

Minimum Essential Budget Basket Review & Inflation Update

Since the publication, in 2006, of the Minimum Essential Budgets for Six Households the VPSJ has annually produced updated expenditure baskets adjusted for inflation, for each household type and income-expenditure scenario. The 2010 update of the minimum essential standard budgets saw the implementation of two sets of changes, firstly minor alterations to the contents of the baskets and secondly a refinement of the inflation adjustment calculation methodology.

The VPSJ has recently undertaken work to extend the Minimum Essential Budgets data to represent households in both urban and rural areas¹. In the course of this research new focus group work was conducted. While this work was primarily concerned with identifying rural additions and differences, it also provided the opportunity to investigate how attitudes to what constitutes a minimum have changed in the intervening period, i.e. between the construction of the original baskets in early 2006 and the rural focus group work at the end of 2009. Several new items and services were identified as necessary for a minimum essential standard of living, which reflected changing attitudes over time as opposed to urban – rural differences. There were also a number of items in the original baskets highlighted by the focus groups, as being no longer a requirement for a minimum essential standard of living.

These changes in attitudes were acknowledged in adjustments to the contents of the baskets of goods and services for each household type. For example, a tumble dryer was added for each household type (with the exception of the urban single adult who uses a laundrette service), while focus groups reached the consensus view that cable/satellite television was no longer a minimum requirement. It was also the opinion of the focus groups that life assurance was not a minimum requirement for those household types without dependents, thus it was removed for the pensioner couple, female pensioner, and single adult male, household types. The focus groups also expressed the view that the allocation made for holiday spending money could be reduced in the current context, and thus the amount set aside for this was decreased for the households with children and the single adult household.

Family household focus groups also emphasised a willingness to consider various health insurance providers. Therefore households of working age, when not eligible for a medical card, are switched to a Quinn health insurance package which provides greater coverage for primary care, thereby partially reimbursing the households for expenditure on GP visits, opticians, etc. Furthermore, following expert advice, the number of GP visits and prescription items purchased is revised upwards for pensioner households. The frequency of optician appointments has also been reduced, to once every two years in all cases. Furthermore, a review of household health and safety needs, and focus group concerns, highlighted several necessary items: fire extinguisher, fire blanket, and an annual boiler service.

In addition to the above review process, a refinement of the method of inflation adjustment has also been instigated for the 2010 update. Previously the expenditure baskets were adjusted for inflation by applying the appropriate CSO Consumer Price Index Commodity Group rate to each basket category. The consumer price index (CPI) is calculated on the basis of a much broader basket of goods and services than that necessary for a minimum essential standard of living. It is desirable to exclude as much of the influence of

¹ The '*Minimum Essential Budgets for Rural Areas*' report is available on the VPSJ website www.budgeting.ie, see Publications and Rural Budgets sections.

price fluctuation from these extraneous items on the adjustment of the minimum essential standard baskets as is possible.

The restriction of inflation adjustments to a subset of the entire CPI basket, i.e. the utilisation of the commodity group, went some way towards achieving this. However, the use of the CPI detailed sub-indices allows for an even greater level of refinement. Thus, it was decided to update for inflation utilising 19 of the 205 narrowly defined sub-indices rates, as opposed to the previous method applying 9 of 12 broader commodity group rates, and thereby exclude much of the influence of fluctuation in the price of goods not required for a minimum essential standard of living. This refined method facilitates a more accurate reflection of price fluctuations specific only to those items in the minimum essential standard expenditure baskets.

To facilitate this refined method, some re-organisation of the expenditure baskets is necessary, thus certain areas of expenditure are moved between categories² and a number of new categories are created. For example, the 'Communications' category is comprised of telecommunications expenditure (landline and/or mobile), expenditure on postal services, and an internet connection where applicable, also insurance expenditure is disaggregated from its respective area, i.e. health, housing, or transport, so the specific insurance sub-indices rate may be applied within an overall 'Insurance' basket category. Not only does this change bring the benefit of increased accuracy in the inflation adjustment process, but also by categorising the minimum essential standard basket of goods and services to conform, as much as possible, to the sub-indices of the CPI, it shall be possible to compare the inflation experienced by a household living at a minimum standard with the overall CPI inflation rate.

