of their eating habits. Based

on the outcome of the focus group debates, other material, and the earlier commodity baskets, we also held one focus group discussion with experts who evaluated the drafts of the budgets. Secondary data consists of information received from expert organisations and researchers. We collected reference consumption expenditure figures from statistics, the Household Budget Survey, the Household Satellite Accounts, price information gathered by the NCRC, the internet, catalogues and stores.

We are compiling our budgets from detailed lists of goods (the amount and life-span) and services converted into monthly costs and menus for two week periods for four types of household. We are including those goods that are essential for each family unit and we assume that they are bought from stores. For pricing, we use modest but adequate figures, which is why we call our budgets *Decent Minimum Reference Budgets*. Economies of scale due to the size of a household have been taken into account and converted into monthly costs (e.g. capital consumption of durable goods). Food menus are based mainly on the food diaries completed by consumers, although we will consider nutritional recommendations for calorie intake and household type.

Goals (purpose, household definition, minima (e.g. clothes) – types of applications)

As well as having a scientific purpose, the project has a practical goal. The budgets will be used to provide budget information and will serve as a tool for counsellors working in debt advice centres and the social services. The budgets will be orientation guides and will support the counsellors in their daily work. Furthermore, they will also be used as instruments for prevention work.

The aim of developing the Decent Minimum Reference Budgets has been to calculate the actual costs of a basic standard of living which satisfies physical, psychological and social needs and enables full participation in today's Finnish society.

Based on previous research and former commodity baskets, we are compiling reference budgets for:

- a single person younger than 45 (man, woman)
- a single person older than 65 (man, woman)
- a couple younger than 65 with children aged 4 and 10
- a couple younger than 65 without children

The expenditure categories in the budgets will be:

- food
- clothing and footwear
- household appliances
- entertainment electronics
- ICT
- housing
- health and personal care
- transport
- leisure, participation

Actions (steps, development of process)

We held the first rounds of our consumer focus groups in May 2009, when participants freely discussed what should be regarded as essential consumption. We started from scratch, only providing expenditure categories but nothing more. Based on these discussions and commodity baskets from 1998, we produced drafts of commodity lists. The second round of discussions was held in August and September 2009. Before they took place, we sent the drafts of the commodity lists to the focus group participants for evaluation and they also kept a 7-day food diary. In the focus groups, and working in teams, the participants chose essential products from the lists for a particular type of household's reference budget. In November 2009, we will hold the last round of focus group talks, when both experts and participants will evaluate the draft budgets. After that, the counsellors in debt advice fields and their clients will test the drafts and estimate expenditure based on their experience. We will finalize the Decent Minimum Reference Budgets by February 2010.

Challenges + lessons learned

The NCRC is in the process of compiling the budgets. For accommodation, we assume that the reference households live in rented flats. Accordingly, we have to find out the average national price of apartments per m². For food, we have yet to decide how detailed the food lists should be in terms of healthy eating and a well-balanced diet. In our work we have created menus for two weeks. For leisure and participation we need to decide what expenditure categories to include, and for transport we are pondering whether to include a car in our calculations or public transport. In many parts of Finland there are no bus and train routes, and, overall, pricing items will be a demanding task. Using price information from the simultaneous study that the NCRC is conducting will be possible in part, but we will also carry out our own price surveys e.g. research in supermarket chains, advertising, and on the internet.

The focus group participants and stakeholders have been well motivated which is a great advantage for us. We have had fruitful discussions about what is necessary and essential consumption. The method of using focus groups in developing reference budgets has worked out well.

Validation

The validation of the approaches and data/resources used is one of the most important steps within the process of the development of the reference budgets. The balance between focus groups, experts and the research team is extremely important.

Future steps

In the near future, finalising the reference budgets is the main priority, but we also have to plan how and when we will update them and when we will develop them for other types of household, such as families with more than two children and single parents.

Communication/lobbying

We shall introduce the reference budgets on a national level. We shall also separately report on the methodology we have used and the focus group discussions. Scientific articles and conference papers will be written and presented.

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5.7 Germany

In the spring of 2008, the German Society of Home Economics (a member of the ECDN) got into contact with those involved in the ECDN 'Standard Budget' project and decided to take part in the process of developing reference budgets. A working group was established for this purpose.

Organisation of the process

It is important to be aware that a variety of different schools of home economics in Germany carried out research into household calculations many years ago. Accordingly, these can now be used as a conceptual basis for a new approach to reference budgets.

The first step was to get all of these schools together and to then discuss how to get started on carrying out budget calculations on a scientific basis that is also applicable to more practical work in this field.

Arranging the development of reference budgets in Germany is an ongoing process and will include the following steps:

1. Identifying the status quo of home economics' research related to reference budgets for private households
2. Addressing the different stakeholders related to the field
3. Deciding on the research team responsible for the development of reference budgets
4. Defining the kinds and purposes of the reference budgets to be developed
5. Fundraising to get the research financed
6. Conducting research and keeping in contact with researchers and practitioners in the field
7. Data collection and the calculation of reference budgets
8. Testing the reference budgets in different fields of budget and debt advice
9. The evaluation of the budget calculations

Terminology

In the very first discussions of the working group of the German Society of Home Economics, and because of possible misunderstandings in the counselling processes that may ensue, the name "Standard Budgets" was not accepted as being suitable in terms of conveying the purpose of the budgets being developed. The normative and directive wording was not seen as being appropriate for budget recommendations and credit worthiness checks. The

German working group, therefore, agreed to the term “reference budgets for private households”.

Stakeholder identification

At this stage of the development of reference budgets in Germany, the stakeholders are the people and institutions which will either develop the budgets or want to use them, namely:

- researchers in the field of home economics
- practitioners in the budget advice and debt counselling sectors
- potential sponsors

Furthermore the circle of stakeholders has to be expanded to also include:

- politicians and public authorities
- scientists and researchers in the fields of poverty and social policy
- professionals in different social services
- the national office of statistics
- banks/credit unions

Methodology

The advantages and disadvantages of different methodologies have been discussed in the working group. It is intended to use a combination of various methods like the evaluation of statistical data, working with focus groups and the utilisation of expert calculations.

Due to the funding provided for the first reference budgets to be produced here, data from the national statistics office will initially be evaluated statistically and compared to that from the budget counselling service of the German Savings Banks Association. All results have to be verified in practical tests.

Goals

In Germany, reference budgets will be produced first for budget purposes and for use when giving budget advice in debt counselling. These budgets will be guidelines for practitioners working with clients. In this way reference budgets can also be used in credit worthiness checks and, therefore, for the prevention of over-indebtedness. In the long-term, reference budgets should also contribute to discussions of poverty lines.

Reference budgets will be developed for different household types determined by:

- the number and age of members and the stage of life
- modest/high demands and
- regional differences.

The development of reference budgets in Germany is starting with households living at the median income level. Budgets of essential needs, (social) inclusion and for households of the third quartile will follow.

Actions

The preparation of the project “reference budgets for private households” meant further work was essential. To date, three meetings of the working group have taken place. At the first work shop, which took place in April 2009 with more than 30 researchers, practitioners and stakeholders, the demand for reference budgets in Germany was evaluated. The focus of the second workshop was discussions about the design of the research and fundraising activities.

Challenges

Practitioners and scientists have to be brought together to produce application-orientated reference budgets on an academic basis.

A suitable structure of data has to be developed which contains variations in expenditure for:

- consumption, investment and savings
- basic and additional supply
- individual and household supply.

Validation

Tests to verify the calculated reference budgets and the usability in the practical work will be essential before introducing them to a wider public.

Future steps

The next steps will be:

- ending the discussion of the methodology
- more fundraising
- calculations for more types of reference budgets
- testing all budget types in the daily work of budget advisors and debt counsellors.

Communication/lobbying

The transfer of knowledge into practice is very important. It will consist of training courses, tests in counselling institutions, a handbook, an internet presence and the periodic updating of data.

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5.8 Ireland

The Vincentian Partnership for Social Justice is a non-government organization which was established in 1996 to work for social and economic change tackling poverty and social exclusion.

To achieve its goal the Vincentian Partnership for Social has focused on two main areas:

- The promotion of Active Citizenship/Voter Education www.vote.ie
- The development of budget standards to determine the cost of a Minimum Essential Standard of Living for different households – www.budgeting.ie

Why Minimum Essential Budgets for Ireland?

The context of this study is an Ireland in which 17% of the population is at risk of poverty (EU-SILC, 2004), and where there is recognition in the National Anti Poverty Strategy, 2002 that: 'People are living in poverty if their income and resources are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society'.

The aim of the Vincentian Partnership for Social Justice Budget Standard Work:

1. Make available detailed information on the actual cost of a minimum essential standard of living for six households

2. Provide the foundations for a national database for minimum essential budget standards, which can be developed and modified for application to different households
3. Lobby for a more adequate level of income for people in receipt of social welfare payments and the national minimum wage.

A Minimum Essential Standard of Living – What is it?

‘A Minimum Essential Standard of Living is one which meets a person’s physical, moral, spiritual and social wellbeing’. (UN Definition of an Adequate Lifestyle)

For the most part minimum income standards in Ireland have been developed by negotiation between policy-makers at Government level and not through factual evidence of what people actually need. The foundation of minimum essential income standards is factual data arrived through informed social consensus about what households need in order to allow a minimum essential standard of living which meets physical, psychological and social needs.

Minimum Essential Budgets – What are they?

The Budget Standard Method involves pricing specific goods and services, which when priced can represent a particular standard of living for different family types. Budget standards methods are designed to answer the question ‘how much does it cost to reach an acceptable living standard?’

