

MESL Review & Rebase

Examining the accuracy of inflation adjustment and quantifying the impact of basket changes

Introduction

In 2020 the VPSJ completed an extensive two-year research project, which has reviewed and rebased the Minimum Essential Standard of Living (MESL) data for all household types.ⁱ This process has re-established reviewed and rebased Minimum Essential Standard of Living expenditure needs budgets. Unlike previous years' annual adjustments, the 2020 MESL data marks a new point in the series and are not directly comparable with the adjusted MESL expenditure need for previous years.

The finalisation of the reviewed and rebased MESL data has found that the core MESL household budgets are four percentage points higher in 2020, than would have been anticipated based on annual adjustments only. These increases naturally lead to questions regarding the source of the rise in MESL costs. While it is understandable that changes in the contents of the minimum basket would be regarded as a probable significant factor, it must be recognised that the majority of the basket contents have not changed. Consequently, this paper also examines the accuracy of category level inflation adjustments in estimating the changing cost of a minimum basket.

This working paper sets out to examine and quantify the contribution of multiple factors to the change in cost between the previous iteration of the MESL basket and the rebased MESL for 2020, presenting the following:

- Comparison of the 2020 MESL and pre-review 2019 MESL data adjusted to 2020.
- Examination of the scale of divergence between adjusted cost and rebased prices, for items which have remained between both iterations of the MESL baskets.
- Quantify the net cost impact of basket content changes – additions, removals and qualitative changes.

Review & Rebase

To ensure the MESL data continues to reflect lived experience, remaining relevant and grounded in social consensus, it is necessary to re-engage with members of the public through deliberative focus groups. Here, individual citizens *review* what is required for an MESL. This entails re-examining what is in the MESL baskets for each household type, considering, interrogating and adapting the content of the MESL baskets to current needs.

Subsequent to reviewing the content of the basket of goods and services required for a socially acceptable minimum standard of living, the entire baskets of 2,000 plus items were directly re-priced for each household type.

The reviewed and rebased MESL baskets establish a new point in the series of MESL data, with the contents of the baskets fully reviewed and directly priced.

The review process is a necessary part of the ongoing maintenance and updating cycle for the MESL dataset. The 2018/19 review was the second full review undertaken by the VPSJ since the first tranche of MESL baskets were published in 2006. Reviewing what is required for a minimum, with members of the public through deliberative focus groups, is a cornerstone of the Consensual Budget Standards method as it ensures the baskets continue to be relevant and grounded in lived experience.

The review and rebase process establishes key points in the series of MESL data. The annual updates for intervening years are based on inflation adjustments, and as such provide an estimate of the minimum costs. Therefore the 2020 reviewed and rebased data is not directly comparable with the adjusted data for previous years – this was also the case when the MESL data was last reviewed in 2012.

Each iteration of the MESL baskets builds on the previous, the review process establishes the content alterations necessary to accurately update the MESL baskets to current requirements. As such the reviewed baskets represent the latest and most current set of budget standards data detailing what is required for a socially acceptable minimum standard of living.

The data produced from the review and rebase process forms the basis of the subsequent annual MESL updates, analysis of income adequacy, policy recommendations, etc., until the completion of the next rebase and/or review.

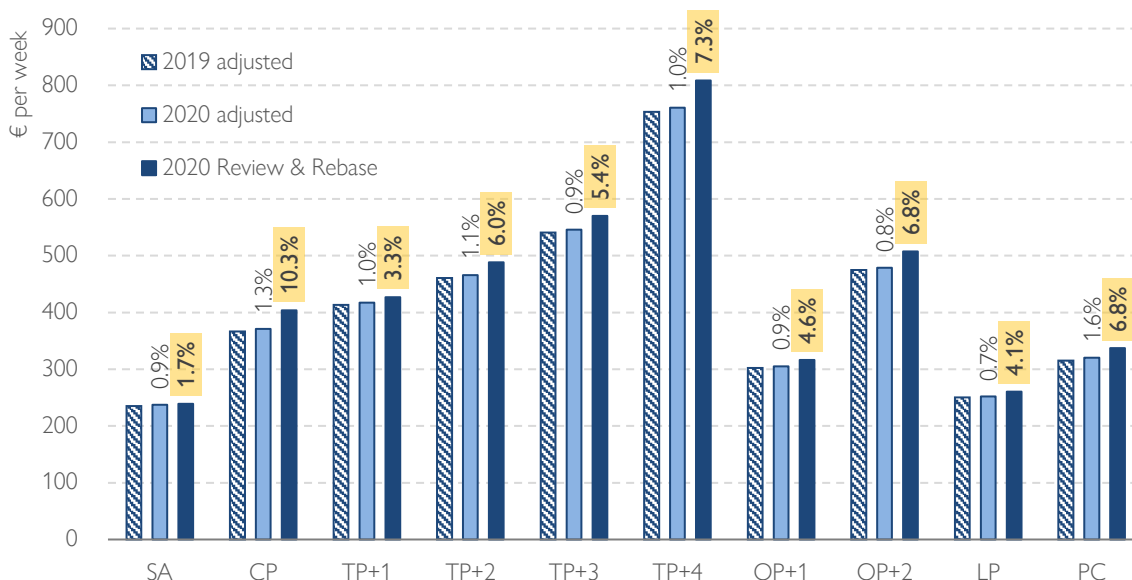
It is planned that the MESL baskets will be adjusted annually, applying a refined set of item-specific CPI sub-rates to each basket, providing the most accurate estimate of current MESL costs in the years between re-pricing. To limit reliance on adjusted data in the future, the MESL baskets will be re-priced every 2 – 3 years and reviewed (with focus groups) every 4 – 6 yearsⁱⁱ.

Change in MESL cost

To provide an estimation of the degree to which the inflation adjusted MESL diverged from the direct cost of an MESL, a comparison of the 2020 MESL reviewed and rebased data is made with the pre-review figures adjusted from 2019 to 2020 (applying the adjustment methodology used from 2013 to 2019). This enables the calculation of the average change in the adjusted figures from 2019 to 2020 and the degree of difference between the 2020 adjusted estimate and the 2020 reviewed and rebased data.

The change in core MESLⁱⁱⁱ costs is presented in Graph 1 for a set off representative household compositions. The rate of change in core MESL has been measured for these household compositions in the presentation of each year’s annual adjustment to the MESL data. Adjusting the pre-review and rebase MESL data from 2019 to 2020 shows an average increase in estimated MESL costs of 1.04%, and a cumulative change from 2012 to 2020 of -3.74%.

Graph 1 2019 – 2020 Change in core MESL expenditure; 2020 adjusted and 2020 Review & Rebase
 10 Urban household compositions



The reviewed and rebased MESL dataset (which provides the basis for the 2020 MESL costs) provides a new base point in the MESL series with the basket contents re-priced. This new point in the series shows a divergence between the adjusted figures which provided an estimate for the MESL costs in the years between the last base point, 2012, and the most recent review and rebase project.

The 2020 reviewed and rebased MESL is over four percentage points higher than the adjusted MESL for 2020, showing an average increase of 5.3% from the 2019 adjusted data. This average is based on a set of representative household compositions for which the rate of change in MESL costs has been measured from year to year.

