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PILOT PROJECT: DEVELOPING A COMMON METHODOLOGY ON REFERENCE BUDGETS IN EUROPE

EXECUTIVE SUMMARY

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APPLICA AND HERMAN DELEECK CENTRE FOR SOCIAL POLICY,
UNIVERSITY OF ANTWERP

PROPOSAL FOR A METHOD FOR COMPARABLE
REFERENCE BUDGETS IN EUROPE

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Executive Summary

Objectives of the project and of this paper

Over the past 30 years, the Council, the European Commission and the European Parliament have emphasised the importance of active inclusion policies and adequate minimum income support. More recently, as part of the Social Investment Package adopted in February 2013, the Commission proposed the use of reference budgets as an instrument to help Member States design efficient and adequate income support and to facilitate the Commission's task of monitoring the adequacy of income support in Europe. Reference budgets are illustrative priced baskets of goods and services that represent a given living standard. They are widely used in Europe, and serve many purposes. At present, however, reference budgets are largely created independently of one another, using different methods, with the effect that results are not comparable between countries, with very limited potential for cross-national learning. Reference budgets can only 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 if they are comparable across the EU Member States. Only then it is possible to identify best practices and 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. This pilot project, funded by the European Commission, has three main objectives. The first is to establish a reference budgets network composed of key experts and representative stakeholders, at national and EU level, to share experience and expertise on reference budgets. The second objective is to develop a theoretical framework and a common methodology for developing cross-nationally comparable reference budgets in European Member States. The third goal of the project is to develop comparable food baskets for all 28 Member States and complete reference budgets for a selection of countries.

In a previous paper (Storms et al., 2014), we described the current use of reference budgets in Europe and documented their advantages and disadvantages. We also detailed some preparatory steps for the development of a common methodology. In this paper, we set out in practical terms how to move forward from here, by making a concrete proposal for developing comparable reference budgets in European Member States. We first focus on creating a conceptual framework to characterise reference budgets. We build on widely accepted quality requirements for social indicators to formulate the quality criteria with which the common methodology should comply. We then review the approaches most commonly used for developing reference budgets, assessing them against these quality criteria. Taking this evaluation as a starting point, we propose a concrete procedure that could be used for developing comparable reference budgets across the European Union.

Steps to developing a new methodology

There is currently no standard conceptual framework available that documents clearly all the major choices that have to be made when developing reference budgets. We proposed such a framework in our previous paper. In this paper, we expand on this in order to highlight the characteristics of our approach. When developing reference budgets, researchers should consider the following constituent elements of reference budgets: the purpose, the targeted living standard, the target population, the theoretical basis and the methodology (including the choice of model families, the information base, the selection criteria, the evaluator and the updating procedure). In addition, reference budgets to be used for the purposes set out by the European Commission should comply with minimum quality requirements. They should be valid, and should be perceived to be so, i.e. be acceptable. The method used to develop reference budgets should be robust and reliable. The resulting reference budgets need to be comparable in order to be suitable for Commission purposes. They should be responsive to policy interventions but not be subject to manipulation. And timeliness is crucial.

A number of different approaches are currently used for developing reference budgets at national level. Those that rely primarily on household budget survey data appear to be subject to several limitations, which make them unsuitable for use when developing comparable reference budgets for the purposes set out in this project. Moreover, the lack of up-to-date harmonised household budget survey microdata files means that such approaches are not feasible. As a result, we need to use fully specified reference budgets. The main benefits of fully specified budgets are: (1) their very explicit nature, which facilitates discussion about the minimum level of resources required for adequate social participation; (2) their comprehensive character and the fact that they require extensive information on the availability, accessibility and cost of publicly provided goods and services, which is helpful for policy evaluation and for cross-national learning; and (3) their empirical assessment of economies of scale and of the cost of additional household members. Furthermore, 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. Current European social indicators largely lack the perspective of the necessary expenses that households have to make for getting access to essential goods and services. At present, social indicators hardly pick up when countries (de-)invest in accessible public goods and services. The main weakness of fully specified reference budgets is their limited robustness, necessitating substantial cross-national coordination for maximising comparability and the requirements to develop reference budgets for specific model families, which vary strongly in their representativeness of the population.

