



PEER REVIEW  
IN SOCIAL PROTECTION  
AND SOCIAL INCLUSION  
2010

USING REFERENCE  
BUDGETS FOR DRAWING  
UP THE REQUIREMENTS OF A  
MINIMUM INCOME SCHEME AND  
ASSESSING ADEQUACY

NAMUR, 26 NOVEMBER 2010

**SYNTHESIS REPORT**



On behalf of the  
European Commission  
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# USING REFERENCE BUDGETS FOR DRAWING UP THE REQUIREMENTS OF A MINIMUM INCOME SCHEME AND ASSESSING ADEQUACY

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NAMUR, 26 NOVEMBER 2010

## SYNTHESIS REPORT



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This publication is supported for under the European Community Programme for Employment and Social Solidarity (2007–2013). This programme is managed by the Directorate-Generale for Employment, Social Affairs and Inclusion of the European Commission. It was established to financially support the implementation of the objectives of the European Union in the employment and social affairs area, as set out in the Social Agenda, and thereby contribute to the achievement of the Lisbon Strategy goals in these fields.

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Further information on the Peer Reviews and the Policy Assessment as well as all relevant documents are available at: <http://www.peer-review-social-inclusion.eu>.

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2011

PRINTED IN BELGIUM



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## Summary

The relative number of people at risk of poverty in Europe has not diminished over the past decade, but the Europe 2020 strategy aims to change that. One of its main targets is to reduce the number of Europeans living below national poverty lines by 25% and lift at least 20 million people out of the risk of poverty over the next ten years. Given that 80 million people in the EU are at risk of poverty and 8% of EU workers are considered to be “working poor”, tackling poverty is a tremendous but hugely important challenge.

At a meeting of ministers responsible for poverty alleviation held in October 2010, the Belgian Government proposed a Peer Review focused on determining an adequate minimum income across the EU which requires a definition of common criteria and a shared methodology. The Peer Review took place on 26 November in the Walloon Parliament. It was the first flexible Peer Review following the agreement in 2009 that Reviews could be arranged quickly on topics of great interest. Several Member States have already taken initiatives to define reference budgets and this meeting provided an opportunity for them to share their experience. In addition to representatives from the host country, officials and experts came from Austria, Cyprus, Finland, France, Ireland, Italy, Luxembourg, and Sweden. Two European stakeholders also contributed: the European Anti-Poverty Network (EAPN) and BUSINESSEUROPE. Thematic expert, Jan Vranken, from the University of Antwerp and a representative from the Directorate-General Employment, Social Affairs and Inclusion also participated.

Determining the minimum level of income people need to live in dignity is a crucial step in the struggle to combat poverty. The EU’s Recommendation on active inclusion (2008) offers a framework to achieve this goal. The framework outlines the following conditions for the calculation of a minimum income for all: first, the individuals concerned need to participate in the process of defining adequacy, and, secondly, the income level must enable people to participate fully in society and to realise their own goals. In its Europe 2020 strategy conclusions, the European Council emphasised the need to improve *measurement* of poverty and it is in this context that reference budgets are crucial and that the Peer Review on “Using reference



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budgets for drawing up the requirements of a minimum income scheme and assessing adequacy” is pertinent.

This Peer Review has resulted in a number of recommendations, including that the European Commission and the Social Protection Committee (SPC) should establish a working group to develop a common understanding of adequacy, and a common methodology to set an adequate minimum level which could then be adapted to each national context. The Peer Review participants agreed that the methodology to establish key needs and criteria should involve focus groups made up of different household types, including people on low levels of income (but not exclusively focussed on them) in order to develop a generally accepted norm of an adequate minimum level necessary for full participation in society. Experts would be involved in the validation process, pricing and final budget setting. As part of this process, in-depth exchange and research at the EU level is important in order to build consensus on a common approach and methodology for the setting of national standards; to identify the deficiencies of minimum income schemes across EU Member States for a better understanding of different national approaches; to involve people experiencing low income levels and other stakeholders in regular meetings to improve credibility.

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This synthesis report is based on the documents prepared for the Peer Review as well as the discussions of the meeting<sup>1</sup>.

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1 All documents are available at: <http://www.peer-review-social-inclusion.eu/peer-reviews/2010/using-reference-budgets-for-drawing-up-the-requirements-of-a-minimum-income-scheme-and-assessing-adequacy>



## Introduction

Commission Recommendation 2008/867/EC issued on 3 October 2008 on the active inclusion of people excluded from the labour market provides a basis for future initiatives to combat poverty and to render them more effective. Indeed, the first part of the recommendation recognises the complex character of the problem, stating that: ‘the persistence of poverty and joblessness and the growing complexities of multiple disadvantages call for comprehensive, integrated policies’. The Recommendation asks every Member State to draw up and implement an integrated, comprehensive strategy, composed of the following three elements: **adequate** income support, **inclusive** labour markets, and **access** to quality services.

As such, the Recommendation on ‘active inclusion’ deals with more than just labour market activation, it is concerned with those permanently outside the labour market; i.e. income support and service provision are as important as employment. The Recommendation states that *Active inclusion policies should facilitate the integration into sustainable, quality employment of those who can work and provide resources which are sufficient to live in dignity, together with support for social participation, for those who cannot.*

Moreover, inclusion policies should take into account fundamental rights; the promotion of equal opportunities for all; the specific needs of disadvantaged and vulnerable groups, and regional contexts. Finally, inclusion policies should contribute to preventing the intergenerational transmission of poverty — particularly child poverty. Growing up in a family that is living in poverty can not only be damaging to health and educational opportunities; but the children concerned are also deprived of the role models that are so important in preparing for later life.