The two main methodologies that have been used to develop budget standards in Britain in recent years are those of The Family Budget Unit, University of York (Low Cost but Acceptable Budget Standards) and those of the Centre for Research in Social Policy, Loughborough University, (The Consensual Budget Standards). The Family Budget Unit (FBU) methodology uses surveys of household consumption, consultation with small groups and expert committees to develop budgets for a variety of household types. The Centre for Research in Social Policy (CRSP) – methodology while similar, focuses on ordinary people in the formation of its budget standard committees. Current joint research taking place in the UK, involves the FBU and CRSP and combines the methodologies of the CRSP and FBU: ‘This joint research aims to develop a standard which will be rooted in social consensus about goods and services that everyone in Britain should be able to afford, while at the same time drawing the expert knowledge about living requirements and expenditure patterns’. (Bradshaw, 2005)

The Vincentian Partnership for Social Justice study used a combined approach – the Consensual Budget Standards of Loughborough University and the Low Cost but Acceptable Budget Standards developed by the Family Budget Unit,

University of York. In order to construct a Minimum Essential Budget Standard, people living in the household types for which it is designed were brought together in focus groups to act as their own budget standard committees. Each focus group was designed to include people from different social backgrounds and economic circumstances. The actual expenditure choices and judgments that are made by people in real life as they manage their money, contribute to the final consensus. Ultimately, the people themselves are the 'experts'. (Middleton, 2000:62-63)

Process of Applying Consensual Budget Standards to the Irish Situation

- Focus groups were established for each household type.
- 161 participants were drawn from a variety of areas across Dublin.
- Each group included people from different social, economic and geographical backgrounds.
- A total of 18 focus groups – 3 focus groups for each household type
- People living in the household circumstances for which the budget standard was intended drew up the Minimum Essential Budget Standard over a series of meetings
- Researchers – costed the lists of budget items; identified any issues; consulted experts and drew up standards
- Budgets were established for each of the following areas of expenditure – food, clothing, personal care, health related costs, household goods, household services, social participation, education, transport, household fuel, personal costs, childcare, pet costs, savings/contingencies. (Housing costs were limited to the rental costs for Local Authority Housing)

Household Types

Six household types were selected as the focus of this study:

1. Two parents and two children (3 year old girl and 10 year old boy)
2. Two parents and two children (10 year old girl and 15 year old girl/boy)
3. Lone parent and two children (3 year old girl and 10 year old boy)
4. Pensioner couple (age 66-69)
5. Lone female pensioner (age 70+)
6. Single adult male (age 25+)

Method of Validation of Research Process

In order to ensure the reliability and validity of the research process in addition to the 3 separate focus groups for each household type (18 in all consisting of

161 members) a research committee and an expert advisory group were established.

Research Advisory Committee and Expert Groups representing the main organizations associated with the household types under consideration. An Expert Group was also formed consisting of experts e.g. in nutrition, home economics, household energy. The Family Budget Unit, University of York also provided ongoing guidance and support in relation to the methodology.

Key Results

The Study focused on six different household types (there are 27 different family situations within the 6 broad household categories e.g. working full time or part time, in receipt of social welfare etc) and compared their weekly income from work (at the rate of the National Minimum Wage) and/or Social Welfare entitlements with their weekly expenditure to assess whether these households were living with a shortfall or a discretionary income. If a family has an income above their expenditure costs they are said to have a discretionary income and are able to afford a Minimum Essential Standard of Living.

If however, a family has an income below their expenditure costs they are said to have a shortfall and are unable to afford a Minimum Essential Standard of Living. The 2006 study has been updated for 2007, 2008 and 2009 to take into account changes in inflation, the National Minimum Wage and Social Welfare rates. The 2009 figures show that despite a drop in the cost of living, a Minimum Essential Standard of Living is still not possible for 3 of the 6 households in our study.

The 3 households unable to afford a Minimum Essential Standard of Living are:

- Female Pensioners Living Alone
- Households with Adolescents
- Single Adult Males

The original 2006 study showed that only 1 household could afford a minimum essential standard of living. In the period 2006 - 2007 social welfare transfers and an improvement in the National Minimum Wage increased to 3 the number of households (in this study) for whom a minimum essential standard of living was possible.

For the period 2007 - 2009 there is no increase in the number of households which can afford a minimum essential standard of living. This is due, for the most part, to the smaller increase in social welfare payments and the impact of inflation.

Update – Updating Why

The original research was undertaken in 2006. Since then the figures have been updated on an annual basis to take inflation into account. It is also intended to rebase the goods and services on a periodical basis to allow for changes in consumer spending patterns and attitudes.

Poverty Line

The updated 2007 figures from the Central Statistics Office with the predicted increases in average industrial earnings, produces in 2009 a relative poverty line of € 229.40. While the income of all of the households in the study exceeds the poverty line, three of the households under consideration could not afford a minimum standard of living. While social welfare payments have increased there is still a gap between these payments and the amount needed to achieve a minimum essential standard of living.

Challenges

1. Inform and convince Irish public and policy - makers etc, that for poverty to be reduced in Ireland a minimum essential income standard is essential
2. Educate the general public about the reality of poverty, the struggle to make ends meet and to live with dignity on an inadequate income.
3. Continue to advocate for a minimum essential income standard.

Work To Date

- One Long Struggle a study of low income families, 2001
- Low Cost but Acceptable Budget Standards, 2004
- Minimum Essential Budgets for Six Household, 2006
- Minimum Essential Budgets for Six Households 2008, - Policy Implications of Changes in Budgets 2006 - 2008
- **2009 - currently engaged** in developing reference budgets for rural areas

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5.9 Sweden

Estimated costs of living

- The basis for decision making about reference budgets and budget advice in Sweden

On an annual basis, the Swedish Consumer Agency (SCA) (Konsumentverket) calculates the reasonable costs of some of the most common household expenses. These calculations set out the funding required by different family units if they are to maintain a reasonable standard of living. This is not a subsistence level – with expenses being included for only the most essential items – or a luxury existence, but a reasonable standard of consumption of the products and services which are generally needed to live in today's society. The costs cover day-to-day expenses as well as savings that are required to be able to compensate for rarely-bought commodities.

Sources

When the calculation of costs was first considered in the middle of the 1970s, the agency based its assessment and estimates of reasonable household consumption on what was known about actual consumption. The agency also drew on knowledge and information from experts, both internal and external, within different product areas.

The sources we used in our review of the calculation of costs are within certain product areas, the agency's own experts, and the SCA's own research (e.g. along with Statistics Sweden with regard to household possessions and the reasonable assessment of different products). Moreover, with regard to household consumption, purchases, product ownership, leisure routines etc, we have procured data from: external experts, other authorities, different organisations and research institutes, as well as relying on knowledge of child development, product tests etc. Below are examples of some of the different sources.

Experts and research results and statistics etc. from:

- Authorities and sector organisations
- The government's public investigations
- Trade journals
- Companies (e.g. Apoteket and other research institutes)
- Tests

It should also be mentioned that we have even studied the corresponding calculations of costs in Denmark, Finland and Norway.

Stakeholder identification

- the social services department – (basis for governmental decisions about national standards within financial aid)
- the municipal consumer adviser
- budget and debt advisers
- social insurance office
- municipalities (decisions relating to special charges for elderly and disabled care)
- banks/credit institutions
- school, education

Methodology

The calculation of costs shall correspond to reasonable consumption in the household – i.e. not the minimum level or luxury standards – and shall cover costs for products which are needed as a rule for a normal everyday life in Sweden today. This fundamental, reasonable requirement of goods and services is not intended to differ substantially between households, and is not supposed to be dependent on e.g. income. The calculations are, therefore, needs-based and not income-based. The requirement for adequacy not only applies to the choice of goods and services, but also to the products' quantity, service life and choice of place of purchase.

The agency does not have any alternative calculations of reasonable costs which observe the differences in consumption due to, for example, cultural differences, or illness and disability; those used by us are based only on the most common consumption conditions in Sweden.

It should be noted that the selection of products etc. is not the only possible structure of reasonable consumption. Other choices of normal goods and services can correspond to our assumptions in the calculations. The SCA's calculations can, therefore, be seen as an example of a reasonable consumption level.

For every expenditure item and person/household category, the SCA assesses which products and services shall represent a reasonable level of consumption

and then calculates the relevant costs. For the **selection of products** we start with consideration of:

- general and particular assumptions for different product areas;
- the different physical and psychological needs that must be satisfied within the respective person categories and size of household;
- the activities/behaviours which are common within the different categories in order to meet the different needs.

In order to select the products the following information is also used:

- the size of the share in respect of different ages, genders, income groups, and regions which own/use the goods/services
- expected development of the product, i.e. that it is not a temporary fashion item
- different households' comprehension of reasonability in owning/using the product in families with and without children

- In addition to the choice of goods and services, we even take into consideration the products' service life and how much need can differ between ages and gender and the number of people in the household.

Price

The prices of the products are typically measured, i.e. collected, from a medium-sized town (Örebro). This city was chosen in cooperation with the then SPK (Start Price and Competition Agency), as it was assessed as representing the average location in Sweden in terms of price and product range. No actual official material which sets out the existing price differences in Sweden for the items of expenditure which are included in the SCA's calculations has been found. In any case, if we are to calculate the costs, the items should be available in as many parts of the country as possible. We, therefore, primarily measure the cost of goods in nationwide retail chains, which tend to have the same range and prices in their stores.

The places of purchase used in the agency's calculations reflect the ranges in actual stores and are reasonably priced. These are not exclusive or bargain discount stores, but are instead, generally, larger common retail chains. The choice of these shops is based on the information which the SCA receives with respect to the retail chains' turnover, the consistency of prices and ranges in the stores, and the number of stores and their locations in the country.

The collected prices are, as previously mentioned, the standard versions. This is due to us basing our assumptions on the fact that many consumers (in particular low-income earners) are unable to take advantage of discounted prices when they appear.