In the reviewed and rebased baskets the vast majority of items deemed essential for an acceptable minimum standard of living have not changed. There are a number of changes in how some goods are purchased and needs are met, but the underlying need remains the same. The primary factor behind the

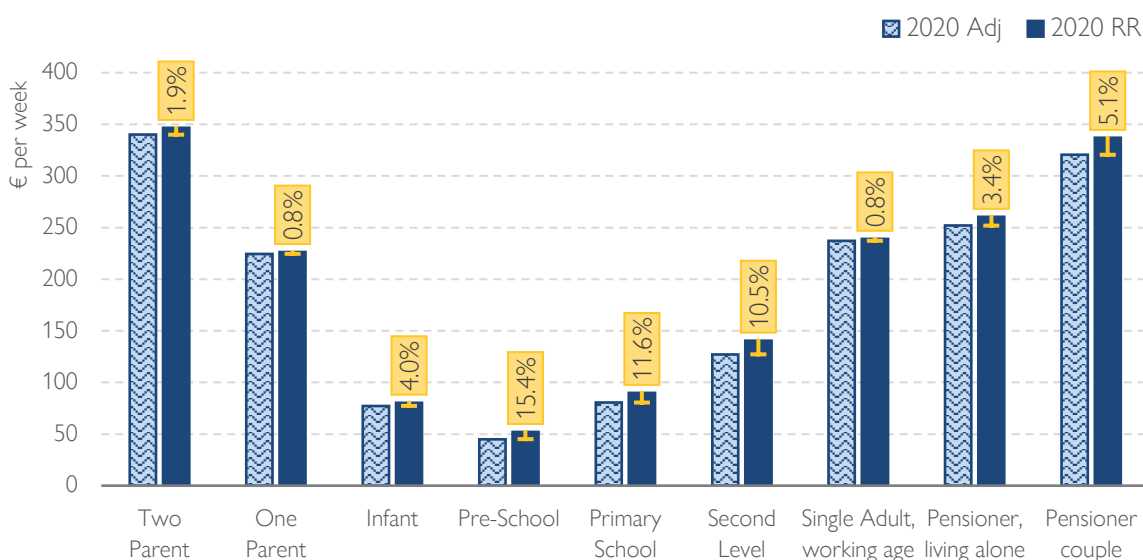
change in the cost of the in reviewed and rebased 2020 MESL, compared to previous years' adjusted data, is a divergence between the actual price of the minimum goods and services and the cost estimates based on CPI adjustments. These factors, and any notable changes to the basket content introduced from the MESL review & rebase research which have contributed to changes in the MESL costs in 2020, are examined below.

Change by individualised budget

To provide further insight into the factors contributing to the change in MESL cost in the reviewed and rebased data the analysis now turns to focusing on the urban individualised MESL budgets.

The core MESL cost for adult and child age-group budget is presented in Graph 2. The 2020 MESL reviewed and rebased and 2020 adjusted figure is presented, and the percentage difference highlighted.

Graph 2 Core 2020 MESL Reviewed & Rebased and Adjusted
 € per week and percentage difference



Comparing the core MESL costs shows that the reviewed and rebased budgets are 0.8% and 1.9% higher for One Parent and Two Parents respectively. In child age-groups, the infant budget has shown the lowest degree of difference (4.0%) while the pre-school age budget has the largest level of difference (15.4%), primary school and second level age-groups have a difference of 11.6% and 10.5% respectively.

For a single working-age adult, the reviewed and rebased MESL budget is 0.8% higher than the adjusted MESL estimate for 2020. However, older adult household types have shown a higher level of difference, 3.4% for an older person living alone and 5.1% for a couple.

Examination of change by MESL basket category

To gain a clear understanding of the factors which have contributed to the difference between the reviewed and rebased MESL cost and the MESL cost based on inflation adjustments, this paper examines the MESL basket categories which exhibited the greatest degree of change in cost.

The reviewed and rebased MESL costs for 2020 are compared to the pre-review MESL baskets adjusted to 2020 (using the adjustment methodology employed up to 2019). To enable in-depth analysis of the basket categories the cost for each item (in the basket categories under examination) has been adjusted to 2020. This has entailed applying the CPI sub-rate, which was previously used to adjust at a category level, to each basket item to adjust the 2012 costs to 2020.

An itemised comparison of the two iterations of the MESL baskets is then undertaken. Comparing the 2012 review basket contents (with prices adjusted to 2020), to the current reviewed and rebased basket contents, enables the identification of the following:

- Equivalent Items the item is consistent between both iterations of the baskets
- Qualitative Change the review focus groups agreed a change in the minimum requirement in terms of quality / standard specified
- Items Removed items which were in the 2012 iteration of the MESL baskets but are removed in the 2020 version, as the review process identified them as either no longer essential or out of date
- Items Added new items that were not in the previous iteration of the MESL baskets, these may be the result of technological changes or changes in the social consensus regarding what is a minimum need
- Quantity changes the review process also introduced changes (both increases and decreases) in the number of certain items required and / or a change in the expected lifespan / rate of consumption of items.
In these instances, the proportion of the reviewed cost that is equivalent to the previous quantity is identified and the remainder is noted as an added or removed cost.

This exercise was undertaken for the basket categories which have demonstrated the greatest degree of change in MESL cost, and which represent the largest proportion of the MESL core costs. Time constraints have meant it was beyond the scope of this paper to carry out the exercise for the entire basket contents.

The categories examined are Food, Clothing, Communications, Social Inclusion, Education and Household Energy. These areas of expenditure comprise approximately 60% of adult core MESL expenditure and 70% of child core MESL expenditure.

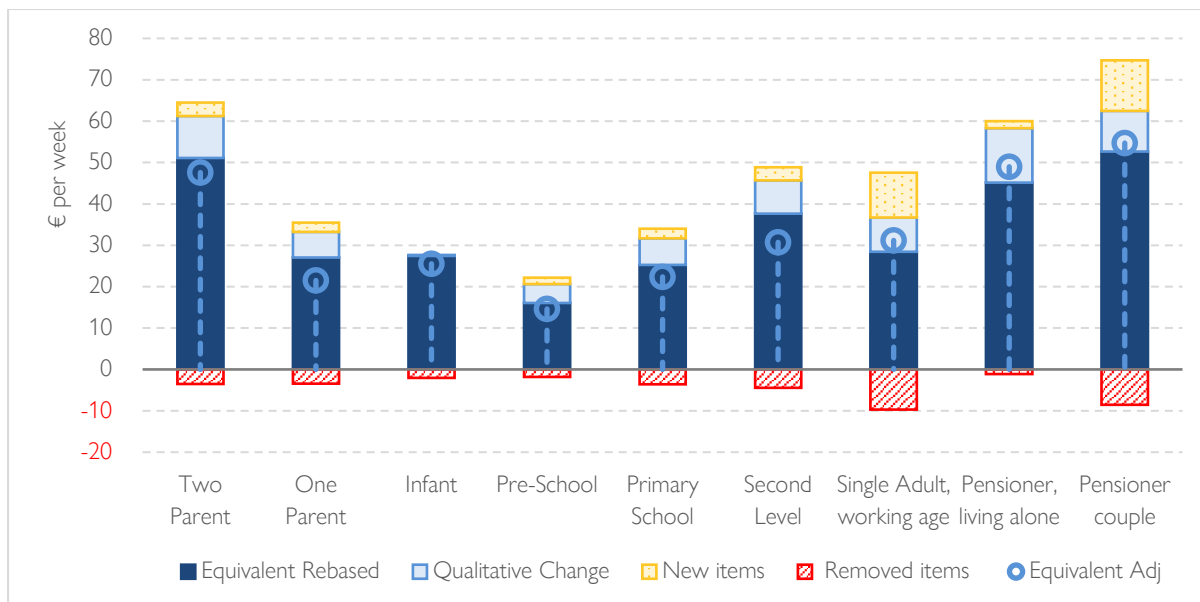
Food

The CPI classification 'Food and Non Alcoholic Beverages' was applied to the MESL food costs for the production of annual adjustments. From 2012 to 2020 this CPI sub-rate has measured a cumulative change of -9.4% in average food costs.