In order to implement this Recommendation on active inclusion, all Member States need to introduce an adequate national minimum income as a first step and reference budgets can be used as a tool to determine what constitutes adequate income support. A common definition, common indicators and benchmarks and a generally accepted methodology then need to be decided.





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What is a reference budget? Its methodological and technical details have been subject to much expert discussion, but in general terms, 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, together with the estimated monthly or annual costs.’ (Warnaar, 2009). In practice, reference budgets are mainly used to define a minimum standard of living and thus are employed as instruments for policies dealing with poverty. In spite of such a focused concept, many issues remain open. John Veit-Wilson highlights four areas which need clarifying (Veit-Wilson, 1998):

1. **For what:** What is the purpose of the budget? To ensure a decent life in comparison with the standards of ‘normal society’ or just to meet basic needs?
2. **For whom:** Is it for all citizens or only for a specific group? Who are the intended beneficiaries and how are they defined and/or targeted?
3. **For how long:** What is the time dimension in terms of duration or policy perspective?
4. **By whom:** Who sets the rules and conditions of the budgets and according to what criteria? How far have people experiencing poverty been involved and to what extent will they be involved?

The Recommendation on active inclusion should not be a stand-alone document and needs to be integrated within existing or new frameworks and methodologies which tackle poverty. In particular, the Europe 2020 strategy, with its objective of taking 20 million people out of poverty by 2020, and the establishment of a European platform against poverty as one of the Flagship Initiatives<sup>2</sup>, as well as the existing Open Method of Coordination, are all involved in the fight to reduce poverty.

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2 See <http://ec.europa.eu/social/main.jsp?langId=en&catId=961>



## A. Country experiences and stakeholder contributions

This chapter presents the main findings of the Belgian study on Minibudgets<sup>3</sup> as well as the experience described by the peer countries in their reports<sup>4</sup> and stakeholder contributions.

### The Belgian study on Minibudgets

The Belgian study “Minibudgets: What is the necessary income for living a dignified life in Belgium?” outlines the theoretical background for minibudgets, the role experts and focus groups played in developing the concept and identifying challenges for the future. Human dignity and social participation are core values. The study details, in terms of goods and services, the level of that would be required to have nutritious food, decent housing, appropriate health and personal care, sufficient and suitable clothing, a refreshing night’s sleep, significant primary relationships, physical security, security in childhood, mobility, cultural participation and entertainment.

When translating these intermediate needs into concrete goods and services, the researchers’ bottom line was: what do Belgian families need as a minimum to fully participate in society? They avoided a prescriptive approach that would tell people what they should do or what they should have; ordinary people helped the experts ensure that the assumptions they made were realistic and that those who would actually have to live on them would be prepared to accept the model budgets. Two people with experience of poverty were involved in the project from the outset and over 30 focus groups with members whose income fluctuates around the poverty line were involved in gathering information on spending patterns and giving advice on the contents of the baskets.

<sup>3</sup> Based on the presentations by Berenice Storms and Marie-Thérèse Casman.

<sup>4</sup> See <http://www.peer-review-social-inclusion.eu/peer-reviews/2010/using-reference-budgets-for-drawing-up-the-requirements-of-a-minimum-income-scheme-and-assessing-adequacy>



The goods and services included in the 'basket' had to meet four criteria. First, they had to be indispensable for the fulfilment of a particular role in society. Secondly, the selection of their contents had to be made transparent so that third parties could verify whether the choices were appropriate in the Belgian context. Thirdly, the budgets had to be flexible so they could be adjusted to take account of household size and other factors such as the cost of housing and healthcare. Fourthly, all costs were calculated on a monthly basis. Budgets also needed to be sustainable and take ecological principles into account.

Reference budgets (and corresponding minimum incomes) were developed for 21 different family types. Although certain issues need further reflection (including the organisation and composition of focus groups; how to incorporate important lifetime changes in the budgets; the need for efficient updating of the budgets and the inclusion of the ecological dimension of well-being), the budgets can be used to determine poverty thresholds; to measure the adequacy of minimum income; to determine supplementary income support, income maintenance and debt rescheduling; for financial education and debt prevention and to set out policies for an inclusive society.

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It was found that social benefits are insufficient for most household types. Social assistance, minimum unemployment benefits and invalidity allowances are well below the level of a decent income. Even when social assistance offices provide additional income support, the final amount is still too low. In addition, many debtors cannot live a decent life while discharging their debts.

The budgets have also been used for educational purposes, showing low-income families how to cook healthily and within a fixed (low) budget.

The reference budget project described above was carried out in the Flanders region, and there was concern as to whether it would be applicable to other regions, the French-speaking community, in particular. Twenty focus groups examined this question and found that to make the food budget work there was a need to plan meals carefully, to buy in bulk or freeze foods and so on. Many also thought the amount given to this category was less than most people living on income support allocate to it. Given that rents



vary considerably depending on location, they thought the sums allocated to housing were likely to vary considerably. In addition, the absence of a car in the mobility budget was cited as posing an obstacle when looking for work.