How often prices are measured depends on the development of the consumer price. Between measurements, actual price fluctuation is observed for the different consumer areas by calculating the amount with the sub-index within the consumer price index. This is partly tailored to the content of the SCA's budget items. For example, sailing boats, lottery/football pools/scratch cards (which are not included in the reasonable costs) were taken from Statistics Sweden's sub-index when it comes to leisure items.

The amount of expenditure, after price measurement has been conducted for the respective budget items and person/household category, is then recalculated with a prognosis factor for the average price development of goods and services during the coming year. This is done in collaboration with the National Institute of Economic Research.

Goals

Purpose and use

One aim of the calculations was to make it easier for households to manage their finances. The material was to operate as data for budget advice purposes and to help families with financial planning. Another aim was for the costs to be used by different authorities and organisations for household finance, economic, cost calculation and analysis purposes.

Cost calculation is included in the basis for governmentally decided national standards within financial aid (social assistance) and for municipal consumer advisers, budget and debt advisers, the social department and a number of banks. Moreover, they are included in the software program for budget advice.

The calculation of costs will be able to be used by households of differing sizes and structures. The fact that the requirement for products can differ due to *gender, age and the number of people in the household* has been taken into account. So far as food products, clothing and footwear, hygiene (personal), and leisure and recreation are concerned, there are different calculations for different age categories from 0 to adulthood. For the first three items mentioned, the costs are assumed to start from around the age of ten years and be dependent on gender.

For the items known as consumables, e.g. home insurance, home appliances, media, fixed-line telephone, and the Internet etc, the costs are dependent on the size of the household. For these items, the calculations are produced for between one and seven people.

For all items it is assumed that:

- Family members are *healthy* and without any disabilities which would mean extra expenses for special meals, clothes, equipment etc.

- *Normal* readily-available *products* are used. The goods are *newly-manufactured*, but are *not* distinctive *fashion products*.

- The households take into consideration, to a reasonable extent, *the environment* with respect to product choice, amount purchased and service life. By doing so, heed is being taken of society's direction towards sustainable consumption.

- *Safety aspects are observed* with respect to the choice of product. Primarily, it applies to the choice of safe goods and safe products for children within the home appliances, leisure and recreation categories.

- Goods and services are bought in *the stores and other places of purchase* which are *common* in the country – primarily in retail chain stores. We do not include acquisitions through inheritance (e.g. games and children's clothes) or gifts.

- The households have a *limited amount of time* for housework. It is, therefore, assumed, for example, that certain food products are used which are ready or semi-ready for consumption and there is no baking or mending of clothes.

- There should be *no* need for *prior knowledge* and *equipment*, other than what is considered to be normal to be able to, for example, cook the food which is included in the calculations.

For the items like home appliances, home insurance, electricity and consumables, in addition to the number of people in the household, the *size of the dwelling* is significant. In large households, it is assumed that there are two adults and between 0-5 children.

We base our assumptions in the calculations on *new products*. In its calculations, the SCA assumes that the households do *not inherit* or receive different products as *gifts*.

Bearing in mind the environmental impact of consumption, we try to select environmentally-certified products within budget items where these are more common.

Actions

Food

The SCA's calculation of costs for food products shows how much proper, nutritious and varied meals cost for people of different ages and genders. These costs are based on a food plan for four weeks which meets the National Food Administration's nutritional recommendations for different categories of people.

The calculations often include a small amount of sweets, snacks and juice. With respect to alcoholic drinks, only a small amount of low-alcohol beer is included.

Prior to price collection, the SCA set the criteria (regarding quality and packaging etc.) for the different food products. The cheapest types of goods to meet the criteria are considered. We noted the actual price for the product and take into account advertised prices and even discount coupons. We do not pay regard to member discounts.

Clothing and footwear

The costs for this budget item shall cover the need for normal clothes and footwear which are used throughout different seasons, in different types of weather, and with different functions during the day, as well as for more festive occasions and leisure time. Distinctive fashion goods are not included.

Leisure and recreation including mobile phones

Normal leisure activities are the basis for the decision about which products are included. This applies to indoor as well as outdoor activities, exercise and culture, activities performed alone or with family or friends. With regard to outdoor pursuits, products for both summer and winter are included.

The activities, and the related choice of products included in the calculations, differ in accordance with age. Their selection has been based on knowledge of children's needs, as well as research and statistics concerning how people of different ages spend their leisure time.

In the calculations, we have not taken into account the costs of special recreational interests, pets, holidays etc. There are numerous different hobbies and recreational activities with considerable variations in cost.

Hygiene

The category of hygiene covers goods used for personal hygiene purposes. The need for such products varies in accordance with age, and for older children and adults in accordance with gender. In contrast to the other personal budget items, this area has a specific age category for children who are three years old. This is due to the use of nappies, and as such the total costs for the budget item is considerably lower for children of this age than for one – two year olds.

Consumables

Consumables cover the cost of a variety of daily commodities which are primarily used for care and maintenance of the home as well as clothes and shoes. Items like cling film and freezer bags, vacuum bags, soap, washing powder and shoe polish are included. For dishwashing there is washing-up liquid; dishwashers are not included in the SCA's calculations.

Home appliances

The budget category, home appliances, applies to the cost of different types of products which are required for a large number of purposes, for example, cooking, eating, socialising, sleep, and storage, as well as cleaning and the care of clothes, fixtures, housing etc.

The products included are, in most cases, rarely-bought commodities with a service life of more than a year. The period of use, just like the amounts, can vary in accordance with the size of the household. For some products, the need is dependent on the number of rooms in the dwelling, for example, when it comes to ceiling lamps, curtains and carpets.

As the household is assumed to live in an apartment in a block of flats – with a communal laundry room – there is no washing machine or dryer included in the cost amounts. Likewise, the cost of, for example, gardening tools and outdoor furniture etc. is also not included.

Media, fixed-line telephone, and the Internet etc.

This category covers expenses for communication purposes such as a fixed-line telephone, writing and sending e-mails, and letters and postage. With regard to daily newspapers, the price refers to a full annual subscription.

When it comes to the cost calculations for fixed-line telephones, this covers call and standing monthly charges as well as savings for telephone equipment. The call charges apply to calls within Sweden. Internet with broadband connection is included, which is the most common form of connection.

Home insurance

Our costs pertain to households who live in rented flats and are based on the two largest insurance companies' premiums, which have been produced in cooperation with the Swedish Consumers Insurance Bureau (SCIB).

Children and youth insurance

In collaboration with the SCIB, the SCA has produced costings for sickness and accident insurance for children and youths. All school age children have accident insurance which is valid during school hours and for the journey to and from school. The extent of the insurance differs between municipalities. More often than not it is not valid for leisure time. The SCA has, therefore, cost-calculated an insurance which even covers accidents during leisure time as well as sickness.

Consumption of household electricity

After the deregulation of 1996, the SCA no longer calculates the monthly cost of electricity, but instead works out the consumption of household electricity for different sizes of family unit. The network costs vary considerably between different parts of the country depending on who is the supplier. Even the price of electricity differs substantially due to the type of contract – fixed periods of different lengths or variable prices.

Validation

For the various budget items and person/household groups, the SCA has drawn up a detailed list, known as the **consumption list**, which contains information about the products included in the calculations. Herein, in addition to the service life and consumption amount (need) for each product and service, there is also a more detailed product description with, for example, information about the model and material. The list also presents the product's place of purchase, size of package, and purchase price per package. On the basis of the product's *price*, *size* and *service life* the monthly and annual product cost is calculated.

Contact

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5.10 United Kingdom

Authors

Abigail Davis, Donald Hirsch, Noel Smith (Centre for Research in Social Policy, Loughborough University). For more information see www.minimumincomestandard.org

A Minimum Income Standard for Britain

The report 'A Minimum Income Standard for Britain' was published in 2008, and was the result of a two-year collaboration between the Centre for Research in Social Policy (CRSP) at Loughborough University and the Family Budget Unit (FBU) at the University of York. It sought to answer the question 'What level of income is needed to allow a minimum acceptable standard of living?'. The findings showed that most people in Britain on or below the 60 per cent median household income are unable to afford an acceptable standard of living. The research was updated in April 2009 and showed that the cost of a minimum living standard had risen by about five per cent, even though prices overall fell, because someone on a minimum income spends a greater than average proportion of their budget on food, domestic fuel and public transport, the prices of which rose by between seven and 12 per cent.

Background, Aims and Objectives

The aim of this project was to develop a minimum income standard blending the best elements of the two main methodologies used to develop budget standards in Britain in recent years. The FBU approach used documented guidance, expert opinion and statistics to determine what items should be included in the budget to achieve a given living standard, and expenditure and consumption data. The 'consensual budget standards' (CBS) method developed over the last decade at CRSP brought ordinary people representing different family or household types together to form focus groups considering minimum needs. The rationale for this was that people living in a particular household type are best placed to construct a budget for such a household. The CBS approach assumes that, for society to agree a particular minimum standard of living, there needs to be informed negotiation and agreement about what constitutes a minimum, via a derivative of focus group methodology.

Blending the methodologies allowed the views of experts to be reconciled with those of ordinary people and, correspondingly, allowed budgets based on social consensus to be tested against expert knowledge and research. The project combined the methods by holding 'consensual' discussions among ordinary

people to set the budgets, which were then informed at successive stages by feedback from experts. Thus, the minimum income standard is rooted in social consensus about the goods and services that everyone in modern Britain should be able to afford, while at the same time drawing on expert knowledge about basic living requirements and actual expenditure patterns.

