Briefing to members

reference budgets: promoting a common methodology

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### Introduction

In 2013, the European Commission proposed reference budgets as part of the Social Investment Package[[1]](#footnote-1) to help Member States design and implement adequate income support. As noted in Eurodiaconia’s briefing on the state of play regarding Minimum Income schemes in Europe,[[2]](#footnote-2) existing safety nets for those who don’t have access to (decent) jobs are rarely sufficient to meet their beneficiaries’ needs. Reference budgets provide a key tool in addressing this challenge and have already been introduced in various EU Member States; however, they have been created (largely) independently from each other, which currently restricts cross-country comparisons and mutual learning.

Therefore, the European Commission recently launched a pilot project to develop a common methodology for reference budgets in the EU. The aim was to establish a network of experts to exchange practices, to develop a common methodological framework to enable cross-country comparisons and policy learning, and to complete reference budgets for selected countries. Eurodiaconia was involved in the export network and contributed to the project by sharing member perspectives and experiences. This briefing provides an introduction to the topic of reference budgets and summarises the key outcomes of the EU reference budget project.

### What are reference budgets?

“Reference budgets are priced baskets of goods and services that are needed for households in given countries, regions or cities to achieve a given standard of living.”[[3]](#footnote-3) They are often used as an instrument to build consensus on what an adequate minimum income should be and what the minimum amount of money is people need to adequately participate in society. Reference budgets cannot be calculated for every single family constellation and situation; instead, model families and hypothetical household situations are used, indicating different household compositions, circumstances, competences as well as the accessibility of public services and goods. There are different ways of developing reference budgets (for example on the basis of survey data, statistical data, expert knowledge or focus groups) to determine which products are needed and how much they cost. In most cases, a combination of several approaches is chosen in order to increase the validity of the determined reference budget.

### Advantages of reference budgets

* The main advantage of reference budgets lies in their potential to generate consensus on the required level of minimum income schemes. Minimum income is a frequently discussed topic, with different groups having different expectations and demands. Reference budgets are created through consultations of different information sources and input from affected groups, which can help to overcome disagreements and make the height of benefits acceptable to different stakeholders.
* Furthermore, reference budgets (when explained to the public properly) can be used to inform citizens about their rights and possibilities with regard to public services. As such, they both cover human needs and protect basic human rights. Reference budgets can also provide citizens with knowledge on how to live healthily and economically, and be used for debt advice and budget rescheduling purposes.

### Disadvantages of reference budgets

* There is no common methodology or pathway to create reference budgets which makes it hard to compare them internationally. The lack of comparability also diminishes the chance to understand and reconstruct reference budgets in other countries, thereby decreasing the chance for policy learning.
* The calculation of reference budgets is often based on assumptions and models which, depending on the approach used, can deviate significantly from the real-life situation. For example, most reference budgets using model families assume that all members of the family are healthy, meaning that budgets for households with persons who suffer from a disease or illness need to be adjusted accordingly.
* Precise calculations are difficult because of varying geographical circumstances and governance structures, which may result in different living standards and social circumstances within a national context. As such, different regions can yield different reference budgets.
* Reference budgets can be misused, for example as a foundation to dictate to vulnerable individuals how they should structure their expenses and daily lives, or manipulated for political reasons. In order to counteract this, a clear and transparent methodology for reference budgets is important.

### Why promote a common European methodology?

A common methodology for EU countries yields a number of benefits to the European Union as well as to its Member States. First of all, it can support Member States in designing and improving their income support measures by comparing their reference budgets with other countries; this is reinforced through facilitated policy learning and exchange of best practices. Furthermore, a common methodology supports the European Commission in monitoring efforts taken by Member States to provide adequate safety nets for those without access to alternative sources of income, and in monitoring and implementing the [2008 Active Inclusion Recommendation](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:307:0011:0014:EN:PDF)[[4]](#footnote-4) and the [2013 Social Investment Package](http://ec.europa.eu/social/main.jsp?catId=1044).