In conclusion, establishing the minimum standards necessary to ensure the needs for human dignity raises some difficulties. Many focus group members pointed out the difference between objectivity as seen by experts and researchers and the reality of their own real-life experience. In general, however, the exercise was seen as positive and the emphasis on the items required to ensure human dignity seemed appropriate. Indeed, for the majority of baskets, the items proposed in the budget and those identified by the focus group were the same.

A budget standard which is used alongside the EU convention for measuring the risk of poverty threshold is potentially a very powerful tool, offering opportunities to compare, improve, and deepen analysis of poverty, but it was emphasised that budgets should not be used to prescribe a certain way of life.

## Experience in the peer countries

*Austria* developed the first reference budgets as part of the EU PROGRESS project “Standard budgets” (January 2008 — March 2010). The key objective was for the budgets to serve as guidelines, or more specifically to provide budget information (advising people about the real costs of living) and for debt advice purposes (tools for debt prevention work). The overall response has been positive. The Austrian debt advice centres are using the reference budgets for their joint lobbying efforts to increase the *Pfändungsgrenze* (distrainment threshold). Additional ways of using the budgets in relation to poverty measurement, defining minimum income levels and other social policy measures are being explored together with other members of the Austrian anti-poverty network. The Austrian Ministry of Employment, Social Affairs and Consumer Protection has provided financial support for their application and development. Ways of using the reference budgets with regard to responsible credit availability have also been presented to financial



service providers and political decision makers. The reference budgets have been updated and developed further over the course of the year (2010).

In *Cyprus*, the concept of reference budgets does not exist as such. It is, however, implicitly present in the guaranteed minimum income (public assistance), which is part of the wider social protection system. The system also includes other allowances, grants and services. Public assistance is provided within a legal framework that states that every person has a right to a decent standard of living. It is a general, non-contributory scheme which aims to ensure a socially acceptable minimum standard of living for anyone whose income and other economic resources are insufficient to meet basic (and special) needs as legally defined. The rate of the basic allowance is adjusted yearly based on the consumer price index. At present, this legislation is being reformed so that the basic allowance will act as an ultimate safety net against poverty and social exclusion and to ensure its effectiveness and efficiency in removing “dependency traps” and disincentives to take up work and to include strong activation measures.

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In *Finland*, Household Budget Surveys (HBS) are over 100 years old and have been conducted since 1908. Although the HBS has been supplemented by several other surveys, it remains the only official source on which to base reference budgets. The other surveys are used mostly to measure income distribution. In addition, some reference budget type surveys and other studies have been carried out by academic and other research institutes; the latest by the National Consumer Research Centre on “How much does living cost? Reference budgets for reasonable minimum.” The budget is based on the conceptions of both researchers and of 53 “ordinary” people. The basic question in the study was how much money is needed, after housing costs, for reasonable living and to be able to actively participate in society.

*France* has limited experience in establishing a “reference budget” by household type. However, work has been carried out to assess expenditure and standards of living by household, which involves a definition of the notion of “an amount left to live on”. The main data sources are the EU-SILC and the national Household Budget Survey and Standard of Living Survey. The latter two surveys present the best opportunity for assessing the income and expenditure of households by income decile, as well as the impact of



certain major expenditure items (housing, food, and transport). The French Institute of Statistics plans to break down the national accounts by household category which should progress the study of reference budgets.

In 2008, a report by the French Ministry of Economy and Finance on 'An Assessment of the Purchasing Power of Households' proposed classifying a number of expenditure items (such as expenditure on housing, communication services, school meals, insurance, or financial services) as 'pre-committed' consumption expenditure. It also tried to define 'necessary' expenditure, which means it is 'unavoidable' or standard. The latter concept is closely related to the notion of reference budgets in the sense that it tries to determine what constitutes minimum expenditure below which people are unable to live in dignity. The report attempted to define this notion from a normative perspective — based on the opinion of the general public — and on the basis of the income of the lowest decile. Ultimately, the report concluded that a definition for necessary expenditure was beyond the scope of statisticians alone.

In *Ireland*, an active inclusion strategy encompassing training and employment and access to services is reflected in the most recent anti-poverty strategy *National Action Plan for Social Inclusion 2007–2016*.<sup>5</sup> Reference budgets have not been the subject of government anti-poverty measures but they have been developed by civil society actors, who have used them as part of an awareness-raising strategy to pressurise the Government for change. The Vincentian Partnership for Social Justice<sup>6</sup> is heavily involved in the development of budget standards to determine the cost of a minimum essential standard of living for different households. The Standard Budget methodology drew on the work of the minimum income standard developed in the UK by the Family Budget Unit (FBU) at the University of York in the 1990s and the Centre for Research in Social Policy (CRSP) at Loughborough University which was the first to develop a methodology for calculating "consensual" budget standards, involving members of the public reaching

5 For further information see: Walsh, J. 2010. 'Adequate Income' in EAPN Ireland (ed.). (2010). Ireland and the European Social Inclusion Strategy: Lessons Learned and the Road Ahead. Dublin: EAPN Ireland.

6 An NGO established in 1996 to work for social and economic change tackling poverty and exclusion.



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agreement on what people need as a minimum. The FBU and CRSP came together to produce a single Income Standard, publishing the first budgets in 2008. The CRSP supported the Vincentian Partnership for Social Justice through the PROGRESS project on reference standards to adapt their methodology to the Irish context ([www.minimumincomestandard.org](http://www.minimumincomestandard.org)).