Following the review and rebase the food basket continues to be based on a nutritionally balanced set of weekly menus with the groceries purchased in a supermarket. There are two notable changes in the contents of the food basket in all the budgets.

- i. Previously the food budget was based on meat being purchased in a local butcher, in the rebased basket meat prices are based on purchasing in the supermarket.
- ii. The review focus groups argued strongly for the need for a specific allocation for the additional food costs associated with Christmas. It was agreed that an amount equivalent to an average week's food grocery bill would be an appropriate allocation for this need.

Graph 3 Reviewed & Rebased MESL Food Budget, 2020



In households with children, the rebased price of the equivalent items in the food basket is an average of 16% higher than the adjusted cost in the parental budgets, and 18% higher for school age children.

Changing the type of retailer where meat is purchased is a qualitative change, and so the rebased price is not directly comparable with the pre-review adjusted cost for the same items. However, comparing the rebased cost of all food items which have undergone a qualitative change to the adjusted, provides the net change in cost. In households with children the net cost effect of qualitative changes is approximately -2%, compared to the total adjusted food costs.

The provision for additional food costs at Christmas constitutes a new cost in the food basket. There are also a number of other minor alterations to the food baskets to reflect changing preferences. For example, reductions in the amount of salt, crisps, jam, ketchup and white bread. There is also the replacement of some items, such as cooked turkey in place of corned beef, and the addition of several 'store cupboard' items such as dried herbs, spices and stock cubes.

In households with children, the net effect of qualitative changes and content alterations has been to reduce the cost of the reviewed and rebased MESL food basket, in comparison to the adjusted costs. For example, in the case of a second level age child, the net effect of item removal and addition is -€1.28 and the rebased cost of items which are qualitatively different is €1.19 less than the adjusted cost. The net cost impact of basket adjustments, in this case, is -€2.47. The net change is of a similar scale in the parental and other child age-group baskets.

In the working-age single adult food basket there are similar content alterations as those in the households with children. These modifications see reduction in crisps, biscuits, etc., an increase in fruit and vegetables, and substitution of some items e.g. changing cornflakes to bran flakes.

There was a further adjustment to this basket, as the previous iteration budgeted for only six main meals per week with the seventh being provided during a visit to family. There was also an allocation for an occasional 'carvery dinner' in place of the family visit, once every six weeks. The review groups removed the assumption that one meal a week would be provided during a visit to another household and the allowance for the 'carvery dinner.' Consequently, the basket is now based on seven main meals with the addition of new items to allow for this. The cost impact of basket adjustments for the working-age single adult adds €10.88 per week in new items, but removals and qualitative changes amount to -€12.25. The resulting net cost of basket alterations is -€1.37 per week.

For the Pensioner living alone, changes to the food basket are mainly qualitative, relating to the shift from purchasing meat in a butcher to purchasing in the supermarket. This rebased price of the items subject to this change is €0.49 per week more than the adjusted cost. The introduction of the specific allowance for Christmas has added €1.75 per week to the basket, while items which were removed had an adjusted cost of €1.11. The net effect of changes in the food basket adds €1.13 per week.

The Pensioner couple food basket was subject to a wider set of refinements than that of the pensioner living alone. In addition to the qualitative change in meat purchasing and the introduction of specific Christmas food costs, there are a number of further modifications. These changes remove several confectionery items, substitute cranberry juice for orange juice, and change a meal from roast chicken to 'spaghetti bolognese'. The net effect of changes to the food basket adds €2.13 per week.

In the case of each of the three household types without children, the rebased of cost of equivalent food items is lower than the adjusted cost. The degree varies by household type, from 4% (Pensioner couple) to 9% (Single adult working-age) less than the adjusted cost. The disparity is due to differences in the contents of the basket and the specifics of the items which have remained consistent between the two iterations of the food baskets.

Clothing

The CPI classification 'Clothing and Footwear' was applied to the MESL clothing costs to produce the annual adjustments. From 2012 to 2020 this CPI sub-rate has measured a cumulative change of -19.3% in average clothing costs. The rebased MESL clothing baskets have not shown the degree of price decrease indicated by the CPI rate, with equivalent items showing an increase in cost. The extent to which the CPI rate under-estimated the change in minimum clothing varies between individual baskets, due to the specific items which are equivalent between the two points in time.

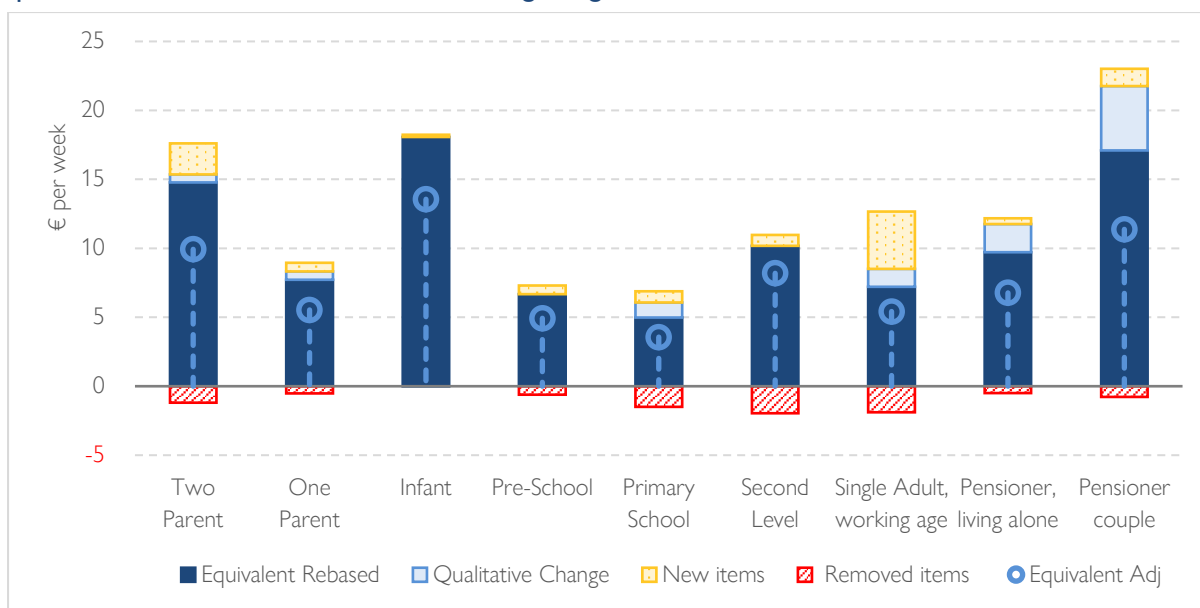
In the adult clothing baskets, the rebased cost of equivalent items is an average of 43% higher than the adjusted cost. In the child clothing baskets, the rebased costs are an average of 33% higher than the adjusted costs.

There are a number of alterations to the content of the clothing basket in each individual budget to reflect changes in what is regarded as necessary for a minimum.

