

# The EU Reference Budgets Network pilot project

## *Towards a method for comparable reference budgets for EU purposes*

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### **Summary**

We develop reference budgets that represent the minimum resources that persons need to adequately participate in society. This involves elaborating a detailed lists of essential goods and services, as well as a price survey. Adequate social participation is defined as the ability of people to adequately play the various social roles one should be able to play as a member of a particular society, e.g. those of a citizen, a parent or an employee. This involves more than subsistence: it is about the minimum resources that households need to live a life in accordance with human dignity.

European authorities have recognized the instrumental role which comparable reference budgets could play in the assessment of national systems of minimum income support. Reference budgets have the important advantage that they take account of public goods and services, which is hardly the case for current indicators of social inclusion and being at-risk-of-poverty. In other words, they can bring a new perspective to the existing indicators, namely: the impact that public goods and services have on the minimum resources that household need for adequate social participation.

In this pilot project, we develop a food basket for the majority of EU Member States, and complete reference budgets for a selection of EU Member States. The reference budgets are developed for three model families, who live in the capital city of each country. The method we propose builds on the collection of all relevant information, including (inter)national guidelines and recommendations, scientific literature, existing studies regarding both actual living patterns and normative positions about what is considered adequate, as well as focus group discussions involving citizens with different socio-economic backgrounds. A six-phase procedure has been designed to ensure that reference budgets reflect local circumstances, regulations and customs, while remaining comparable. An important part of this process is dissemination and discussion with citizens and stakeholders, as we regard reference budgets as an instrument for building a consensus in society about what people need at the minimum.

### **What?**

In this project, we develop reference budgets that represent the minimum resources households need to adequately participate in society. For doing so, we elaborate detailed lists of essential goods and services, and carry out a price survey to find out how much it costs for households to get access to these goods and services.

Adequate social participation is defined as the ability of people to adequately play the various social roles one should be able to play as a member of a particular society. In other words, adequate social participation is about having access to the resources necessary to comply with available standards and social expectations, those needed for acting autonomously and for contributing to society

through the various social positions one can take. The list of social roles that all people should be able to play is defined on the basis of social and human rights, as well as the input of citizens through group discussions in all EU Member States, and includes among others being a citizen, a family member (e.g. a (grand)parent, a child), an employee or self-employed, and a member of an association.

What members of a particular society exactly need at the minimum to adequately play their various social roles is very difficult to observe, and will to some extent remain elusive. Therefore, we consider reference budgets as an instrument for building consensus in society about what people need at the minimum, and propose a cross-country comparable method building on all relevant information sources which can help to identify and motivate the necessary budget for adequate social participation.

## **Why?**

Over the past 20 years, the European Council, the European Commission, the European Economic and Social Committee and the European Parliament have underlined the importance of adequate minimum income support. More recently, the instrumental role which reference budgets could play in these regards has been recognised. All EU countries have some experience with reference budgets. However, currently, reference budgets are constructed for different purposes, using different methodologies and with national social policy strategies in mind.

If reference budgets are to be used in a European context, cross-country comparable reference budgets are required. Only if reference budgets are comparable across the EU Member States, they can be used to assess in which countries income support measures (and incomes in general) are more adequate than in other countries, and why this is the case. Only then it is possible to identify best practices on the basis of reference budgets and to set up a process of policy learning regarding how different countries succeed in guaranteeing adequate incomes, and which policy reforms could lead to a structural improvement of income adequacy. Furthermore, current EU social indicators lack the perspective of the necessary expenses that households have to make for getting access to essential goods and services. If countries (de-)invest in accessible public goods and services, this is hardly picked up by the current social indicators. However, by measuring explicitly the cost of essential goods and services for private households, reference budgets can show the impact of public goods and services on household budgets in Europe. If set up in a comparable way, reference budgets could bring in this new perspective and have the potential to be a useful tool for contextualising well-established social indicators.

## **How?**

### **1. Hypothetical household types**

Needless to say, the minimum financial resources that people need to participate adequately in society depend on the individual circumstances (household composition, living environment, access to information, competences, ...). In order to end up with comparable results from which cross-country conclusions can be drawn, it is essential to develop reference budgets for clearly defined

households, with similar characteristics. In this pilot project, we start from three relatively simple hypothetical households, which form the building blocks of more complex household types:

- a single-person household (male / female);
- a single parent household with two children;
- a couple with two children.

All three family types are assumed to live in the capital city of the country. Of course, the capital city cannot be considered to be representative for the entire country, but it offers an interesting starting point to test the methodology proposed in this project. Furthermore, we assume that all household members are in good health, they are well-informed persons, having the necessary competences to be self-reliant, make the right decisions with regard to their health and safety, and are able to act economically. Obviously, many people are not that well-informed, are confronted with health problems or disabilities and are not always able to act in the most economical way. By making these assumptions, it is possible to look for a lower bound on the minimum necessary resources for adequate participation. By focusing on the minimum, the robustness of the approach is improved and the reference budgets should be able to avoid the critique that they are too high. In fact, most people will need somewhat more than what is included in the reference budgets. Therefore, if the reference budgets show that incomes or benefits fall below this threshold, one can be sure they are insufficient for adequate social participation.

It goes without saying that in future projects, reference budgets should be developed for additional household types, with other assumptions (e.g. for the countryside, for elderly persons, for persons with health problems or confronted with disabilities). Furthermore, based on survey information and focus group discussions with citizens from diverse backgrounds, we try to document as much as possible how real-life situations deviate from those assumed for the hypothetical households, and which impact this may have on the minimum resources required for adequate social participation.