When developing a method for drawing up cross-country comparable reference budgets, it is essential to be clear as to how the concept of comparability between countries should be understood. To the best of our knowledge, the meaning of cross-country comparability is under-theorised in the literature on indicators of poverty and social exclusion. We therefore discuss in more detail the nature of cross-country comparability in the context of reference budgets. We introduce a distinction between procedural comparability and substantive comparability. Procedural comparability is defined as a situation in which the same procedures are implemented for measuring a phenomenon or characteristic on different occasions, i.e. at different times or in different places. For the purposes of this project, substantive comparability is defined as a situation in which at the level of the reference budgets, needs for social participation are satisfied at a similar level. Reference budgets in different countries can only be considered to correspond to a similar targeted living standard if they fully reflect, and differ exclusively for reasons of, cross-country differences in institutions, culture, climate and geographical conditions, and the availability, quality and price of goods and services. We recognise that substantive comparability requires a large amount of data to be collected, and that, as is the case for other social indicators, even with a clear definition of the targeted living standard, cross-country comparability remains an ambiguous concept given the considerable cross-national differences in institutions and living standards. A specified targeted living standard will inevitably tend to remain elusive, to some extent, irrespective of how precisely it is defined. We therefore suggest developing cross-nationally comparable reference budgets for a range of assumptions, on the basis of a clear justification for the inclusion of each item. This ensures that the widely varying situations with which people are confronted are more accurately reflected in the reference budgets (e.g. regarding tenure status and the use of public or private transport). The potential for learning about the effects of different policies is also increased through showing the variation in the cost of essential goods and services for households with varying ability to rely on publicly provided goods and services. In our view, this also implies that reference budgets should be considered to be an instrument for building consensus, rather than to measure the level of some form of consensus currently present in society.

The method proposed in this paper therefore sets out decisive steps to be taken towards developing comparable, fully specified reference budgets that achieve the right balance between cross-country robustness, on the one hand, and sensitivity to the local context, on the other, while explicitly recognising the limitations of fully specified reference budgets. Given the considerable differences in

the nature of goods and services associated with different needs (e.g. housing, clothing, food and healthcare), data needs and the availability of the data differ from one basket of goods and services to another, the effect of which being that the robustness and level of substantive comparability will be higher for some baskets than for others.

Proposal for a common method

The proposal we present in this paper builds as far as possible on the respective strengths of various different approaches, and on the lessons learned from the ImPRovE project, a project funded through the Seventh Framework Programme for Research and Technological Development, in which researchers tried, for the first time, to develop cross-country comparable reference budgets for a number of European countries.¹ The approach we propose is designed to maximise both the robustness of the budgets and the potential benefits for policy learning, while remaining feasible in terms of implementation. The approach can be characterised as a mixed-method approach, building as far as possible on all relevant sources of information on the needs and costs of adequate social participation, and on new data collected through focus group discussions. The approach explicitly recognises the normative character of the development of reference budgets, and seeks to turn a significant weakness of reference budgets (the elusiveness of the targeted living standard) into a strength for policy-learning purposes. This is achieved by developing reference budgets for a range of assumptions, relating, in particular, to the extent to which people can rely on publicly provided goods and services. Finally, the approach is geared towards comparable reference budgets, in order to enable cross-country comparisons of income adequacy and policy learning.

We propose to define the targeted living standard as the *minimum level of resources required to adequately participate in society*. Adequate social participation is further defined as the ability of people to adequately take the various social roles one should be able to take as a member of a particular society. Examples of social roles are the social expectations related to being a parent, an employee, a student, a citizen, or a member of an association. In this pilot project, the target population consists of children and people of working age, in good health, without disabilities and living in an urban environment (the capital city). Fully specified reference budgets can only be developed for ‘hypothetical household situations’ or ‘model families’. In this pilot project, reference budgets are developed for three relatively simple ‘model families’, on the basis of which reference budgets could then be developed for more complex types of household in the future. The three models are: a single-person household (male/female); a single-parent household with two children; and a couple with two children. All three family types are assumed to live in the capital city of the country. The adults are of working age (around 40 years of age). The children are assumed to be a boy in primary education (around 10 years of age) and a girl in secondary education (around 14 years of age). We further assume that all household members are in good health, and that they are well-informed individuals, with the necessary competences to be self-reliant, to make the right decisions with regard to their health and safety, and to be able to act in an economically rational way. Making these assumptions allows us to look for a lower bound for the minimum level of resources necessary for adequate participation, thus increasing the robustness and internal validity of the approach. It is, however, also essential to document how real-life situations deviate from those assumed for ‘model families’, and to examine the impact this may have on the minimum resources required for adequate social participation.

The research process is organised in six phases, during each of which the country teams and the central team of area coordinators have, respectively, specific tasks to complete. These phases can be summarised as follows:

1. See <http://improve-research.eu>.

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.

Figure 1: Workflow for constructing comparable reference budgets in Europe

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

We would like to point out that this approach would need to be extended in the future, to include more extensive consultation among the general public. Budget and time constraints prevent us from carrying out such consultations as part of this project. The three focus groups are, however, set up in such a way as to maximise the amount of relevant information obtained for the development of reference budgets. Detailed procedures have been put in place for the recruitment, setup, organisation and analysis of focus groups in all countries, in order to guarantee that this is done in a comparable way.

We are convinced that the method we propose will allow the cross-country comparability of reference budgets to be maximised, while ensuring sufficient sensitivity to the local context. Furthermore, the resulting reference budgets will be able to serve the purposes set out by the Commission. Further consideration does however need to be given to the question of how best use can be made of reference budgets for cross-national purposes. We will examine this question in more detail in the final report, and will consider how the method proposed here could be strengthened in the future, on the basis of experience gained during the course of this pilot project.

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