Qualitative changes in the baskets resulted in a minor increase in cost, in comparison to the 2020 adjusted figures. For example, in the Two Parent weekly budget €0.60 relates to items which are qualitatively different from the previous version of the basket, the previous standard for these items would have had an adjusted cost of €0.51 in 2020. Consequently, qualitative changes resulted in a net increase of €0.09 per week, in this case.

Content changes arising from the review process introduced a number of new clothing items, the working-age Single Adult had the greatest number of new items introduced, but also a notable level of items removed. This demonstrates shifts in norms regarding the amount and nature of minimum clothing required, for the working-age single adult this is reflected in an increase in the amount of office workplace attire, e.g. pairs of trousers, shirts, etc. These content changes had the net effect of adding €2.33 per week to the clothing basket, compared to the previous basket adjusted to 2020.

Graph 4 Reviewed & Rebased MESL Clothing Budget, 2020



For children qualitative changes, removal and addition of items, had a negligible impact. At both Pre-School and Primary School age the effect of additions, removals and quality changes offset each other, to result in a net €0.00 per week change. While in the Second Level basket the removed items outweighed new items, resulting in a change of -€1.18 per week, offsetting much of the inflation under-estimation in this case.

In the reviewed clothing baskets for older people, both the Pensioner Living Alone and Pensioner Couple household types, there is are more qualitative changes than in other individual and household budgets.

In the case of the Pensioner Living Alone, there are a range of qualitative changes where the specified standard of several items is reduced, and others increased. There are also several adjustments to quantities which see items added and removed. The net effect of these amendments adds €0.60 per week to the basket, in comparison to the adjusted price for these items.

For the Pensioner Couple household type, there is a similar array of qualitative changes to the specified standard of multiple items, in this case for both adults in the household. There are also a number of quantity changes, and the addition of several new items. None of the adjustments are individually

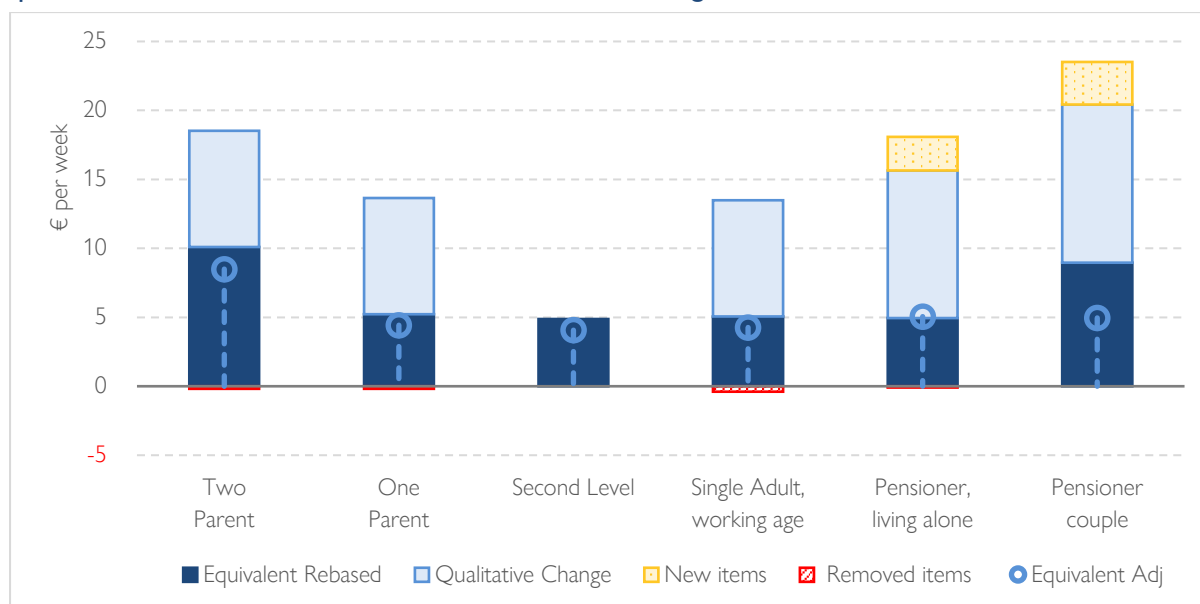
noteworthy, for example a change in the type of socks adding €0.02 per week compared to the adjusted price of the previous, or the addition of a gilet adding €0.19 per week. In total, these alterations to the basket content adds €3.18 per week to the basket, in comparison to the adjusted basket.

However, for both older household types most of the basket items remain unchanged and the effect of inflation adjustments underestimating the degree of change in cost exceeds the combined effect of qualitative changes to items and basket content changes.

Communications

The CPI classification ‘Communications’ was applied to the MESL communication costs for the production of annual adjustments. From 2012 to 2020 this CPI sub-rate has measured a cumulative change of -18.7% in average costs.

Graph 5 Reviewed & Rebased MESL Communications Budget, 2020



There have been notable qualitative content changes in this category, and the introduction of new items. These reflect changes both in technology and in what is necessary for an acceptable minimum standard of living.

All household budgets now include a broadband connection, providing Wi-Fi for all devices in the household. An internet connection was previously included for working-age households only and was based on the use of a prepay mobile dongle which enabled internet access for a single laptop. The adjusted cost of the previous internet connection is €3.82 per week, the move to broadband increases this to €8.42 per week, a net change of €4.60 per week for the working-age household budgets.

In the previous iteration of the MESL budgets, the consensus from older people was that home internet access was not an essential. In the review process, focus group participants agreed that everybody now needs to be able to access the internet. The communications budget for older people now includes both broadband and a laptop computer.^{iv} The communications basket for older people continues to include a home phone, the combination of landline and broadband is €3.30 per week higher in the rebased budget than the adjusted cost of a landline only in the previous iteration.

The addition of a laptop computer brings a new cost to this category for older people, adding €1.89 per week, and a modest allowance for printing at a local library.

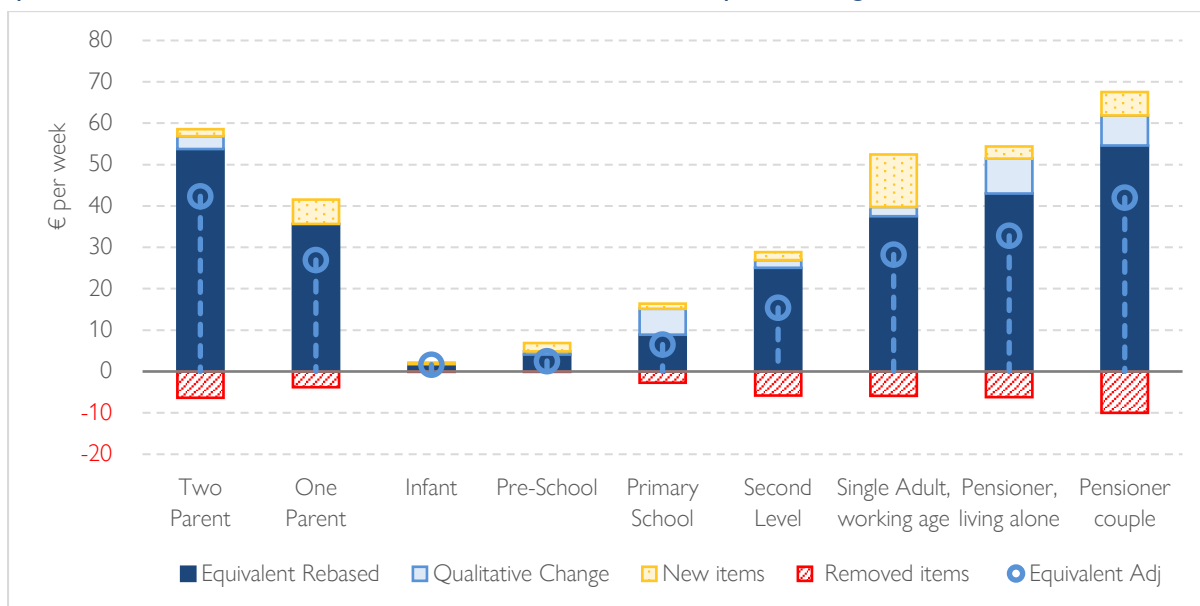
The mobile phone included in the basket is now a mid-level Android smart phone, to ensure access to the range of apps used in daily life. The usage of the phone continues to be based on purchasing pre-pay credit, with an allowance of €20 per month.