Two relative standards — the ISPL (International Standard Poverty Line) and the European measure of poverty (at risk of poverty indicators) — are used in Italy's traditional poverty analysis. As such, deprivation is defined with regard to an average standard (mean consumption expenditure and median income) in the reference population at the time of the survey. These measures are closely correlated with the distribution of income and consumers' expenditure and — indirectly — to the economic situation. In order to better understand poverty, a new indicator, based on an absolute measure of poverty and a minimum basket of goods and services, has been added, its monetary value representing the poverty reference threshold for a given year. Over time, the value of the basket is updated to take account of the variations in the prices of goods and services so that it does not depend on the variations in the distribution of consumers' expenditure or income or on the economic situation.

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Although *Luxembourg* has no practical experience with reference budgets, there is discussion about their use. This has been prompted by the recently published Work and Social Cohesion Report, which contains a feasibility study of an “absolute” poverty threshold and is the first published document on reference standard budgets in Luxembourg. The threshold of “absolute” poverty is based on a basket of goods and services considered essential to avoid exclusion. Costs are assigned to the elements of the basket based on data from the household budget survey and the price index. Information from STATEC — the national statistical institute of Luxembourg — plays a crucial role in this exercise.

The principle behind the Swedish model of calculating the price of a basket of products has a long tradition. The Swedish Consumer Agency already developed a standard budget in 1976. It was decided that this standard should represent a reasonable level of living (or a modest but adequate standard). Calculations have been revised on a regular basis, but the premise that the



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standard should be reasonable has remained. The Swedish standard budget is not a minimum budget. It allows for a little bit more than the basic needs, such as participating in social life and having stimulating leisure time, but not for any luxury. In Sweden, the standard budget is used to define social welfare allowances, which implies that all households should be able to have a reasonable standard of living.

## Stakeholders' contributions

Two European stakeholders were invited to the Peer Review meeting: the European Anti-Poverty Network (EAPN) and BUSINESSEUROPE. Their contribution to the debate on the core questions is based on a specific understanding of poverty and social exclusion and how to combat them.

The EAPN believes that a reference budget is not just about survival but has to enable active inclusion, real participation and dignity. Therefore, it should not be set only by people living in poverty but also include other groups, which would contribute to setting a reference budget closer to the average living standard in society. Most importantly, however, is that there is a sound framework. Social relations, cultural participation and political rights should be included in a budget, since its aim is not just to guarantee survival but also to facilitate and even encourage participation.

Transparency is important. The role and identity of experts must be clear and people living in poverty must be treated equally and with respect. Actual habits should not constitute the basis, but the focus should be on developing an individual's capability. A reference budget should be flexible and avoid being prescriptive.

Looking to the future, the EAPN called for the SPC to establish a working group to prepare a road map for the way ahead. The EAPN also stressed the usefulness of the PROGRESS project on standard budgets and suggested this could be used as a foundation to take work forward in this area. It emphasised that strong political support from national ministers is essential if something is to be achieved at European level. The EAPN supports the Independent Experts Report (IER) recommendations for developing common





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criteria and indicators at EU level, linked to a common methodology (with reference to standard budgets), which would enable a relative standard for each national context. The EAPN also supports the IER's recommendation that an EU Framework Directive on Minimum Income could help to establish this common framework on an equal basis.

BUSINESSEUROPE directed its comments to the EU's recommendation on active inclusion and poverty targets. BUSINESSEUROPE supports the EU's approach to the development of common principles on adequate income, inclusive labour markets and access to quality services. It supports the use of common indicators but prefers this to be a recommendation, rather than enforced through legislation, since national situations vary across the EU and a recommendation allows for different policy mixes. The approach, it argues, should be normative, not prescriptive. When social protection and minimum income needs are raised, it considers that the state of public finances needs to be taken into account and potential recipients should be available for work or training.

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BUSINESSEUROPE is looking closely at the EU's poverty target reduction in its 2020 strategy and issues such as job creation, education and training. It sees the need to improve the quality of poverty data and measurement, but has a less positive view on any moves towards European uniformity on minimum income systems. Benchmarks are preferred to an EU-wide definition. Social systems have acted as a good stabiliser during the economic crisis, but as the crisis is receding, helping people get back into the labour market should be made a priority. Moreover, an active labour market policy can help to support social protection systems. The "Agreement on Inclusive Labour Markets" is "an achievement of social partners contributing to a better functioning labour market"<sup>7</sup>.

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7 See <http://www.businesseurope.eu/Content/Default.asp?PageID=568&DocID=26817>



## B. Reference budgets in focus

What strengths, weaknesses, potential risks and opportunities of reference budgets were identified by the peer countries and by the European stakeholders EAPN and BUSINESSEUROPE?

The discussion at the Peer Review meeting considered four questions:

1. Which goods and services should be taken into consideration in defining baskets for reference budgets?
2. How can the participation of people experiencing poverty be organised to define the norms which reference budgets are based on?
3. How can the risks linked to the use of reference budgets be avoided?
4. What steps have to be taken at EU level in order to reach a common definition, criteria, indicators/benchmarks and methodology? What steps have to be taken to work towards the implementation of the Recommendation on active inclusion?