Terminology

- Minimum Income Standard (MIS) – is a minimum household budget for a socially acceptable standard. A MIS is an irreducible benchmark or baseline below which it is socially unacceptable to fall.
- Definition of ‘minimum’ - Rather than impose a pre-existing definition, the definition of the minimum standard was devised through group discussion with members of the public. The definition went beyond basic needs for survival to include having sufficient resources for social participation and for maintaining human dignity, consuming those goods and services regarded as essential in Britain today.
‘A minimum standard of living in Britain today includes, but is more than, just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.’
- Consensual budgets are based on decisions made deliberately in negotiation among members of the public. They are about reaching agreement among and between groups, rather than about voting on, or averaging out, different opinions. Where there is expert involvement, it is the groups who retain the ability to accept or reject any suggested changes. Any changes made as a result of this input must therefore be negotiated and agreed between the groups and the experts.
- Expert-led budgets are based on decisions made by economists, academics and scientists, who decide how much of what is needed, by whom and for how long. Where this approach includes consultation with members of the public, participants in focus groups are usually drawn exclusively from low-income households and are asked to ratify existing budgets, with the decision making power remaining with the experts.
- *Needs not wants* – the MIS is made up of items deemed essential by members of the public, without which a member of society would not be able to have a minimum socially acceptable standard of living.

- Uprating – undertaken each April – this involves using Retail Price Index data, based on breakdowns by commodity group, to reflect changes in prices.

Data sources

The design of the research is such that it relies principally on qualitative data generated by discussion groups, who decide on the lists of goods and services that the minimum income standard budgets include, as well as where they should be priced, what quality they should be and how long they should last. Expert input comes in terms of the assessment of nutritional adequacy of the food baskets and of the fuel expenditure necessary for any given household living in the size and type of accommodation chosen by the groups as the minimum acceptable dwelling for that household.

For the purposes of contextualising the budget standards, quantitative data from the Expenditure and Food Survey (EFS) is used, uprated by inflation to the relevant time point, as this survey data is approximately two years behind real time.

Stakeholders

Effectively everyone in the UK is a stakeholder, in that the research was intended to inform public debate on a wide range of topics which, in some form or another, affect every citizen. These include poverty, inequality, consumption, benefit levels, pensions, wage levels, and questions like ‘How much is enough?’ and ‘What kind of a society do we want?’. The level of public interest generated was indicated by the extent of the national and regional media coverage and the number of online comments received via the BBC web pages when the findings were launched in 2008.

The research has contributed to social policy debates, with requests to the team to give evidence to Parliamentary Committees and briefings to ministers and civil servants on issues including food, health and emergency financial assistance for people on benefits.

The MIS is being used by some charities to decide how much to give people in hardship, and new potential applications continue to arise, for example as a way of assessing the payments given to foster parents.

We continue to expand the coverage of the MIS through additional work conducted in Northern Ireland, and in 2009-2010 more rural areas in England.

Plans are in place for regular updating of the budgets in order to keep pace with a changing society. The Minimum Income Calculator (available at www.minimumincomestandard.org) is an interactive web-based tool on the MIS website, which enables people to calculate a Minimum Income Standard based on their circumstances, and this will also be maintained and updated over time.

Methodology

The research design encompasses seven stages of discussion, consultation, calculation, verification and testing to derive the budget standards. Focus groups draw up and reach a consensus about the content of the budgets. Their deliberations are informed and supported by the technical and scientific knowledge of expert professionals, in an iterative process (see Figure 1 below).

The design initially produces a set of budget standards for the **individuals** within households. These standards are then combined to produce budget standards for **family types**, using decisions made in the later group stages about economies of scale and variations in need according to gender or age.

Groups consist of 6-8 participants, and are drawn from the family and individual types under discussion in each case. Thus, the budget for single female pensioners is developed by groups of single female pensioners, lone parents' budgets by lone parents, and so on. At each stage a new set of participants are recruited, except in the final negotiation groups where members are drawn from a previous stage.

Participants are purposively selected to ensure a mixture of socio-economic circumstances. Whereas other budget standards work has involved consultation with groups of people on low incomes the MIS methodology recognises that individuals draw on their own experiences, so if only those used to managing (or struggling) on a low income are consulted, this may artificially limit the scope or content of the lists of items, activities and services that are deemed 'essential'. As the budgets are intended to be suitable for a general population, not just for 'the poor', they need to be grounded in as wide a consensus as resources allow.

A more detailed description of each of the stages can be found in the 2008 report:

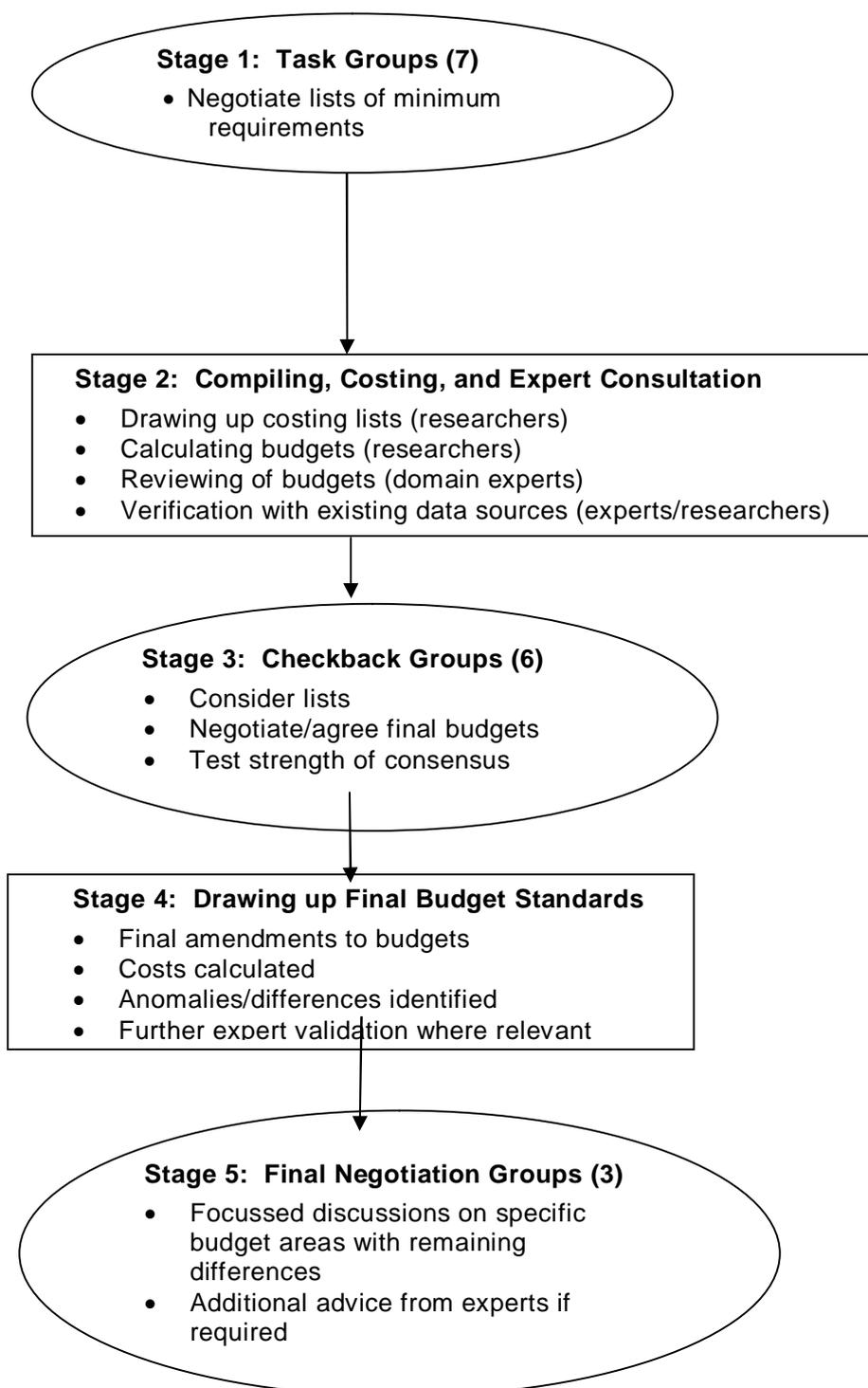
http://www.minimumincomestandard.org/downloads/Reports/launch/mis_for_britain.pdf

Goals

By starting at the level of the individual the MIS budgets can be combined flexibly, so that the Minimum Income Calculator (MIC) can construct a budget for a couple or single person with up to four children, selecting their ages from one of the four categories (baby/toddler, pre-school, primary school and secondary school aged children). This makes the budgets more accessible and relevant to a wider proportion of society than those using more prescriptive household types. By augmenting the original MIS research with additional work in Northern Ireland and in rural areas this coverage is increased further still. The MIC has proved a popular and accessible tool, and figures show that people continue to visit the site and to spend time using it.

The transparency of the budgets – the master spreadsheets are also on the website in pdf format – enables everyone to see what items, from where, lasting how long have been included. This has helped to give debates about poverty, inequality and social exclusion a more tangible focus, and enhances public and political understanding and engagement.

Figure 1 Minimum Income Standards Research Stages



Challenges and lessons learned

This was a major research endeavour and brought with it all the usual challenges that such projects involve. Managing the resources in order to complete the tasks and finalise the output was a complex task, and the lessons learned from the original project have helped the team to refine and streamline the process. Among these, some of the key elements are:

- The importance of ensuring that all the data collected is entered in the spreadsheets in a consistent manner.
- It is essential to have a skilled research team who can facilitate the focus groups in order to complete the necessary tasks within the timeframe.
- All the budget items must be costed (or re-costed) at the same time point.
- Recruitment of a mix of people from a range of socio-economic groups is key to the methodology. Recruitment can be particularly challenging, especially for the all-day workshops in the task group stage. In line with good practice guides, CRSP uses incentive payments to participants, which shows people that their time and input is valued. These need to be taken into account for the research budget and carefully considered, as if they are too low it will affect attendance.
- Mechanisms for updating and uprating the budgets need to be assessed, as changes in living standards are not necessarily reflected in inflation or expenditure data.