These changes have resulted in an increase in the cost of this basket category for each household type. However, a proportion of this increase is offset by associated changes in other basket categories. This includes the removal of items where the need is now met by using the smartphone or an internet service, e.g. a camera (social inclusion), DVD player and CD player (household goods). Also, an overall shift towards the use of internet services for accessing information, news, and entertainment, and the use of internet banking, online paperless billing discounts, etc., has reduced the potential minimum costs in other basket categories, most notably in Household Energy.

Social Inclusion & Participation

The CPI classification ‘Recreation and Culture’ was applied to the MESL communication costs for the production of annual adjustments. From 2012 to 2020 this CPI sub-rate has measured a cumulative change of -3.0% in average costs.

Graph 6 Reviewed & Rebased MESL Social Inclusion & Participation Budget, 2020



The degree to which adjustments have reflected the change in the cost of the rebased MESL social inclusion baskets varies between individual baskets, due to the particular make-up of each basket. In the adult social inclusion baskets, the rebased cost of equivalent items is an average of 31% higher than the adjusted cost.

While there have been several content changes to this basket category, it should be noted that the difference between the adjusted estimate and rebased price is greater in all cases than the net effect of content changes.

Content changes include some modest adjustments to the household / adult social inclusion basket which are a result of a technological shift which has seen a range of items removed, with the need now being met using an internet service or a single device meeting multiple needs (e.g. a smart phone taking the place of a camera, music player, alarm clock, etc.).

In households with children, the allocation for a family outing to a low-cost fast-food restaurant has increased from three times to four times per year. Additionally, in a Two Parent household the basket is now based on both adults participating in these family outings.

In the Two Parent budget the net effect of content changes is a reduction, (-€5.32) in the reviewed and rebased costs compared to the adjusted costs for 2020. However, in the One Parent basket item removal and adjustment is outweighed by new costs. The social inclusion basket includes a one-week holiday in Ireland, in a rented mobile home. In the previous iteration of the baskets, the cost of accommodation, for the One Parent household, was based on sharing with another family and the cost of renting the mobile home was halved. The review focus group consensus did not regard this as an acceptable minimum, and the cost is now based on the household renting the mobile home for their use only. This change brings the holiday accommodation costs in line with the Two Parent household, and adds €5.25 per week to the One Parent social inclusion budget. The net effect of content changes in the One Parent basket is an addition of €2.05 per week, compared to the 2020 adjusted costs.

Adjustments to the content of the children's social inclusion baskets have a minor net impact on the weekly cost. There have been additions such as a specific allocation for Christmas presents, but also qualitative and quantitative changes regarding other aspects of the basket. The Pre-School age-group basket had the largest increase, in terms of content changes, with a net change of €1.40 per week. Content changes in the Second Level age-group basket had the opposite effect, resulting in a net decrease of €5.25 per week, compared to the 2020 adjusted costs.

The review process resulted in content adjustments for exercise and sport. This is most evident in the Single Adult of working-age basket where a gym membership (Flyefit / Ben Dunne) is now included in place of a football club / GAA membership. The review groups also regarded a basic subscription to a streaming service (e.g. Netflix) as necessary for social inclusion with peer groups. Conversely, the accommodation standard for a holiday in Ireland was changed from sharing self-catering accommodation to staying in a hostel. The net effect of these, and other minor content changes, contributed €5.80 per week to social inclusion budget, when compared to the 2020 adjusted costs.

In the case of older people, the review and rebase has introduced a larger proportion of qualitative changes to the social inclusion basket. These are primarily related to an introduction of higher costs for several items which were previously available free or at a reduced rate for older people. For example, swimming is included in the basket, previously this was based on being available for free for older people. In the rebasing, reduced rates for older people were identified but the availability of free swimming was not the norm, consequently a fee is now included.

For the Pensioner Living Alone the social inclusion basket also includes having a pet, based on the costs of caring for a cat. The review and rebase process questioned the ready availability of reduced cost vet fees, and consequently these charges have undergone a notable qualitative change, adding approximately €1.00 per week.

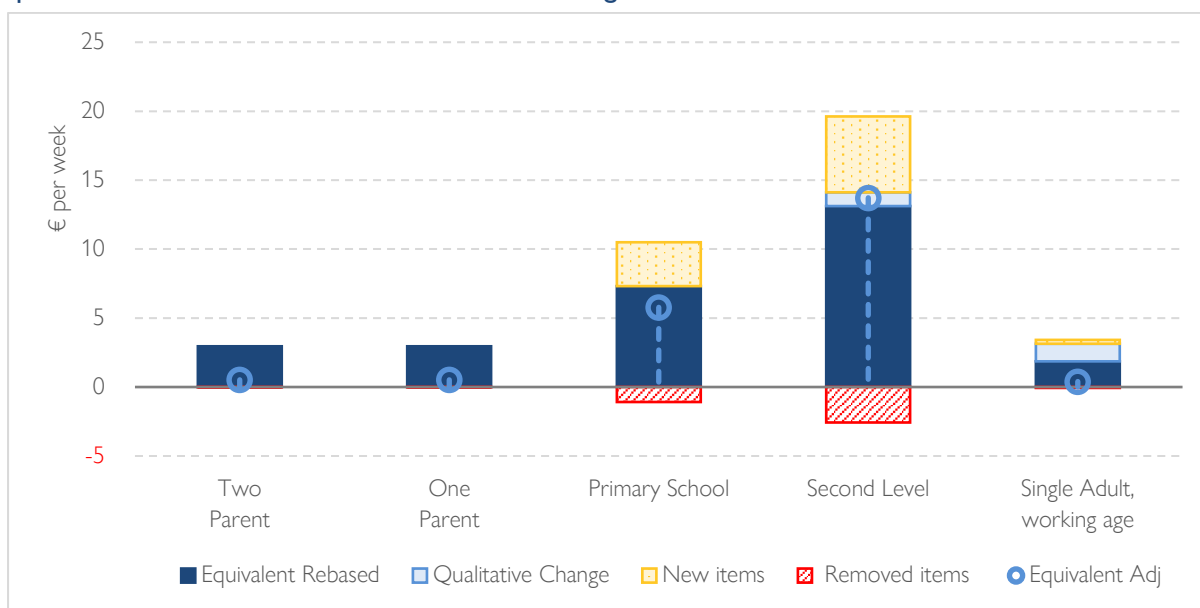
As with other households, content changes are largely related to changes in technology and how needs are met. For these household baskets, this includes the removal of DVD rental and film processing, and the introduction of photo printing and an allowance for purchasing music online.