The questionnaire sent out to the peer countries had one extra question: 'Is there scope for a common definition of adequacy at EU level? What are the elements of reference budgets that could help to reach such a common definition?'

The responses to these five questions can be summarised as follows:

### **Which goods and services should be taken into consideration in defining baskets for reference budgets?**

The problem of subjectivity has already been noted as regards defining the meaning of 'adequate'. Working out a reference budget is another highly subjective task, in relation not just to determining the specific items to include in the reference budget, but to its underlying purpose: should the reference budget just guarantee survival or ensure full participation in society? The social OMC refers to social inclusion in terms of the latter, a minimum income standard needing to enable full participation. The Recommendation on active inclusion and the Recommendation on common criteria concerning

sufficient resources and social assistance in social protection systems<sup>8</sup> also make clear references to sufficient resources for a dignified life. While a minimum income standard cannot guarantee a minimum standard of living, it represents an income standard below which it is not possible to achieve a minimum acceptable standard of living and which countries should make a commitment to provide, in order to prevent poverty and social exclusion.

Accordingly, what should be in the basket of the reference budget depends on the importance attached to participation: a minimalist view is satisfied with guaranteeing survival, whereas a wider one aims at full participation. The items that are most commonly cited and so could constitute a basic basket are: food and other daily consumer goods; durable goods; housing; health care; and education. A more detailed list is presented in the Irish report which includes 15 components identified by a faith-based NGO, and in the French report (though the list there is based on a survey of living standards, which limits the range of items included). One step further involves taking account of what are regarded as 'luxuries', such as leisure and recreation. More generally, it is argued that it is important to include the costs for a healthy, well-balanced diet as well as to reserve a certain amount of money for participating in the social and cultural life of a country, and to include pocket money for children<sup>9</sup>.

Apart from the standard items, some peer countries mention special needs and services. Special needs refer to unexpected circumstances such as the replacement of household appliances; services that should be taken into account are free medical treatment, education, and childcare facilities and, in addition to costs and expenses, gifts and/or grants should be covered. People's needs should also incorporate their relational needs, i.e. their expectations in terms of social recognition and their right to participate in

8 See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31992H0441:EN:NOT>

9 For Luxembourg: food (average products purchased by reference households adapted by nutritional recommendations); housing (including rent, additional charges and domestic appliances); clothing and footwear; transportation (including purchase and maintenance of a car, public transport); ICT (information technology and communication, including computer, television, radio, mobile phone); entertainment (including budget holiday apartment rent, cultural activities, annual subscription to a daily newspaper); other goods and services (multiplier coefficient). For Sweden: food; clothing and footwear; hygiene; recreation/leisure; consumables; furniture and household utensils; newspaper/radio/TV/telephone; electricity; home insurance.



cultural activities and social relationships. It is also important to know which goods and services are not included in the reference budget and the reason for their exclusion.

Reference budgets vary according to household type and place of residence or the geographical area concerned. Even if basic needs are the same throughout a country (notwithstanding differences due to external factors such as the climate which affects energy consumption), their costs may differ (Italy is a prominent example).

Given these considerations, it might be helpful to use more abstract terms and concepts as a framework for criteria to assess which articles and services should be labelled as essential (e.g. a decent standard of clothing, security, and communication — as in Austria). At this level, concepts such as ‘capabilities’ are introduced, like, for example, what would be necessary to ‘be able to change clothes several times a week’. Sweden takes this approach, but it is more evidence based, without reference to capabilities: ‘A standard budget based on specified goods will not have the effect of telling people what to buy if it is used in the right way. The assumption is that every article represents a function and not a certain product...The objective is to find out what amount of money is needed to make it possible for people to have a reasonable standard of living. Then it is up to them to buy what they want, but they cannot say that they do not have the possibility to meet that standard.’<sup>10</sup>

In a practical sense, what steps have been identified for the construction of a reference budget? Two examples were referred to:

The Italian approach followed three steps<sup>11</sup>:

- identifying “consumption areas” based on basic needs;

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<sup>10</sup> For example we assume that a woman needs something to wear when visiting friends. We choose a dress for this purpose and collect a price of the dress. If she prefers, of course, she can buy a blouse and a skirt or a pair of trousers instead.’

<sup>11</sup> Not including technical matters such as the reference unit. For Italy, the reference is the household (people sharing the economic and financial resources); the individual needs have to be considered but they can be aggregated at the household level, taking into account the individuals characteristics and the economies of scale or saving strategies that can be realised when the household composition varies.



- identifying the goods and services to be included in each of these areas;
- attaching a monetary value to these goods and services.

Another approach was presented in the French peer country report:

- The first step is to identify relevant groups of people.
- The second phase involves defining “variations” to be monitored (defining the relationship of the reference budget to the minimum wage and the national or regional poverty threshold, the basic welfare benefits by family set-up, and access to services).
- The third phase concerns the impact of public policies on these reference budgets.

### **How can the participation of people experiencing poverty be organised to define the norms that reference budgets are based on?**

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Three models were identified: a panel of people experiencing poverty, experts and focus groups.

If a panel consisting only of people experiencing poverty alone is involved in establishing budgets, there is a risk that the minimum standards will be pulled downward, so separating the reference budget from the ‘general accepted living standard’. On the other hand, such an approach gives more attention to the specific expectations and circumstances of the people concerned.