Validation

The budgets are validated through expert input, contextualisation with expenditure data and through widening the consensus through subsequent groups. The original budget lists were first constructed in 2007 but have been assessed at several points by groups in subsequent MIS-related work since then and remain essentially unchanged. The updating plan includes a cyclical approach whereby every four years, half the individual budgets will be developed again from scratch, thus ensuring that they continue to reflect what groups say people need as a minimum. In the intervening years checks will be made on key budget areas, for example, technology and transport, and inflation will be used to uprate budgets in years where they are not being drawn up again as new.

Costs and time

The original MIS project took approximately 24 months and involved three principal researchers – one full-time and two part-time, with input from experts and other team members as needed at various stages. Developing budget

standards from scratch is a time and labour-intensive task, although our experience has enabled us now to refine and streamline processes and tasks. It is worth noting that this has been greatly facilitated by the continuity of key personnel at the core of the team.

Future Steps and Communication

In addition to the scheduled updating work, we are currently conducting research exploring the different and additional costs of having a minimum income standard for people living in rural areas.

Our knowledge transfer activity includes writing articles and giving presentations to agencies and organisations, and CRSP is convening a seminar on the use of MIS to calculate Living Wages.

We are in ongoing talks regarding a project aiming to replicate the MIS methodology to develop a minimum income standard for pensioners in other EU countries, and will continue to explore and investigate new applications and opportunities to expand the MIS programme of research.

6. Mutual learning on reference budgets: lessons learned

Authors: Bérénice Storms and Karel Van den Bosch

6.1 Introduction

In this chapter we will provide an overview of the lessons we have learned from working on reference budgets over the last two years. There are three issues to consider. The first concerns the construction of reference budgets and the methodology used by different project partners. Secondly, we will discuss how reference budgets are used and may, possibly, be misused. And finally, we will highlight some notable findings concerning the total cost of the budgets and their component baskets. These findings are largely based on discussions between project partners at a meeting in Brussels in 2009 and on a comparative review by Bérénice Storms.

6.2 Construction of the reference budgets

When considering the construction of reference budgets, four key questions must be answered (Dubnoff, 1985, Veit-Wilson, 1998). The first concerns the purpose, or, in other words, the level of living for which reference budgets are developed: is it to ensure that citizens have a decent life or is it only intended to meet their basic needs? Secondly: whose needs are to be met? Who are the intended beneficiaries? “We the people or they the poor?” (Shriver, S., in: Veit-Wilson, 1998). The third question relates to the issues of: whose judgements set the standard, according to which criteria and what is the extent to which people experiencing poverty are involved? Fourthly, there is the question of the time dimension: for how long do these reference budgets have to last? But there is also the challenge of sustainability to consider. Are the reference budgets meeting the needs of the present without compromising the ability of future generations to meet their own needs?

6.2.1 For what purposes have countries developed reference budgets?

In most countries, the teams who developed the reference budgets had the same starting point. Reference budgets are not to be seen as a standard with which to meet basic needs, but as guidelines which enable the full participation in society of all citizens. The questions, what full participation means and how

this concept is made operational, are unanswered by most countries. Only the Flemish researchers (Storms & Van den Bosch, 2009) paid explicit attention to this. For them, social participation means that people can adequately fulfil their differing social roles¹⁸. When people can meet the shared expectations associated with their different positions in society, other people accept them. They are not only not excluded, but they can also participate in the realisation of essential societal functions. In other words, participating implies elements of belonging as well as contributing.

For Nibud, the Dutch National Institute for budget advice, social participation is not the starting point for developing reference budgets; it intends to produce them as "examples of spending-patterns" in order to provide budget information. This organisation does not start from a human rights or a universal human needs perspective when calculating its reference budgets, but from the point of view of disposable income. It gives people insight into the amounts of money households comparable to their own, and with comparable incomes are spending in certain expenditure categories.

6.2.2 Who are reference budgets developed for?

Closely related to the issue of social participation as a purpose for developing reference budgets, is the notion that the intended beneficiaries are not just the poor, but all citizens. Starting from the perspective of social rights, which not only refer to individual needs but also to societal cohesion (Daly M., 2002, in Peña Casas, 2005), reference budgets not only reveal what level of income is needed for the fulfilment of an individual's social needs, but they also imply a commitment to social cohesion and social inclusion. Reference budgets for social inclusion presume a socially inclusive society with accessible (available, usable, understandable, reachable and payable) institutions. As such, they imply a major concern for the protection of the poor.

When discussing the construction of reference budgets, all of the project partners felt the need for an overall theoretical framework of social needs. Two of them integrated such theories when building their budgets. The Flemish researchers started from the standpoint of Len Doyal and Ian Gough's "Theory

¹⁸ Social roles are common expectations associated with different social positions in different social institutions. Social institutions are common normative systems built around essential social functions. Examples of social institutions are the family which takes care of procreation and the education of children, the economy which handles the production and redistribution of scarce goods and services, and social security is the institution which takes care of people who cannot earn money by working because they are sick, old or can't find a job. In all of these institutions, people take up positions in which others expect something from them. Sociologists call these common expectations 'social roles'.

of human need” (1991), while the Austrians wanted to validate their reference budgets by using Martha Nussbaum’s “capability approach” (1995) comparing this to the assumptions they had made implicitly when they developed their budgets. These two theories of social needs have much in common, “including endorsement of a fully universal conception of human capabilities/needs, a critique of relativism and a case for the constitutional rights of all peoples for their needs/ capabilities to be met” (Gough, 2003).

Because the “Theory of human need” provides a concrete and operational framework for conceiving and measuring what people in different cultures require, we will illustrate below how the Flemish researchers used this approach when building their reference budgets. Doyal and Gough assert that two basic universal human needs must be fulfilled for an individual to be able to participate in society, namely physical health and autonomy. Proceeding from this premise, products and services have to be found that can adequately meet these needs. These products and services, or ‘satisfiers’, are relative. This means that they are, to a large extent, historically and culturally determined. Yet it is possible to reduce them to a number of intermediate needs, constituting a necessary step towards the definition of concrete, society-specific satisfiers. Based on this framework, the Flemish researchers identified ten intermediate needs. In order to be able to participate in society, people must have at their disposal adequate and sufficient food, housing, healthcare and personal care, clothing, rest, and leisure time. In addition, they must have experienced security in childhood, be able to maintain meaningful social relationships, feel safe and be sufficiently mobile. These universal satisfiers are ‘translated’ into concrete goods and services by different experts, using national laws or official guidelines and the judgement of focus groups.

Satisfiers are time and place-specific. However, even within the context of one society in one particular year, they may vary significantly depending on household composition and the social status of the different household members. As it is impossible to devise satisfiers for all possible situations, all of our partners have limited themselves to the development of reference budgets for a number of model families. These families mainly differ in terms of the number and age of their adult and child members. Other characteristics, like health, housing status, and access to shops and services by public transport are generally kept fixed.

However, many of these assumptions do not relate to the real circumstances in which low income families live. For example, the assumption that all household members are healthy is rarely the case for such family units. Another assumption, that families are renting a property is also not always (is mostly not) the case in a lot of countries. There is, therefore, a need to draw up more

specific budgets for people with disabilities, lone parents, step families (e.g., with children out of former marriages of the partners), home owners, and the elderly.

6.2.3 Who develops reference budgets?

Reference budgets can be based on empirical data and budget surveys, or they can be constructed by experts and focus groups. Those based on the former reflect reality, but often reveal deficits for households with a low income. More specifically, the development of a budget standard involves an element of circularity when behavioural data are used, since linking the standard to current patterns of behaviour, which are themselves constrained by the resources available to different households, undermines the ability of a reference budget to provide an independent benchmark for assessing income adequacy. On the other hand, budgets constructed by experts may be criticised because of their subjective nature. This is why many of the countries used focus groups. Joint research by experts and focus groups aims to develop “a standard which will be rooted in social consensus about goods and services that everyone in the society should be able to afford” (Bradshaw, J., 2008).

Expert knowledge of living requirements is useful when translating universal needs/capabilities into necessary goods and services. Consequently, the starting point of experts is normative. This is something very different to being prescriptive. In the translation process from universal to intermediate goods and services, experts often make use of legal rules, official guidelines or directives. If these norms fit social reality, the resulting budgets enable people to buy healthy food, to have access to adequate healthcare, to be mobile, etc. The reference budgets are not intended to prescribe to people what they should eat, what they should do or where they should go. In this operationalisation of social needs/capabilities into concrete products of a certain quality, quantity, life span and price, the experts have to be transparent. Not only because it enables everyone who will use (or not use) the reference budgets can enter into arguments about them, but also because many arbitrary choices have to be made.

For this reason, most partners involved citizens in the process of constructing reference budgets. While specialists and the official guidelines that they use do not always reflect actual living conditions, citizens are the real experts. They can make judgements about the inclusion (or not) of the goods and services that are necessary for social participation. So, if we agree on the importance of involving citizens, the next question is: how do we do this? In this project we have learned that a survey is not the best way of consulting people about what is necessary

and what is not. In these circumstances, people often confuse universal needs with personal wants. Focus groups, however, are a better method. When people are together in groups it is much easier to start from a common understanding of social participation and social needs. Moreover, focus groups are preferred because of the interaction effects; during the discussions, people can be introduced to new ideas and can change their minds and so on.