The net effect of the content alterations added €4.26 to the pensioner living alone social inclusion basket, and €1.71 to the pensioner couple basket, when compared to the adjusted cost of this section of the basket.

Education

This basket category includes one laptop computer (and associated costs) for the household^v and children’s education costs including school books and materials, uniform, other school-going costs.

Graph 7 Reviewed & Rebased MESL Education Budget, 2020

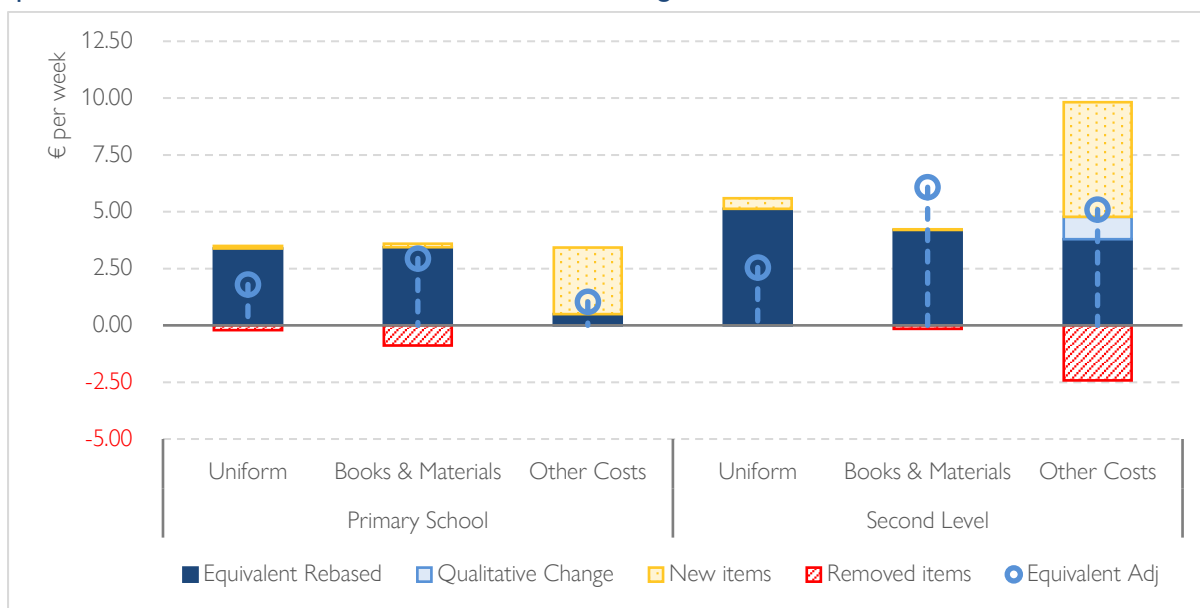


The Two Parent and One Parent education basket is comprised of the household computer and related items only. This sub-section of the basket has been adjusted by the CPI sub-index rate for ‘information processing equipment’. The sub-rate indicated an average drop in prices of over 80% for the period 2012 to 2020. The significant drop in prices indicated by this rate has not been found in the rebased minimum computer related costs, which are marginally higher in 2020 than they were in 2012.

For working-age adults without children, there is also an allowance for an education course for up-skilling. The review focus-groups specified a higher standard of course, but with reduced frequency, and this qualitative change resulted in a net reduction of €2.87 per week.

The education basket for children is split into three sub-categories, uniform, books & materials, other costs. These sub-categories have been adjusted by the applicable CPI rates. Changes in each of these categories for the two school-age child MESL budgets are illustrated in Graph 8, below.

Graph 8 Reviewed & Rebased MESL Education sub-categories, 2020



Inflation adjustments for the school uniform costs underestimated the rebased minimum cost for both Primary School and Second Level age-groups. At primary school level the rebased cost of equivalent uniform items was 88% higher than the adjusted cost, and at second level the rebased uniform costs are 102% higher than the adjusted cost of equivalent items.

In the case of school books and materials the inflation adjusted cost was relatively close to the rebased cost at primary school level, but above the rebased cost at second level. The net effect of content changes, removal and addition of items, contributed to a modest decrease in the cost of this sub-section of the education basket for both age-groups.

The ‘Other Costs’ category includes school entrance fees, exam fees, cost of educational school trips, etc. There is a significant content change in this category. The review focus groups, after much deliberation, agreed that the Voluntary Contribution fee should now be included in the baskets for primary school (€100) and second level (€250) age children.

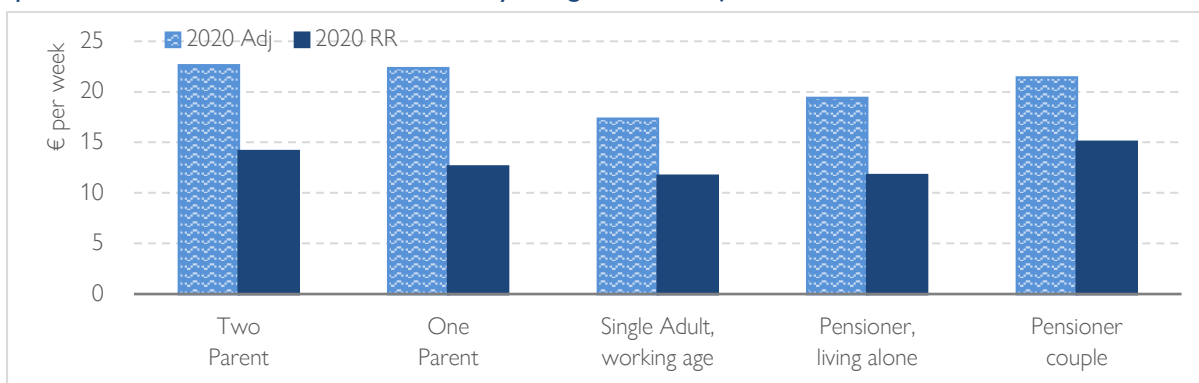
At primary school level the Voluntary Contribution and a school fee are now included. A photocopying fee (previously included in the books and materials section) is removed. These changes add a net total of approximately €2.30 per week to the primary school education costs.

At second level the Voluntary Contribution and school fee are also now included. The focus group deliberations also removed the allocation for after-school study for second level age children. These changes have added a net total of approximately €3.60 per week to the second level education costs.

Household Energy

The household energy basket is comprised of the electricity needs of the household for appliances, lighting, etc., and home heating costs based on the use of natural gas in urban areas and oil in rural areas (as the focus in this paper is on urban households, the discussion here refers to household costs when using natural gas for home heating).