If *experts* establish the budgets — as was the case with the initial Austrian budgets — it is important to get feedback from people experiencing poverty and to integrate their views into the exercise.

When applying a *focus group* methodology, the group concerned must be representative and include people from different social backgrounds and economic circumstances. This will ensure different kinds of expertise



(scientific, experience, professional, policy-making — including social partners) and different perspectives. It is important that people experiencing poverty are well represented, that their voices are heard, and using existing spokespersons is better than setting up ad hoc groups.

Most of the peer countries include all of these groups in their approaches and the key debate is over their role — should it be in decision-making or validating? In the UK minimum income standard debate, the approach moved from one where the experts designed the budget that was validated by focus groups, to a one (since 2008) whereby the focus groups design and decide and the experts validate.

Finally, should the debate be restricted to the focus groups or become the subject of a form of public dialogue? Through the active participation of representatives of all relevant sections of the population (social partners, non-governmental organisations, and civil associations), the transparency of the decision-making process is increased. Managed well, such a public dialogue could also help to bring the reference budget closer to the living standard of the general population.

### **How can risks linked to the use of reference budgets be avoided?**

Several risks have already been highlighted above, such as the risk that reference budgets are aimed at representing what is needed to survive and not what is required to live a life in dignity; the risk that reference budgets are used prescriptively; the risk of limiting the individual freedom of people living in poverty; and the risk that reference budgets do not take into consideration specific consumption habits and do not reflect reality. The potential risks are examined further below and possible remedies are explored.

#### **Risks...**

- Reference budgets *are meant to be a reference framework and not a prescription* — this applies both to the household at micro level and to general policies at macro level.



- At the level of the individual and the household, the prescriptive use of reference budgets could potentially subject people in low-income households to consumption standards, (especially if the standard budget is based on specific goods) with the result that the budget dictates 'how people in poverty should spend their money'. Policy-makers, applying their belief of what is necessary, can easily manipulate reference budgets (i.e. when they decide a good or service is a luxury or bad for health, or they pass other moral judgments), with the implication that people in poverty cannot be depended on to handle their own affairs.
- In terms of social policy, there is a risk that reference budgets become a ceiling for welfare adequacy, though standard budgets could also raise benefit levels.
- Updating reference budgets could be a problem, especially in a context where there is no consensus on inflation indices, and therefore the purchasing power of households is difficult to monitor. In addition, there is the tendency for 'the poor to pay more' (as argued in an essay by Caplowitz) since they are not in a position to buy goods in large quantities (such as fuel) or have no, or only limited, access to cheaper alternatives (such as night tariffs for electricity).
- Although it is important to take account of significant variations in the cost of living within a country (rural vs. urban and regional variations, especially for countries like Italy where there big differences), there is a risk that in the process the amount of basic welfare benefits is also adapted to location or type of household.
- There is a risk of setting minimum standards that are lower than the relative poverty indicator (60% of the median income) which would reflect the level of absolute poverty and not that of a socially acceptable minimum.



### ... And how to avoid them.

- Since reference budgets are a *reference and not a prescription* of how an individual or household should spend their money, the logical sequence in the reasoning behind budgets is important: should it start from reference budget and go to poverty-line (prescriptive) or go from poverty-line to reference budget (descriptive or illustrative)? The reference budget should arguably be used as an awareness-raising instrument ('Could you live on less than what is in the reference budget?') and so exert upward pressure on minimum income (with the added benefit that then the 60%-of-median-line becomes more credible as a target to compare national welfare schemes with).
- A clear distinction should be drawn between the definition of poverty (poverty-line) and what is regarded as an adequate level of consumption; this could ensure that reference budgets are not just about a minimum but also about an *acceptable or adequate standard of living*.
- Personal circumstances and the real life experiences of low-income households must always be taken into account. It is important to include a *variety of people* from different socio-economic backgrounds to act as their own budget standards committee to ensure that reference budgets are informed by the experience of people.
- Different household types, work arrangements, age- and ability-related needs (diets, special equipment for people with disabilities) and therefore 'situation typologies' rather than groups of "poor" people should be identified. In determining people's needs, it is also necessary to look at their access (in terms of feasibility and cost) to services (such as housing, healthcare, mobility and society in general).
- Ensuring that there is a *shared understanding or consensus* of what constitutes a minimum essential standard of living. If all the material related to the standard budget is published so that





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anybody can see in detail how it has been calculated and which goods are included, this would go some way to achieving this goal. *Transparency* is very important, as it makes it possible for everybody to judge for themselves if the standard is high or low, and if it is set at a reasonable level in different situations. This also means ensuring the methodology is rigorous, comprehensive and transparent.

- Applying a *focus group* methodology — which includes people from different social backgrounds and economic circumstances, i.e. with people in poverty but not exclusively based on them — ensures that the reference budgets reflect reality, while negative social and financial effects are avoided.
- Conducting surveys of living conditions and quality of life and income and spending patterns could help the problems noted above to be avoided, but reference budgets should not be established by comparing them with current levels of basic welfare benefits. According to Swedish analysis, 'If a standard budget raises the benefit costs it means that people today are not paid to live on the calculated standard. That does not mean that the method is wrong but maybe the content or the knowledge about what different things cost.'
- There is a problem with updating budgets when there is no consensus on inflation indices and therefore the purchasing power of households and particularly the poorest households is ill-defined. The risk is that the budgets identified by household type will quickly become obsolete. However several countries (including the UK) have established effective mechanisms for doing this.
- The goods and services included in the reference budgets need to be assessed in terms of their availability and market prices, taking into account the differences between subgroups in terms of the characteristics of their places of residence.