As more and more researchers become convinced of the importance of involving focus groups during the whole process of constructing and implementing reference budgets, the next question is: who are the participants? Do the groups, like the method prescribes, have to be homogeneous for many independent characteristics? And, if the answer is yes, which are the crucial elements? To answer these questions, we will need further research to be conducted. Other queries which require answers are: who are the people who have the appropriate skills to talk about the fulfilment of social needs in their society? Do these people come from all income groups because the intention is to construct suitable budgets for all citizens (Hirsch, D., 2009)? Or, is it better to involve only those on a low income who have to make ends meet on a day to day basis and are, therefore, best placed to know which social standards permit social participation and which do not? And, if we do want to involve low income families, is it better to ask people with an income at a level around the poverty threshold, or should we only consult those who are really poor? We thought that mixed groups would raise the standard, but Dutch researchers have found the opposite to be true (Hoff, S., Lamers, S., Luten, A., Soede, A., van Gaalen, C., Vrooman, C., 2009). Furthermore, we wonder whether it is necessary to keep other variables like household composition and living conditions constant, apart from income. Moreover, is it better to involve participants drawn from the family types under discussion? If the answer is yes, it seems strange and difficult to justify that the food budget for an Irish male adult is much higher when he lives as a single person, than when he lives as a part of a couple (Vincentian Partnership for social justice, 2006), or that British couples offer tea and cake to visitors and British singles present them with spaghetti or beef and vegetables (Bradshaw, 2008). This illustrates that one should be careful when setting up the focus groups, and also in the way the results of these groups are used in the definition of the content of the reference budgets.

6.2.4 For what time spans are reference budgets developed?

The fourth and final question about the construction of reference budgets concerns the time aspect. All of our partners are convinced that people have to

save money to replace durables, go on holiday or buy a new pair of shoes. But, what most researchers did not take into account is the need to save for life experiences such as retirement, divorce, a funeral, etc. We also found that not all important life events are taken into account by most researchers. For example, none of them calculated a budget for when youngsters leave home, or one for parents to pay for their children's wedding(s). The question here is not: do we have to take these costs into account, but rather: how can we do this? Finally, there is the significant challenge of sustainability to consider. If the reference budgets are to become an enduring, long-lasting tool, the well being of our children must also be taken into account. More generally, social policy must, in the future, also become an ecological policy. Reference budgets will have to take adequate account of the ecological dimension of well-being. After all, it could be argued that a life that is compatible with human dignity should not unnecessarily compromise the living conditions of other people, both now and in the future. If this is indeed the case, then sustainability must be added to other social needs, like health and autonomy.

6.3 Use of reference budgets

As well as the construction of reference budgets, lessons can also be learned about their use. Here, all of the project partners are convinced about the great valorisation possibilities. Reference budgets can be used for:

- Determining additional income support, settling income maintenance, debt rescheduling;
- Financial education;
- Presenting alternative credit scores and contributing to responsible lending;
- Measuring poverty;
- Encouraging European politicians to work towards a socially inclusive society.

But reference budgets can also be misused. Firstly, they are not developed for use as a minimum standard, as some sort of lowest threshold that everyone should have a right to live by. It is important that they are used as benchmarks that need to be adapted when evaluating individual situations. Secondly, when reference budgets are used as instruments of poverty measurement, one has to remember that they have been constructed for model families, who often differ from their real counterparts. One particularly important reason why low income families often need more money to spend, is that one or more family members have a serious disease, or that they simply do not have the same opportunities

as other people. Thirdly, we want users to be aware that reference budgets for social participation presume a socially inclusive society (with accessible social institutions).

6.4 Some results

As different partners used different methodologies when constructing reference budgets, a comparison of the results consequently reveals some enormous differences. Therefore, we will confine ourselves in this section to listing a number of notable findings.

A first remarkable result that was seen in almost all of the reference budgets is the high cost of children, which only increases as they get older. In Flanders, Sweden and Norway, the relative cost of children exceeds the relative cost of a second adult by the time the youngsters are in primary school. This indicates that the poverty line currently used by Eurostat to estimate the numbers 'at risk of poverty' in the Member States of the European Union, and which sets the cost of a child (<14y) at 60% of those of adult, seriously underestimates the relative additional costs of children, especially adolescents. Secondly, we found that housing costs are the main budget component in all countries except Bulgaria, with the relative proportion for a single male adult varying from 40% (in Ireland and the UK) to 55% (Flanders). The greatest variation can be seen in the costs of social participation (2% in the Netherlands and 14% in the UK). Where differences in housing costs can be attributed to national constitutional differences, varying amounts for social participation can be ascribed to different focus group outcomes. The variation across countries is the smallest for clothing and footwear. The relative share of this item in the basket varies from 3% (UK and Flanders) to 5% (Sweden and the Netherlands).

Even if researchers have used the same methodology, the budgets still vary greatly. For example, the Austrian food budget is calculated in a similar way to how this was done in Flanders (dieticians composed the basket, which was discussed by focus groups). Nevertheless, the cost of food in the Austrian basket is twice as high as in Flanders for some model families. Thanks to the transparency of both research teams, it is possible to explain the differences and note that they are defensible. The higher costs of food in Austria can be attributed to the different socio-economic positions of the model families, the larger quantities (2900 Kilo calories for a single working man in Austria and 2200 Kilocalories for a single unemployed man in Flanders) and a different purchasing policy (cheapest retailer, low prices*10% in Flanders; different retailers, median prices, in Austria).

Other differences are less defensible. For example, the discrepancies in the amortisation terms of certain goods not only differ between countries, but also between model families in one nation. For example, a winter coat for a male adult has an amortisation term of three years in Flanders (JBC, € 59.9), while in Ireland, this figure is two years (Dunes, € 45) when the male adult lives with a wife and two children, and one year (Dunes, € 45) if he lives alone.

6.5 Challenges for the future

It is important to mention that having more expensive baskets or reference budgets does not always lead to better opportunities. In fact, the opposite is quite often the case. In countries where accessible social institutions (e.g. education, public transport) permit the satisfaction of people's social needs and the promotion of social cohesion, the budgets are often (inevitably) lower. We believe that reference budgets, especially when they are developed against a theoretical framework of social needs, can be applied by European, national and local politicians as a (relatively) objective benchmark to assess the adequacy of national income policies. The development of comparable reference budgets for all Member States of the European Union could help politicians to evaluate the resources made available to realise social rights. At this point, national reference budgets are produced in isolation of each other and researchers use rather different methods and techniques. A direct benefit of this mutual learning project was that expertise in the development of reference budgets was made available to countries with no experience in this field. Moreover, the exchange of knowledge and experiences also gave new insight to the "experts" when it comes to optimising their own budgets. We hope that this project can be continued on a more scientific basis. After all, there are still a lot of open questions like: does the "reference budget" approach require a broader definition of needs (i.e. a theoretical framework) and, if yes, what is an appropriate framework? Is it possible to find a good balance between normative reasoning (the work of experts) and empirical research (actual household expenditure patterns)? How should the focus groups best be organised? How should the cost of important life time changes (living alone, getting unemployed, become a pensioner) be covered? How should we update reference budgets over time? How can we make reference budgets applicable to partly informal-market economies? Is it possible to develop budget standards which are comparable across Member states?

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Annex 1: Brief overview of the cost-bearers of Nibud reference budgets

In this Annex we will provide a brief description of the cost bearers of the Nibud classification. A distinction is made between the basic (minimum reference) and the example/reference budgets.

Rent: This amount is specified as the minimum rent that households living on the social minimum have to pay themselves. If the rent is higher, these families get a subsidy.

For those with higher incomes, the average costs from the univariate analyses are used. We distinguish between rent and mortgages for house-owners. When giving personal advice, we always ask for the individual costs. Higher than average rents or mortgage payments are an important source of information when it comes to calculating individually unavoidable expenses.

Energy (heating, electricity, water): For the basic basket this is 90% of the average price for different types of households. The elderly have more heating costs than younger people, for example. Heating expenditure is dependent on the characteristics of a house: type of building (apartment, house in a terrace, detached property), year of build, and energy rating.

These data are provided by a semi-governmental research organisation.

Local taxes. Local taxes are levied by the local municipality and by the water management authorities. Costs depend on family size and/or value of the house. For local use of the reference budgets, we use local regulations; for national use, we use averages provided by a research centre for local taxes.

Phone, cable-TV, internet. This amount is specified by Nibud itself, based on the cheapest way to get connected. As the technology develops rapidly in this sector, there are annual changes to the basket. Currently, the amount is based on a pre-paid phone and an internet connection via the TV cable. There is no distinction for family size. For those with higher incomes, income-dependency is estimated from budget surveys.

Health insurance. In the basket, there is the obligatory health insurance, an average additional insurance and limited insurance against dentists' costs. Prices are provided by comparison websites and/or the Health Ministry itself.

Costs depend on the number of adults in the household. Children are insured against no costs and there is no income-dependency therein. Low-income households get a health insurance subsidy.

Other insurance. Also in the basket is:

- Liability insurance: costs per family size
- Furniture insurance (against fire, theft, weather): costs per estimated value of furniture
- For adults under 65: funeral insurance.
- For house-owners: rebuilding insurance which is dependent on the value of a house.
- Car insurance is included in car costs.

Income dependency comes from the budget survey. With that, other types of insurance also start playing a role (like life insurance, legal insurance)

Schooling and study costs

Amounts come from our own research per school type. They are calculated as median amounts per child. Low-income households get a subsidy for schooling costs.

Kindergarten, child care: They are included in the basket when both parents work or for working single-parents. Costs are calculated in terms of the hours of care needed x the average hourly tariff. There is an income-dependent subsidy.

Transport. For each household member, the costs of a bike and 15 public transport-zone tickets per month are included in the basic basket. For those with higher incomes, the travel costs come from a regression analysis conducted on the budget survey. Family size and income are the cost bearers. For individual advice, we calculate the costs of the household's car from data about its value, whether it is new or second-hand and the number of kilometres driven per year. These calculations are based on a sample obtained from the Driver's Association and the Consumer Organisation.

Clothing. Amounts are based on a Nibud-basis basket and depend on gender and age. Prices come from the Statistics Office. For children, there are scale-effects. We expect that second and further children could wear some of the clothes of their older brothers and sisters.

For the example budgets, income dependency and economies of scale are estimated from the budget survey.

Furniture and maintenance. Amounts are based on a Nibud-basis basket. Furniture is based on family size with distinctions between one adult, two adults and articles per child. Prices come from the Statistics Office or our own research. For electrical appliances in particular, price indices are hampered by quality corrections. For inflation purposes, the prices of new and improved appliances are corrected because of the higher quality of the new items. In the Nibud basket we include widely available products. Improvements in quality are incorporated into the costs of living in this way.