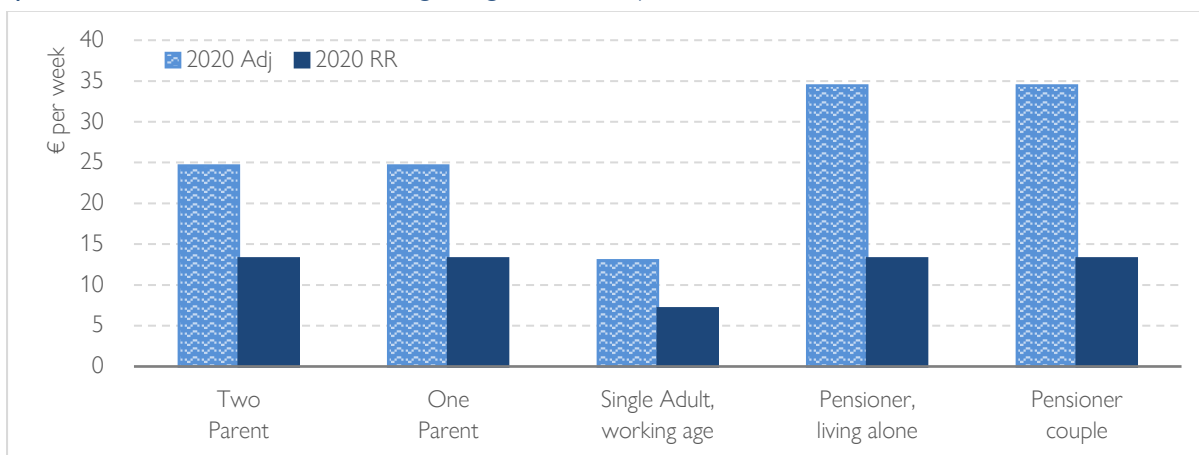
Graph 9 MESL Urban Household Electricity Budget, 2020 Adjusted and 2020 Reviewed & Rebased



There were modest changes to the contents of the Electricity basket. These include fine-tuning in the usage patterns, such as the review groups determining that a tumble dryer is not required for all households with children but instead is a need for households with three or more children, and a Primary School Child now having a shower every day, as opposed to a bath less frequently. There are also more electrical devices in the household e.g. router for broadband & wi-fi, and smartphones which need to be charged.

However, despite these changes to the basket requirements, the rebase process has resulted in an overall reduction in the amount of electricity required. As energy efficient appliances have become mainstream, the lower cost appliances included in the MESL baskets are now more efficient models. As a result, the amount of electricity required has reduced. For example, in the rebased basket the washing machine uses 20% less electricity and the fridge-freezer 70% less, than the equivalent appliances in the previous iteration of the baskets.

Graph 10 MESL Urban Home Heating Budget, 2020 Adjusted and 2020 Reviewed & Rebased



Energy for home heating is based on a C2 energy rated dwelling, the most common rating, with only more recent builds having an A energy rating. Annual heating requirements for adults without children are based on a 45m² apartment, and a 100m² house for households with children.

Re-pricing household energy

Previously the MESL Energy cost was based on standard rates from Electric Ireland and Bord Gais, but with multiple providers and discounted rates now the norm, the cost is now based on “shopping around”

for a lower cost option. The market has changed to offer contracts, with discounts for bundling (electricity and gas from same provider), paying by direct debit, receiving bills online, etc. The review groups agreed that MESL energy budget should be based on availing of the discounted energy prices available through dual fuel contracts, direct debit, online billing, etc.

Overall both the number of electricity units and heating energy required for a minimum standard of living has reduced in the reviewed baskets. These changes in the quantity of energy required and how it is paid for, have resulted in a decrease in the minimum household energy costs. Compared to the cost of the pre-review energy basket adjusted to 2020, the reviewed and rebased costs are an average of 45% lower.

Including the cost savings from a contract in the energy costs results in a significant reduction of the potential energy costs. By comparison the same energy basket priced for a household not in a position to avail of discounted rates but instead relying on a pre-pay plan could cost over 50% more than the discounted rates.^{vi}

The modifications to household energy requirements and purchasing have a notable impact on the overall core MESL cost. The reduction in energy costs offsets much of the effect of increases in costs in other basket categories, whether these increases are due to inflation adjustments not keeping track with minimum costs or changes to the basket contents.

Other Basket Categories

Due to limitations of time this paper has focused on the basket categories which have demonstrated the greatest degree of change in MESL cost, and which represent the largest proportion of the MESL core costs. It was beyond the scope of this paper to conduct the exercise for the entire basket contents.

The categories examined are Food, Clothing, Communications, Social Inclusion, Education and Household Energy. These areas of expenditure comprise approximately 60% of adult core MESL expenditure and 70% of child core MESL expenditure.

The position of the remaining basket categories is briefly outlined below.

Transport

Transport accounts for 15% of core MESL costs, in the case of urban working-age adults. Public transport costs for these households have been directly re-priced as part of the standard MESL annual update. As such, the issue of inflation adjustments under-estimating the degree of change in minimum costs does not apply to this category.

There have however, been content changes for the households without children. The review process established a taxi allowance as a new need, this has added €20 per month (€4.62 per week) to the working-age single adult budget. For pensioner households the agreed allowance is €30 per month (€6.92 per week). Such changes are discussed further in the full MESL Review & Rebase report.

Insurance

Within Insurance, a health insurance package is included for scenarios where households are not eligible for the full Medical Card. This cost is re-priced annually, and so has not been subject to inflation adjustments.

The rebased cost of home contents insurance is lower than the adjusted cost, but as this area of expenditure accounts for approximately half a percent of total core MESL the impact is minor.

The review process saw the addition of funeral insurance for older people, the one and two adult pensioner households, adding €1 and €2 per week to the respective household budgets.

Savings & Contingencies

The Savings & Contingencies category of the basket has not undergone any content changes. However, the review focus groups agreed a set amount for savings, and as such this category has been subject to qualitative change. Consequently, it was excluded the examination carried out in this paper.

Categories Not Examined

The five categories of *Personal Care, Health, Household Services, Personal Costs, and Household Goods* are each smaller sections of the MESL basket, which together represent approximately 15 – 20% of the MESL expenditure. As such these were excluded from the examination undertaken in this paper, due to time limitations.

There have however been several content alterations within these categories, both qualitative changes and the addition of new items. Quantifying the impact of these changes and assessing the accuracy of inflation adjustment on the remaining section of the baskets would require further investigation.

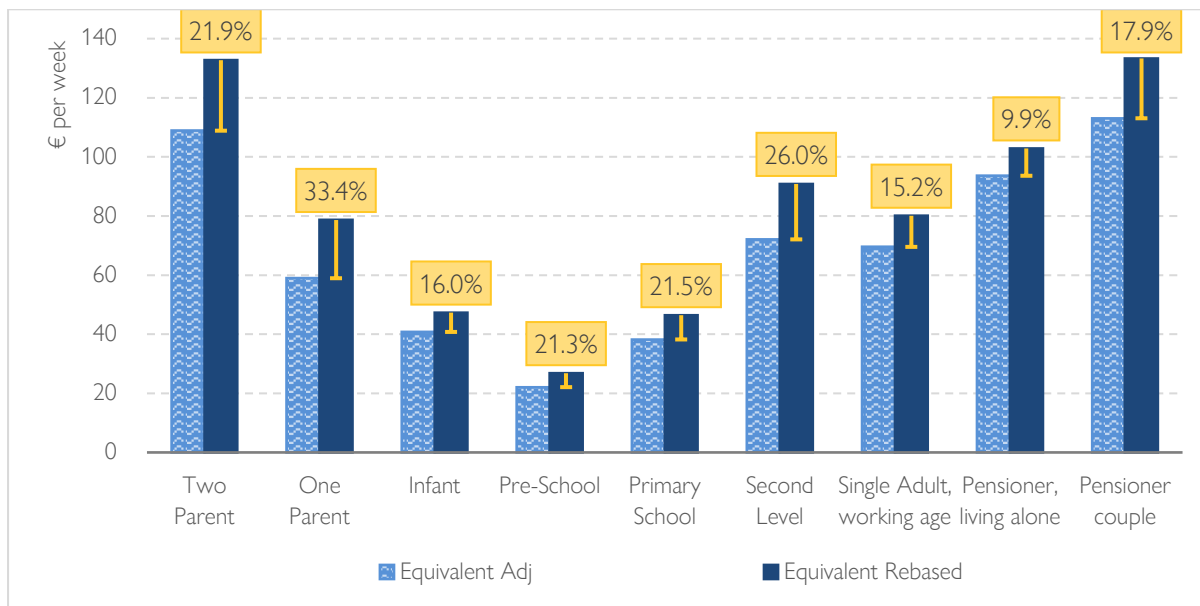
Conclusion

The categories of Food, Clothing, Communications, Social Inclusion, and Education were examined in detail as they represent the areas which account for a significant proportion of the MESL expenditure and have shown the most degree of change in cost, when compared to previous adjusted figures for the previous iteration of the MESL baskets.