## **What steps have to be taken to reach a common definition, criteria, indicators/benchmarks and methodology at EU level? What steps have to be taken to work towards the implementation of the Recommendation on active inclusion?**

- The elaboration and implementation of the active inclusion Recommendation through the development of an official benchmark opening up the poverty debate, by identifying a ‘Living Income’ — i.e. an adequate minimum income — and so on, is a high priority.
- An SPC/Commission Working group should be established, involving stakeholders in the Flagship Platform, to establish a clear roadmap for developing a common definition and building consensus on common criteria and indicators.
- The 60% of median income threshold should be used as a benchmark beyond which no Minimum Income should fall, which would provide a means for monitoring . This supports the recommendations from the European Parliament in their recent report on Minimum Income.
- Further exchange and follow-up on standard budgets could form the basis for the discussion on key criteria, but more importantly they could build consensus on a common methodology based on agreed budget standard mechanisms involving focus groups, including people experiencing poverty and validated by experts, which implement the common criteria in the national context — to arrive at a consensual budget standard level.
- Of the seven flagship initiatives which are part of the EU 2020 Strategy, two will be key to developing methods, techniques and policies for combating poverty and social exclusion. They are: the “European platform against poverty and social exclusion” which sets out actions to reach the EU target of reducing the population affected by poverty and social exclusion by at least 20 million by 2020 and the “Social innovation” initiative which is regarded as important for the economic strategy. The European Social Fund (ESF) will provide crucial support.



- National Action Plans and especially Peer Review meetings could be used for an in-depth exchange of existing examples of good practice, problems and proposals.
- Comparative research should be encouraged (see the EU-project on “Standard Budgets”). There is a need for more in-depth exchange and for extensive research projects that ensure better understanding and comparability of the various approaches used in different countries and by different stakeholders. Reference budgets could be given a more prominent place in the Progress programme (such as through field experiments and action research).
- Through the Independent Expert Group, and in the Social Protection Committee, an integrated system guaranteeing that the reference budget is not misused could be developed together with a roadmap to introduce a correct model of reference budgets.
- A distinction has to be made between: ‘What comes under essential items for people to live in dignity (drawn up by representatives of people living in poverty and representatives of the standard population)’ and ‘What comes under services that people should have access to or that should be “paid for in part” (healthcare, transport and housing)’. This distinction depends on the institutional and cultural context of Member States and it is an essential one to make from a methodological point of view.
- Apart from reaching a common definition, account should be taken of other measures such as how to combat unemployment and promote job search and employability, participation in vocational programmes, ways to prevent early school leavers and measures to reconcile family life with work.
- The general framework for the further development of reference budgets must follow the Recommendation on active inclusion (European Commission, 2008), especially but not exclusively, the strand on the resources needed to lead a life in dignity. According to the Irish report, reference budgets could contribute to this in a



- number of ways, such as by providing an official benchmark for minimum income schemes and minimum wages; by contributing to discussions about the definition of poverty and poverty thresholds that go beyond income statistics; by identifying a Living Wage, based on what people need to earn to support themselves and their families at a minimum acceptable level; by assessing the impact of policy changes on the income and expenditure of certain types of household; by highlighting poverty traps; by informing the work of debt advisors when designing budget plans with people in financial difficulties to ensure they have sufficient resources; and by informing creditors when assessing a borrower's financial position and the capacity to repay of those in arrears or at risk of going into arrears.
- The development of indicators related to the first pillar (adequate minimum income) of the active inclusion strategy is absolutely essential to ensure effective monitoring (see France). It is advisable to encourage the Social Protection Committee Indicators Sub-Group to pursue its work on the adequacy of incomes. A high degree of comparability between the results should be ensured. This probably requires giving accounts of situations observed through combined European statistical surveys and of the impact of legislation by observing results based on test cases, while ensuring a high degree of transparency as regards the representativeness of the various test cases chosen<sup>12</sup>.
  - To follow-up, meetings such as the Peer Reviews and the Open Method of Coordination are of great importance. A sustainable approach with a European Steering Committee should be followed. As regards the overall monitoring of an active inclusion strategy, efforts should be made to improve the coordination between the committees responsible (the Employment Committee so far as overseeing the labour market is concerned and the SPC as regards overseeing minimum incomes and access to quality services).

<sup>12</sup> In fact the significance of the various test cases may vary considerably from country to country, because of the highly variable rate of occurrence of the situations described.



## **Is there scope for a common definition of adequacy at EU level? What are the elements of reference budgets that could help to reach such a common definition?**

A common definition of adequacy at EU level is not impossible (see the UN definition), but certainly constitutes a major challenge. It is necessary to have a definition with the right level of social standards and minimum income schemes that guarantee a decent life for all, because currently what constitutes an 'adequate minimum income to live life with dignity' lacks clarity. The first challenge comes from the fact that 'adequacy' is interpreted differently according to the different definitions of poverty, social exclusion and social inclusion. Definitions range from minimal, static ones to more generous, dynamic ones. The latter include those which see the need to lift people out of poverty and to provide enough incentive to encourage people into work or to guarantee to a life of dignity (but then there is a need to define dignity).