The costs of maintenance depend on the size and type of house. For the sake of simplicity we specify an appropriate housing type per family size. For example, a single person is expected to live in an apartment, a couple with children is assumed to live in a house in a terrace etc.

For higher incomes we use separate calculations for households who rent a house and home-owners. Income, type of housing and family size are the cost-bearers.

Health costs. These are costs that are not covered by insurance. In the basic basket, general costs for items like pain-killers, plasters etc are included. For people with a disability or a chronic illness, additional baskets can be specified.

Food. Amounts are based on a diet created by the Food Centre, which is an information resource. Prices come from the Statistics Office. The diets are produced per gender and age-category.

We specify economies of scale since large families can have advantages by buying in bulk at cheaper prices or can cook more efficiently. The costs of the Food Centre diet apply to a two-person household. For a single person, the costs are 4% higher, whereas for 3-person households they are 17% lower. For four or more people the costs are 26% lower. These economies of scale are calculated from budget surveys.

Daily costs of food per person for various family sizes				
	1 person	2 persons	3 person	4 or more persons
child 1-3 y.o.		€2,59	€2,15	€1,92
child 4-6 y.o.		€3,38	€2,81	€2,50
child 7-9 y.o.		€3,82	€3,17	€2,83
child 10-12 y.o.		€4,29	€3,56	€3,17
child 13-15 y.o.		€4,78	€3,97	€3,54
child 16-18 y.o.	€5,19	€4,99	€4,14	€3,69
adult	€5,01	€4,82	€4,00	€3,57

Example

A family consisting of a father, a mother, an 11-year old boy and a 13-year old girl could spend

€ 3.57 + € 3.57 + € 3.17 + € 3.54 = € 13.85 on food.

House cleaning. In the basic basket there is an amount per household and an extra amount per family member, based on Nibud-research.

Body care. There is an amount per person in the basic basket.

Other: An amount per household and an extra amount per person are included in the basic basket.

These last three categories are grouped as “other daily costs”. In this category, costs of pets and smoking are included. For “other daily costs” predictions are made via regression analyses on income and family size.

1.2 Additional baskets

The basic basket contains the minimum necessary for a household to live on. Articles that might be the subject of a discussion about whether they are necessary or not are omitted. However, to show what it means to live on a minimum income, we also specify some additional baskets. In these, articles are included which households could choose to spend their money on.

We use three additional baskets: the most expensive is A, B is a bit cheaper and the cheapest and smallest is basket C.

What is contained in those baskets is set out in the table below.

	A	B	C
Extra (public) transport	X	X	X
Membership of a sport or hobby club	X	X	X
Membership and use of the public library	X	X	X
Subscription to a paper	X	X	X
Pocket money for the children	X	X	X
Recreation (5% of total budget)	X	X	X
Subscription to a weekly magazine	X	X	
A pet (dog)	X	X	
One household member smoking cigarettes	X		
Extra clothing for adults	X		

ANNEX 2: The Eurostat household expenditure classification in 4 digits.

The Classification of Individual Consumption by Purpose adapted to the needs of the Harmonized Indices of Consumer Prices (COICOP-HICP) is a classification of consumption expenditure by private households prescribed by the EU in order to determine the harmonised consumer price index (HICP). The HICP has been developed to enable the price indices of all members of the EU to be compared. At the lowest 4-digit level the COICOP-HICP has 61 classes. The HICP and the sub-indices are published monthly. The most important difference between the national index (CPI) and the HICP is the basket upon which both are based.

The classification in 4 digits (levels) in headlines is set out below.

Level	Code	Description
1	A	COICOP/HICP Classification
2	01 - 12	Individual consumption expenditure of households
2	01	Food and non-alcoholic beverages
3	01.1	Food
4	01.1.1	Bread and cereals
4	01.1.2	Meat
4	01.1.3	Fish
4	01.1.4	Milk, cheese and eggs
4	01.1.5	Oils and fats
4	01.1.6	Fruit
4	01.1.7	Vegetables
4	01.1.8	Sugar, jam, honey, chocolate and confectionery
4	01.1.9	Food products n.e.c.
3	01.2	Non-alcoholic beverages
4	01.2.1	Coffee, tea and cocoa
4	01.2.2	Mineral waters, soft drinks, fruit and vegetable juices
2	02	Alcoholic beverages, tobacco
3	02.1	Alcoholic beverages
4	02.1.1	Spirits
4	02.1.2	Wine
4	02.1.3	Beer
3	02.2	Tobacco
4	02.2.0	Tobacco
2	03	Clothing and footwear
3	03.1	Clothing
4	03.1.1	Clothing materials
4	03.1.2	Garments
4	03.1.3	Other articles of clothing and clothing accessories
4	03.1.4	Cleaning, repair and hire of clothing
3	03.2	Footwear
4	03.2.1/2	Shoes and other footwear including repair and hire of footwear
2	04	Housing, water, electricity, gas and other fuels
3	04.1	Actual rentals for housing
4	04.1.1/2	Actual rentals paid by tenants including other actual rentals
3	04.3	Maintenance and repair of the dwelling
4	04.3.1	Materials for the maintenance and repair of the dwelling

4	04.3.2	Services for the maintenance and repair of the dwelling
3	04.4	Water supply and miscellaneous services relating to the dwelling
4	04.4.1	Water supply
4	04.4.2	Refuse collection
4	04.4.3	Sewerage collection
4	04.4.4	Other services relating to the dwelling n.e.c.
3	04.5	Electricity, gas and other fuels
4	04.5.1	Electricity
4	04.5.2	Gas
4	04.5.3	Liquid fuels
4	04.5.4	Solid fuels
4	04.5.5	Heat energy
2	05	Furnishings, household equipment and routine maintenance of the house
3	05.1	Furniture and furnishings, carpets and other floor coverings
4	05.1.1	Furniture and furnishings
4	05.1.2	Carpets and other floor coverings
4	05.1.3	Repair of furniture, furnishings and floor coverings
3	05.2	Household textiles
4	05.2.0	Household textiles
3	05.3	Household appliances
4	05.3.1/2	Major household appliances whether electric or not and small electric household appliances
4	05.3.3	Repair of household appliances
3	05.4	Glassware, tableware and household utensils
4	05.4.0	Glassware, tableware and household utensils
3	05.5	Tools and equipment for house and garden
4	05.5.1/2	Major tools and equipment and small tools and miscellaneous accessories
3	05.6	Goods and services for routine household maintenance
4	05.6.1	Non-durable household goods
4	05.6.2	Domestic services and household services
2	06	Health
3	06.1	Medical products, appliances and equipment
4	06.1.1	Pharmaceutical products
4	06.1.2/3	Other medical products, therapeutic appliances and equipment
3	06.2	Out-patient services
4	06.2.1/3	Medical and paramedical services
4	06.2.2	Dental services
3	06.3	Hospital services
4	06.3.0	Hospital services
2	07	Transport
3	07.1	Purchase of vehicles
4	07.1.1	Motor cars
4	07.1.2/3/4	Motor cycles, bicycles and animal drawn vehicles
3	07.2	Operation of personal transport equipment
4	07.2.1	Spare parts and accessories for personal transport equipment
4	07.2.2	Fuels and lubricants for personal transport equipment
4	07.2.3	Maintenance and repair of personal transport equipment
4	07.2.4	Other services in respect of personal transport equipment
3	07.3	Transport services
4	07.3.1	Passenger transport by railway
4	07.3.2	Passenger transport by road
4	07.3.3	Passenger transport by air
4	07.3.4	Passenger transport by sea and inland waterway
4	07.3.5	Combined passenger transport
4	07.3.6	Other purchased transport services
2	08	Communication
3	08.1	Postal services
4	08.1.0	Postal services

3	08.x	Telephone and telefax equipment and telephone and telefax services
3	08.2/3.0	Telephone and telefax equipment and telephone and telefax services
2	09	Recreation and culture
3	09.1	Audio-visual, photographic and information processing equipment
4	09.1.1	Equipment for the reception, recording and reproduction of sound and pictures
4	09.1.2	Photographic and cinematographic equipment and optical instruments
4	09.1.3	Information processing equipment
4	09.1.4	Recording media
4	09.1.5	Repair of audio-visual, photographic and information processing equipment
3	09.2	Other major durables for recreation and culture
4	09.2.1/2	Major durables for indoor and outdoor recreation including musical instruments
4	09.2.3	Maintenance and repair of other major durables for recreation and culture
3	09.3	Other recreational items and equipment, gardens and pets
4	09.3.1	Games, toys and hobbies
4	09.3.2	Equipment for sport, camping and open-air recreation
4	09.3.3	Gardens, plants and flowers
4	09.3.4/5	Pets and related products including veterinary and other services for pets
3	09.4	Recreational and cultural services
4	09.4.1	Recreational and sporting services
4	09.4.2	Cultural services
3	09.5	Newspapers, books and stationery
4	09.5.1	Books
4	09.5.2	Newspapers and periodicals
4	09.5.3/4	Miscellaneous printed matter and stationery and drawing materials
3	09.6	Package holidays
4	09.6.0	Package holidays
2	10	Education
3	10.x	Pre-primary and primary, secondary, post-secondary non-tertiary, tertiary education, and education not definable by level
4	10.x.0	Pre-primary and primary, secondary, post-secondary non-tertiary, tertiary education, and education not definable by level
2	11	Restaurants and hotels
3	11.1	Catering services
4	11.1.1	Restaurants, cafés and the like
4	11.1.2	Canteens
3	11.2	Accommodation services
4	11.2.0	Accommodation services
2	12	Miscellaneous goods and services
3	12.1	Personal care
4	12.1.1	Hairdressing salons and personal grooming establishments
4	12.1.2/3	Electric appliances for personal care and other appliances, articles and products for personal care
3	12.3	Personal effects n.e.c.
4	12.3.1	Jewellery, clocks and watches
4	12.3.2	Other personal effects
3	12.4	Social protection
4	12.4.0	Social protection
3	12.5	Insurance
4	12.5.2	Insurance connected with the dwelling
4	12.5.3	Insurance connected with health
4	12.5.4	Insurance connected with transport
4	12.5.5	Other insurance
3	12.6	Financial services n.e.c.
4	12.6.2	Other financial services n.e.c.
3	12.7	Other services n.e.c.
4	12.7.0	Other services n.e.c.