To illustrate the combined effect of these changes Table 1, below, provides the overall weekly expenditure figure for each of the six household types in June 2010. A comparison is made between the expenditure basket totals based on the un-reviewed baskets adjusted from 2009 utilising the previous method, and the reviewed baskets adjusted from 2009 utilising the refined method. This table is based on the income-expenditure scenario of households with one adult engaged in full-time employment, or in receipt of a contributory pension, and not owning private transport. It also assumes no entitlement to secondary benefits, e.g. medical card. Table 2 provides the full range of income-expenditure scenarios, with and without private transport, including housing expenditure, i.e. Dublin City Council local authority rent appropriate to each scenario, and with no entitlement to secondary benefits.

Table 1 Comparison of un-reviewed basket adjusted to 2010 by original method and reviewed basket adjusted to 2010 by refined method
Weekly household expenditure, based on one adult employed full-time or in receipt of the Contributory Pension, and with no entitlement to secondary benefits.

	Two Parents & Two Children (Aged 3 & 10)	Two Parents & Two Children (Aged 10 & 15)	One Parent & Two Children (Aged 3 & 10)	Pensioner Couple (Aged 66-69)	Female Pensioner Living Alone (Aged 70 +)	Single Adult Male Living Alone (Aged 25+)
2010 – Old	529.13	646.40	676.53	406.20	302.89	393.47
2010 – New	515.47	623.70	597.70	404.27	296.82	368.90
Difference (New - Old)	-13.66	-22.70	-78.83	-1.93	-6.07	-24.57

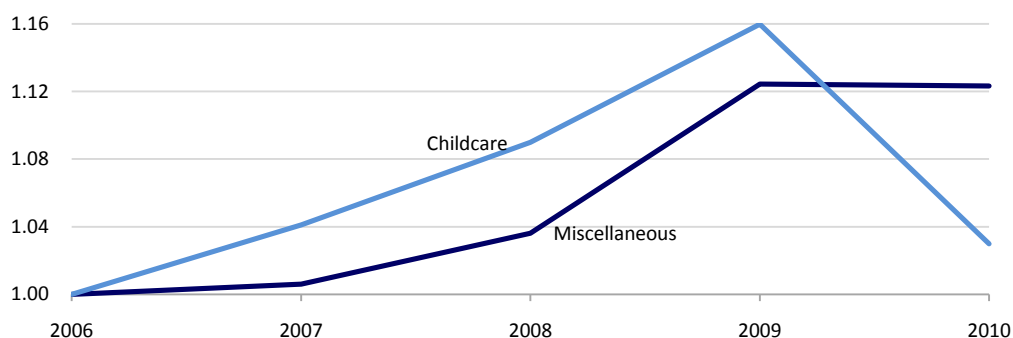
² This re-categorisation of certain items also sees the removal of the Pet category from the expenditure baskets, as this area of expenditure is now included within Social Inclusion & Participation.

The compound effect of the sets of changes outlined above result in the updated minimum essential standard baskets requiring a lower level of weekly expenditure in June 2010, than would have been found if the previous baskets, and methodology, were continued. Much of this differential is due to the changes brought by the review process which updated the social consensus on what necessities constituted a minimum essential standard of living. Thus, adjustments to the households' basket contents, as outlined above, explain a proportion of the differential. The refinement of the inflation adjustment methodology explains the remainder of the differential.

Moving to the detailed sub-indices allowed the application of more specific rates in various areas, for example items such as school books and stationery are now adjusted by a specific rate, separate from other education related items. The effect of this change is particularly apparent with childcare. Previously childcare was adjusted in accordance with the 'Miscellaneous Goods & Services' commodity group rate, a commodity group which encompassed a broad range of items including childcare, but also everything from haircuts to nursing home care and razor blades to car insurance. Switching to the appropriate sub-indices excludes the effects of price fluctuations from these other areas. Thus, as childcare has exhibited a sharp deflation between 2009 and 2010 that is not evident in the overall miscellaneous commodity group rate, those household types with full-time childcare show the greatest differential between the old and new methodology.