## **2. Methodology**

Evidently, the minimum necessary resources also strongly depend on the social, cultural, economic, environmental, and institutional context. For instance, health care is substantially cheaper for households in some countries than in others; in some countries social housing initiatives are better accessible than in others; and in some countries weather conditions require different clothing as compared to other countries. However, there are also some commonalities across EU Member States. Without adequate health and a sufficient degree of autonomy, adequate social participation - as defined above - becomes very difficult. More in particular, in order to be healthy and act autonomously, people need to have access to adequate food, housing, clothing, health care and personal care, as well as a safe childhood and education, mobility, rest and leisure, security and the possibilities to maintain their social relations. The concrete goods and services that people need, and their cost for households, depend strongly on the formal and informal context (official guidelines and regulations, available publicly provided goods and services, informal norms, cultural habits, ...).

When constructing reference budgets for policy purposes, it is important to carefully observe the context in which people live. Therefore, the method we propose builds on the collection of all relevant information and available studies which can contribute to identifying and motivating what people need at the minimum to adequately participate in society. More in particular, the method we

propose consists of 6 different phases (see figure below). In the **preparation phase (phase 1)**, an international and national network of researchers and stakeholders is set up. This is a major part of this pilot project and will remain an on-going activity. Furthermore, the coordinating team develops a handbook which provides detailed guidance regarding how the reference budgets can be developed, and summarises most important findings from international research regarding the requirements for adequate health, housing, clothing etc. Harmonised data files are designed to collect the lists of goods and services in all countries in a harmonised and transparent way.

Subsequently, in the **orientation phase (phase 2)**, national research teams, in collaboration with a local network of experts, collect the necessary evidence on the local institutional, cultural, climatological and economic context. For doing so, they consult national guidelines and recommendations, the scientific literature and existing studies regarding both factual living patterns and normative positions about what is considered adequate. In addition, the mixed method approach that we adopt also builds on the practice of a consensual approach to the development of reference budgets. Therefore, all country teams organise three focus group discussions involving citizens with different socio-economic backgrounds, to provide guidance regarding the principal normative questions for constructing the reference budgets and to get a first insight in the most common and acceptable purchasing patterns.

In the next phase, country teams draw up complete lists of goods and services, and document these in the data files and in a country report, with a clear focus on the **argumentation (phase 3)** and motivation for including the goods and services on the list. The results of the focus groups organised during the previous phase serve as an important input.

In the fourth phase, a process of **deliberation and pricing (phase 4)** follows. The central team of domain coordinators checks the data files and country reports for inconsistencies within and between countries, and compliance with the common procedures. They also check whether cross-country differences can be explained on the basis of institutional, cultural, climatological and geographical cross-country variations, as well as differences in availability and quality of goods and services, and ask for clarifications if this is not the case. At the same time, country teams carry out a price survey to estimate the cost for households of getting access to all the items on the list of goods and services.

Next, in the **arbitration (phase 5)** phase, country teams adapt the data files and country report in response to the remarks and suggestions made by domain coordinators and resolve outstanding issues. The final reference budgets are documented in harmonised data files and well-documented country reports.

Finally, the process of **dissemination and discussion (phase 6)** should gain momentum through international and national dissemination activities.

Unfortunately, in this pilot project time and financial resources are limited to organise a wider consultation of citizens and stakeholders. Ideally, representative groups of citizens are consulted at the different stages of the construction of reference budgets, and stakeholders are more closely involved from the start. In this project, due to a lack of time and money, the emphasis has been on involving stakeholders at the EU level, given the EU focus of the project. However, after the project

new resources will be sought for setting up a wider and broader dissemination and consultation both at the national and international level.

#### Phase 1: Preparation - coordinating team + country teams

- Network of researchers and stakeholders
- Handbook
- Data files

#### Phase 2: Orientation- country teams

- Adapting the handbook & data files to the local situation:
  - national evidence
  - discussions in 3 independent focus groups

#### Phase 3: Argumentation - country teams

- Completing the data files & documenting choices:
  - national evidence
  - [*Consultation of citizens*]

#### Phase 4: Deliberation & Pricing - coordinating team + country teams

- Consultation with domain experts (data files & report)
- Country team carries out price survey

#### Phase 5: Arbitration - country teams + coordinating team

- Resolving outstanding issues
- [*Consultation of citizens*]
- Final reference budgets in excel files & final country report
- Comparative report

#### Phase 6: Dissemination & discussion - country teams and coordinating team

- Informing stakeholder network through national and international workshops
- Dissemination to policy makers and wider public
- Stimulating public debate about the minimum resources required for adequate social participation

## **Conclusion and next steps**

This is a pilot project in which for the first time a method is developed to construct comparable reference budgets in all EU Member States. This is a learning process, both for the coordinating team and all country teams of researchers, but also for other stakeholders. We are convinced that reference budgets can bring a new perspective to existing social indicators, namely, the perspective of the cost of essential goods and services that people need to face and to cope with. As reference budgets are very detailed, this helps to understand why in some countries social policies are more adequate as compared to others, how adequacy can be improved, and what people need to forego if they live on inadequate incomes. Therefore, comparable reference budgets have the potential to become an important tool for assessing the adequacy of incomes and benefits, as well as for contextualising existing indicators, such as the at-risk-of-poverty indicator and the indicator of material deprivation. At the same time, it should be stressed that we are still in the pilot phase, and that many questions remain to be answered to arrive at sufficiently robust and comparable reference budgets in all EU Member States.

## **More information**

More information and regular updates can be found on the EU Reference Budgets Network website: <http://referencebudgets.eu>. The detailed methodology is published in a more extensive paper on the website. Take also a look at the [video presentation](#) available from the website.