Annex 3: The extended Nibud classification

FIXED EXPENDITURE

Repayments, savings

- Alimony ex-partner
- Alimony child
- monthly payments debts
- extra savings

Rent, mortgage

- Rent
- Service costs
- Interest mortgage
- mortgage pay off
- Insurance mortgage

Energy

- Gas
- Electricity
- Water

Local taxes

- Property tax
- Garbage collection rate
- Sewerage charges
- Taxes from the water management institution

Telephone/cable/internet

- Fixed telephone
- Mobile telephone
- Cable-TV
- Internet-provider

Insurances

- Basic health insurance
- Additional health insurance
- Liability insurance
- Fire and theft insurance
- House rebuilding insurance
- Funeral insurance
- Life insurance

School- and study costs

- Contribution study loan children
- School costs

Kindergarten

Subscriptions

Subscriptions newspaper, magazine

Membership fees

Church donations

Transport

Taxes (per car)

Insurance (per car)

Maintenance (per car)

Depreciation (per car)

Fuel (per car)

Garage rent

Public transport

RESERVATION EXPENDITURE

Clothing and footwear

Furniture, equipment

Maintenance house and garden

Non-insurable health costs

Recreation

DAILY COSTS

Daily costs

Food

Cleaning costs

Personal care

Other daily costs, like stamps, flowers, banking costs

Pets

Pocket money *

Smoking

Note: * This is not a real spending category, as pocket money is spent on one of the other spending categories.

Annex 4: Distribution codes for the calculation of the costs of children*

These are the figures used in the Netherlands in recent years. The figures may, of course, differ per country.

Living expenses	$(\text{number of rooms used by the children} / \text{total number of rooms}) * 0.5 * \text{total living expenses (rent, mortgage)}$
Energy	$0.1 * \text{expenses on energy}$
Local taxes	Nothing (are independent of the presence of children)
Telephone costs	Distributed based on a regression equation calculated with data of the Budget survey CBS. Total expenses telephone = $27 * \text{number of adults} + 4 * \text{number of children}$ Part of the children: In case of 2 parents $(4 * \text{number of children} / 4 * \text{number of children} + 54) * \text{total expenses telephone}$ In case of 1 parent: $(4 * \text{number of children} / 4 * \text{number of children} + 27) * \text{total expenses telephone}$
Health insurance	No costs for basic insurance for children Additional health insurance: real costs
Other insurances	For all the other insurances (except life Insurance) the same facto is used as for furniture (see below)
Study costs children	Total amount spent on children
Subscriptions and memberships children	Total amount spent on children
Car costs children	$(\text{number of kilometers especially for the children} / \text{total number of kilometers}) * \text{total car costs}$
Total transport costs children	$(\text{car costs children} + \text{public transport costs children} + \text{bike and motorbike costs children} + \text{other transport costs children})$
Household money, food	$(Tc+Tp) / (\text{Total amount household money} / 30)$ The costs per day for food for children depend on their age: 1-3 year: €2.69; 4-6 year: €3.52; 7-9 year: €3.99; 10-12 year: €4.48 ; 13-15 year: €4.97; 16-18 year: €5.18; 19-21 year: €5.16 Tc= total costs of food for all children per day Tp= costs of food for the parents per day Tp = 10, in case of 2 parents Tp = 5 in case of 1 parent
Clothing children	Total amount spent on children
Furniture and equipment	$2/3 * (\text{number of rooms used by the children} / \text{total number of rooms}) * \text{total expenses furniture}$
Maintenance house and garden	$2/3 * (\text{number of rooms used by the children} / \text{total number of rooms}) * \text{total expenses maintenance of the house and garden}$
Health costs	Total amount spent on children
Recreation	Proportional amount: if there are 2 children and 2 parents, the cost of the children is 2/4 of the total amount.
Domestic help	Nothing
Kindergarten	Total amount spent on children
Presents for children	Total amount spent on children
Pocket money	Total amount spent on children
Clothing money children	Total amount spent on children

Annex 5: Loan-to-income ratios for mortgages 2008

% of gross income that can be used for mortgage payments					
Gross income per year in €	Interest percentages				
	<=4,500%	4,501-5,000%	5,001-5,500%	5,501-6,000%	>=6,001%
17000	23,9%	24,1%	24,3%	24,5%	24,7%
17500	24,9%	25,1%	25,3%	25,5%	25,7%
18000	25,9%	26,1%	26,3%	26,5%	26,7%
18500	26,8%	27,1%	27,4%	27,7%	28,0%
19000	27,3%	27,6%	27,9%	28,2%	28,5%
19500	27,6%	28,1%	28,6%	29,1%	29,6%
20000	27,9%	28,5%	29,1%	29,7%	30,3%
20500	28,0%	28,7%	29,4%	30,1%	30,8%
21000	28,1%	28,9%	29,7%	30,5%	31,3%
22000	28,1%	29,0%	29,9%	30,8%	31,7%
24000	28,2%	29,1%	30,0%	30,9%	31,8%
25000	28,3%	29,3%	30,3%	31,3%	32,3%
25500	28,4%	29,4%	30,4%	31,4%	32,4%
26000	28,6%	29,6%	30,6%	31,6%	32,6%
26500	28,8%	29,8%	30,8%	31,8%	32,8%
27000	28,9%	29,9%	30,9%	31,9%	32,9%
27500	29,0%	30,0%	31,0%	32,0%	33,0%
28000	29,2%	30,2%	31,2%	32,2%	33,2%
28500	29,3%	30,3%	31,3%	32,3%	33,3%
29000	29,4%	30,4%	31,4%	32,4%	33,4%
29500	29,6%	30,6%	31,6%	32,6%	33,6%
30000	29,7%	30,7%	31,7%	32,7%	33,7%
30500	29,8%	30,8%	31,8%	32,8%	33,8%
31000	29,9%	30,9%	31,9%	32,9%	33,9%
40000	30,0%	31,0%	32,0%	33,0%	34,0%
41000	30,1%	31,1%	32,1%	33,1%	34,1%
42500	30,2%	31,2%	32,2%	33,2%	34,2%

(continued)					
Gross income per year in €	Interest percentages				
	<=4,500%	4,501-5,000%	5,001-5,500%	5,501-6,000%	>=6,001%
43500	30,2%	31,3%	32,4%	33,5%	34,6%
44000	30,3%	31,4%	32,5%	33,6%	34,7%
44500	30,5%	31,6%	32,7%	33,8%	34,9%
45000	30,6%	31,7%	32,8%	33,9%	35,0%
45500	30,7%	31,8%	32,9%	34,0%	35,1%
46000	30,8%	31,9%	33,0%	34,1%	35,2%
46500	30,9%	32,0%	33,1%	34,2%	35,3%
47000	31,0%	32,1%	33,2%	34,3%	35,4%
47500	31,1%	32,2%	33,3%	34,4%	35,5%
48000	31,2%	32,3%	33,4%	34,5%	35,6%
48500	31,3%	32,4%	33,5%	34,6%	35,7%
49000	31,4%	32,5%	33,6%	34,7%	35,8%
49500	31,5%	32,6%	33,7%	34,8%	35,9%
50000	31,6%	32,7%	33,8%	34,9%	36,0%
50500	31,7%	32,8%	33,9%	35,0%	36,1%
51000	31,8%	32,9%	34,0%	35,1%	36,2%
51500	31,9%	33,0%	34,1%	35,2%	36,3%
52000	32,0%	33,1%	34,2%	35,3%	36,4%
52500	32,1%	33,2%	34,3%	35,4%	36,5%
53000	32,2%	33,3%	34,4%	35,5%	36,6%
53500	32,3%	33,4%	34,5%	35,6%	36,7%
54000	32,4%	33,5%	34,6%	35,7%	36,8%
54500	32,5%	33,6%	34,7%	35,8%	36,9%
55000	32,6%	33,7%	34,8%	35,9%	37,0%
55500	32,7%	33,8%	34,9%	36,0%	37,1%
56000	32,9%	34,0%	35,1%	36,2%	37,3%
56500	33,0%	34,1%	35,2%	36,3%	37,4%
57000	33,1%	34,2%	35,3%	36,4%	37,5%
59000	33,7%	34,8%	35,9%	37,0%	38,1%
61000	34,1%	35,2%	36,3%	37,4%	38,5%
63000	34,6%	35,7%	36,8%	37,9%	39,0%
65000	35,0%	36,1%	37,2%	38,3%	39,4%
67000	35,4%	36,5%	37,6%	38,7%	39,8%
69000	35,7%	36,8%	37,9%	39,0%	40,1%
71000	36,0%	37,1%	38,2%	39,3%	40,4%
73000	36,2%	37,4%	38,6%	39,8%	41,0%
75000	36,3%	37,5%	38,7%	39,9%	41,1%
77000	36,4%	37,7%	39,0%	40,3%	41,6%
79000	36,5%	37,8%	39,1%	40,4%	41,7%
81000	36,5%	37,9%	39,3%	40,7%	42,1%
83000	36,6%	38,0%	39,4%	40,8%	42,2%
91000	36,7%	38,1%	39,5%	40,9%	42,3%
101000	36,8%	38,2%	39,6%	41,0%	42,4%