The graph, below, compares the inflationary trend for the childcare sub-indices and the miscellaneous commodity group. While the miscellaneous commodity group did not perfectly capture the trend of childcare price inflation, it is clear that both rates provided a similar inflationary trend up until June 2009. It is also clear that the refinement brought by switching to the detailed sub-indices now captures a sharp deflation (-11.2%) for June 2010 which the use of the broad commodity group would not have reflected.

Graph I Childcare Detailed Sub-Indices³ and Miscellaneous Goods & Services Commodity Group⁴ Trend (Base 2006)



³ CSO (2010), *Consumer Price Index by Month, Detailed Sub Indices and Statistic*
<http://www.cso.ie/px/pxeirestat/Dialog/varval.asp?ma=CPM09&ti=Consumer+Price+Index+by+Month,+Detailed+Sub+Indices+and+Statistic&path=../Database/Eirestat/Consumer%20Prices%20Monthly%20Series/&lang=1>

⁴ CSO (2010), *Consumer Price Index by Month, Commodity Group and Statistic*
<http://www.cso.ie/px/pxeirestat/Dialog/varval.asp?ma=CPM01&ti=Consumer+Price+Index+by+Month,+Commodity+Group+and+Statistic&path=../Database/Eirestat/Consumer%20Prices%20Monthly%20Series/&lang=1>

Table 2 Comparison of un-reviewed basket adjusted to 2010 by original method and reviewed basket adjusted to 2010 by refined method

Two Parents & Two Children (Aged 3 & 10)

	Jobseekers Benefit	One Adult Employed FT	One Adult Employed FT <i>Car</i>	One Adult Employed FT & One Employed PT	One Adult Employed FT & One Employed PT <i>Car</i>
2010 – Old	511.01	529.13	534.71	641.73	647.31
2010 – New	490.30	515.47	522.78	563.99	571.30
Difference	-20.70	-13.66	-11.92	-77.74	-76.01

Two Parents & Two Children (Aged 10 & 15)

	Jobseekers Benefit	One Adult Employed FT	One Adult Employed FT <i>Car</i>	One Adult Employed FT & One Employed PT	One Adult Employed FT & One Employed PT <i>Car</i>
2010 – Old	628.29	646.40	651.98	678.86	684.44
2010 – New	598.54	623.70	631.02	646.31	653.62
Difference	-29.75	-22.70	-20.96	-32.55	-30.81

One Parent & Two Children (Aged 3 & 10)

	One Parent Family Payment	Adult Employed FT	Adult Employed FT <i>Car</i>	Adult Employed PT	Adult Employed PT <i>Car</i>
2010 – Old	374.47	676.53	705.21	513.95	542.62
2010 – New	361.27	597.70	622.88	450.50	475.69
Difference	-13.20	-78.83	-82.32	-63.44	-66.93

Pensioner Couple (Aged 66-69)

	Contributory & Non-Contributory Pension	Contributory & Non-Contributory Pension <i>Car</i>	Contributory Pension & Qualified Adult	Contributory Pension & Qualified Adult <i>Car</i>
2010 – Old	406.20	460.52	404.13	458.45
2010 – New	404.27	452.65	411.41	459.79
Difference	-1.93	-7.87	7.28	1.34

Female Pensioner, Living Alone (Aged 70 +)

	Contributory Pension	Contributory Pension <i>Car</i>	Non-Contributory Pension	Non-Contributory Pension <i>Car</i>
2010 – Old	302.89	348.95	301.05	347.10
2010 – New	296.82	337.33	288.97	329.48
Difference	-6.07	-11.62	-12.09	-17.62

Single Adult Male, Living Alone (Aged 25+)

	Jobseekers Benefit	Employed FT
2010 – Old	298.65	393.47
2010 – New	272.75	368.90
Difference	-25.90	-24.57