Another challenge is accounting for the variations in social context, such as the extent and form of social protection schemes and labour market policies (the welfare regime), which influences the predominant view of poverty and social exclusion in the country. The relationship between an adequate income and other social policy issues, including promoting job search, employability, and participation in vocational programmes, preventing early school leaving, reconciling family life with work and fostering consumer protection, becomes important. Moreover, are these traditional social policy concerns sufficient to guarantee a life in dignity or should they go further? What about respect, empowerment, and equality? What about the relationship between well-being and well-becoming in matters of child poverty?

The debate surrounding definitions is often framed in terms of an 'objective' versus a 'subjective' approach. An objective approach would involve scientific experts because it is informed by research; the subjective one would be based on opinions of a representative panel of people living in poverty or the general public. In any case, can 'objectivity' actually be achieved? Any proposal will always be the result of a decision-making process and will reflect underlying power relations. These issues apply to the specific items that are included in the reference budget, but they also apply to the more



general view on what the purpose of the reference budget is and so on (as discussed above).

Should items be defined in term of needs and/or of aspirations ('wants')? The first concept implies a rather static view (responding to present needs) whereas the second concept ('wants') is much more dynamic. The framework of 'capabilities' (or 'functions' or 'social roles') is potentially useful. Indeed, some peer countries formulated approaches incorporating capabilities: in France there was an evidence-based summing up of capabilities; in Sweden 'the assumption is that every article represents a function and not a certain good'. Does a list of fundamental rights suffice as a proxy for capabilities? If we expect people in poverty to escape poverty, then they should have the means to do so, taking into account their situation, namely the extra problems they are confronted with (bad housing conditions, poor health), the extra means they need to become upwardly mobile (getting a job, making new contacts) and intergenerational issues (education for the children). Taken or applied prescriptively, reference budgets risk restricting the freedom of people so they can only express themselves through their consumption.

Reference budgets could be used to develop a common approach on adequacy. They make differences in expenditures and income visible and identify the groups which have a problem in meeting their daily needs and thereby reveal where changes in policies are required (for minimum income in general, but also for housing and health). Reference budgets represent a useful instrument for domestic policy (even if interpreting the variation over time can be difficult) but in terms of cross-country comparisons, they are limited. The relative living conditions of the people concerned can vary according to the level of national income or its distribution, for example. However, reference budgets can inform the debate and contribute to building consensus on which key elements are necessary to allow full participation in society. In a sense, this builds on the work which has already been done by the Commission in the SPC Indicators Sub-Group on material deprivation — which has produced a list of key items without which people qualify as "deprived". The current debate merely moves this discussion onwards to include access to social, cultural and political rights. Several of the reference

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budget methodologies provide a complete list of criteria that could form the basis of this debate.

## C. Conclusions

The Peer Review process has provided an opportunity to explore the pros and cons of reference budgets and to discuss and gather information from the experience of Belgium and peer countries as well as the opinion of experts. It was generally agreed that reference budgets have the potential to provide a benchmark against which to assess the appropriateness of the EU poverty threshold, and to improve support for those who fall below the poverty line. However, it is also clear that further research is needed to develop clear definitions and methodologies for establishing reference budgets.

The capacity of reference budgets to provide scientific and participative budget standards makes them valuable tools for assessing the adequacy of minimum income schemes and other social benefits within countries, though regional differences remain an issue. Although they are less useful for comparisons between countries, they can contribute to the development of common approaches to assessing adequacy.

In order to ensure the relevance of reference budgets, and to make them even more “scientific”, a public dialogue surrounding their constituent parts needs to be encouraged. In addition, the focus group approach was considered to be the best way to include a variety of people from different socio-economic backgrounds, including people experiencing poverty, who have their own view of reference budgets (from a scientific, professional, or policy-making perspective).

In terms of the development of a detailed methodology, which should include quality criteria, the Peer Review noted that a diverse group of people should agree on what people need as a minimum, and that this should then be authenticated by experts who can also put a monetary value on it.

Participants strongly encouraged the Commission to support further work in developing reference budgets.



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<http://www.peer-review-social-inclusion.eu>

## Using Reference Budgets for drawing up the requirements of a minimum income scheme and assessing adequacy

Host country: **Belgium**

Peer countries: **Austria, Cyprus, Finland, France, Ireland, Italy, Luxembourg, Sweden**

Schemes ensuring a minimum income are essential for poverty alleviation. Various studies compare minimum income systems across the EU but fail to provide information on their impact on real people or consistent methods for assessing how the levels of income set in each country relate to the actual living standards and expectations of its citizens.

A number of EU countries now use “reference budgets”, which measure the cost of a list of core items required for a socially acceptable standard of living across different households, as part of the establishment of minimum income levels. Currently, the methods used vary but there are calls for an EU standard.

In Belgium, a new approach combines a scientific framework with input from focus groups involving people in poverty. Results are comparable to data in the EU-SILC and support demands by social services to raise Belgian minimum income schemes to the level used in the EU to define the at-risk-of-poverty threshold.

The Peer Review will provide an opportunity to learn about the Belgian experience of developing a reference budget with public participation, to share the experiences of other countries, and consider how to develop a common method for assessing acceptable living standards.