### Summary of the project

The task of developing a common procedure to develop comparable reference budgets in the EU was given to the Herman Deleeck Centre for Social Policy of the University of Antwerp and to Applica, an independent research company. The authors[[5]](#footnote-5) compared and analysed different methods and procedures to inventise their respective strengths and weaknesses, and then developed their own methodology which draws on the strengths of several approaches and is most suitable for cross-country comparability. The methodology combines input from expert groups and domain specialists, consultations of citizens and statistical data, thereby relying on a mixed-method approach. Reference budgets developed through this procedure should be able to adequately represent the minimum financial resources needed for societal participation, whilst also being comparable across national borders.

The procedure divides the process of developing reference budgets into six distinct phases:

1. **Preparation phase**: A network of national and international researchers is set up, a handbook which defines common targeted living standards and criteria for establishing national reference budgets is produced, and a harmonized data file for filing all country information combined is developed.
2. **Orientation phase**: The research teams collect information within different local contexts on institutional, cultural, climatological and economic factors which might influence the availability and pricing of products which are considered for inclusion in the reference basket (in accordance with national guidelines, scientific papers and focus group discussions). Afterwards, the teams produce a country report and a first draft list of social roles, related activities and goods and services which should be covered.
3. **Argumentation phase**: National research teams finalise the list of products for the reference budget and organise them in the harmonised data file, evaluating the arguments for including or excluding certain goods and services as well as the necessity of goods in the national context.
4. **Deliberation and pricing phase**: A central team of research coordinators looks for inconsistencies between the different national reference budget lists and ensures that all national researchers adhered to the common procedural rules.
5. **Arbitration phase**: National researchers react to the comments made by the central research coordinators and, where necessary, adapt the files and country reports. At the end of this phase, a final reference budget with a detailed list of priced goods for all participating countries is set up, as well as a final country report and a comparative report which draws on the results of the individual country reports.
6. **Dissemination and discussion phase**: The reports and findings are disseminated nationally and internationally.

### Key outcomes of the pilot project

The key outcome of the pilot project is a common methodology that can be used by all Member States to develop cross-country comparable reference budgets. These provide some space for adjustment to take local differences into account, whilst at the same time ensuring a certain level of acceptability to different stakeholders and robustness to interpretation mistakes.

* **Cross-country comparisons** are enabled through procedural comparability which is drawn from pursuing detailed and harmonised research and information processing procedures.
* **Robustness and consideration of local realities** are ensured through a detailed analysis and review of country-specific circumstances, with an adaption of the reference budgets to these circumstances by national researchers.
* **Acceptability and validity** are promoted through the involvement of different information sources and opinions, including focus groups which give citizens and affected people the opportunity to provide input for the shaping process of reference budgets.

### Next steps and further reading

We recommend members active in the area of minimum income to draw the attention of relevant national government officials to the outcomes of the reference budget project, in order to encourage a critical reassessment of existing schemes (and the methodology employed to determine benefit height and coverage) as well as cross-border exchange.

For further information, please consult the links below:

Website of the pilot project: see [here](http://www.referencebudgets.eu/).

Complete text of the proposal for a common methodology: see [here](http://www.referencebudgets.eu/budgets/images/Papers/ke-02-15-392-en-method%20paper_published.pdf).

Executive summary of the pilot project: see [here](http://www.referencebudgets.eu/budgets/images/Papers/ke-02-15-393-en-final%20published.pdf).

Eurodiaconia paper on reference budgets: see [here](http://eurodiaconia.org/wordpress/wp-content/uploads/2015/08/topical-report_minimum_income_2014.pdf).

1. <http://ec.europa.eu/social/main.jsp?langId=en&catId=1044&newsId=1807&furtherNews=yes> [↑](#footnote-ref-1)
2. <http://www.eurodiaconia.org/2015/12/briefing-on-key-barriers-to-adequate-minimum-income-schemes-out-now/> [↑](#footnote-ref-2)
3. Reference Budgets for Social Inclusion (2015). [*Reference budgets*](http://www.referencebudgets.eu/budgets/index.php?option=com_content&task=view&id=25&Itemid=38)*.* Brussels: Applica [↑](#footnote-ref-3)
4. European Commission (2008). Commission recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market. Brussels: European Commission. [↑](#footnote-ref-4)
5. Tim Goudemé, Berenice Storms, Karel van den Bosch. [↑](#footnote-ref-5)