The analysis carried out above has shown that within these categories there has been a divergence between the inflation adjusted MESL cost estimates and actual price of the basket items. This has resulted in an under-estimation of the true cost of an MESL. In Graph 11, the scale of this divergence is illustrated. The total cost of equivalent items in the five areas examined is compared, for the adjusted and rebased baskets. It is clear, that in all cases inflation adjustments have significantly under-estimated the cost of this set of minimum items.

The inflation adjustment under-estimation has resulted in the rebased costs being notably higher than the adjusted estimates. The impact of this has been offset, somewhat, by other basket adjustments. At the category level, the discussion above demonstrated how qualitative changes and the removal and addition of items, worked to mitigate against a more significant increase in the weekly minimum cost of these categories. Within the baskets as a whole, the alterations to the Household Energy requirements (as discussed) offset the majority of the increase in the five categories examined.

Graph 11 Divergence between Adjusted and Rebased MESL costs, combined total of equivalent items (Food, Clothing, Communications, Social Inclusion & Education)



If the previous iteration of the MESL baskets had been repriced in full, without the content modifications introduced from the review process, the resulting overall MESL cost is likely to have been significantly higher. This would have arisen due to inflation adjustments having under-estimated the change in minimum costs. Therefore, it must be noted that the alterations to the basket content have in all likelihood limited the potential increase in MESL cost following the review and rebase process.

Annual adjustments

Prior to the completion of the review and rebase in 2020, the annual adjustment of the MESL data utilised a set of 22 Consumer Price Index (CPI) sub-index rates. Each MESL basket category was adjusted by the applicable sub-rate, and in some instances basket categories were split to apply multiple rates within a category. In conjunction with this, key items such as public transport costs were repriced annually, and other large items such as car insurance and waste charges were priced every two to three years.

In light of the divergence between the adjusted MESL estimates and the reviewed and rebased MESL costs, the annual adjustment methodology has been refined. The CSO publish 234 sub-rates within the CPI at different levels of detail. Below the headline inflation rate there are 12 Divisions, and within these sub-rates and classes. When adjusting the MESL basket, each item will now be adjusted using the most specific CPI sub-rate available. This approach makes use of 128 separate rates to adjust the unit price of each basket item at the most granular level possible, excluding the effect of price changes in the rest of the CPI basket. The intention here is to improve the accuracy of the estimate for the cost of an MESL in the years between re-pricing the baskets.

It is the intention, that from 2020 onwards the Reviewed and Rebased MESL baskets will continue to be updated annually using the refined adjustment method. In addition, the need to reprice more frequently is now clear. It is intended to reprice the basket contents every 2 – 3 years, and to return to focus groups to review the basket contents periodically, every 4 – 6 years. The intention is to limit the reliance on adjusted pricing data and so improve the accuracy of the annual MESL series.

Appendix Table I 2020 Review & Rebase Core MESL weekly expenditure budget, urban

	Two Parent	One Parent	Infant	Pre-School	Primary School	Second Level	Single Adult, working age	Pensioner, living alone	Pensioner couple
Food	€64.53	€35.47	€27.63	€22.19	€34.03	€48.89	€47.58	€60.04	€74.69
Clothing	€17.60	€8.94	€18.23	€7.31	€6.77	€10.93	€12.67	€12.17	€23.02
Personal Care	€13.39	€7.18	€9.32	€1.76	€3.01	€6.12	€8.59	€8.12	€13.61
Health	€10.45	€6.85	€3.95	€1.52	€2.91	€5.32	€5.42	€11.99	€23.85
Household Goods	€14.98	€14.11	€9.16	€2.86	€2.92	€3.03	€5.45	€17.98	€19.29
Household Services	€6.12	€6.12	€0.00	€0.00	€0.00	€0.00	€3.67	€15.09	€8.12
Communications	€18.52	€13.65	€0.00	€0.00	€0.00	€4.87	€13.49	€18.09	€23.50
Social Inclusion & Participation	€58.54	€41.52	€2.12	€6.88	€16.43	€28.81	€52.48	€54.38	€67.52
Education	€2.95	€2.95	€0.00	€0.00	€10.50	€19.26	€3.42	€0.00	€0.00
Transport (Public)	€55.00	€27.50	€0.00	€0.00	€2.70	€2.70	€36.62	€6.92	€6.92
Household Energy	€27.39	€25.87	€0.59	€0.00	€1.52	€1.85	€18.83	€25.01	€28.31
Personal Costs	€8.23	€7.16	€0.10	€0.10	€0.10	€0.10	€7.16	€4.26	€2.29
Insurance	€30.35	€15.82	€4.30	€4.39	€4.01	€3.62	€13.75	€16.35	€30.73
<i>Home Insurance</i>	€2.07	€2.07	€0.00	€0.00	€0.00	€0.00	€0.00	€1.97	€1.97
<i>Health Insurance</i>	€28.27	€13.75	€4.30	€4.39	€4.01	€3.62	€13.75	€13.37	€26.74
<i>Funeral Insurance</i>	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€1.01	€2.02
Savings & Contingencies	€18.46	€13.17	€5.00	€5.00	€5.00	€5.00	€10.00	€10.00	€15.00
Total	€346.50	€226.31	€80.40	€52.01	€89.88	€140.51	€239.11	€260.41	€336.85
Adjustments									
Childcare PT	€0.00	€0.00	€156.35	€128.25	€23.08	€0.00	€0.00	€0.00	€0.00
Childcare FT	€0.00	€0.00	€237.99	€220.75	€120.12	€0.00	€0.00	€0.00	€0.00
Medical Card Deductions									
Full Medical Card	-€38.15	-€20.25	-€4.55	-€5.51	-€6.49	-€8.18	-€17.13	-€24.35	-€48.71
GP Visit Card	-€4.43	-€3.32	€0.00	€0.00	-€2.21	-€2.21	-€1.11	-€4.43	-€8.86

Appendix Table 2 2020 Adjusted Core MESL weekly expenditure budget, urban

	Two Parent	One Parent	Infant	Pre-School	Primary School	Second Level	Single Adult, working age	Pensioner, living alone	Pensioner couple
Food	€58.31	€32.07	€27.88	€21.64	€33.44	€44.45	€51.67	€62.71	€74.63
Clothing	€11.64	€6.56	€13.56	€4.04	€5.47	€10.16	€8.93	€8.62	€14.36
Personal Care	€12.99	€6.28	€9.31	€1.22	€2.35	€7.29	€12.07	€8.50	€12.34
Health	€9.05	€6.00	€5.10	€1.87	€4.04	€4.67	€6.51	€12.81	€25.55
Household Goods	€12.36	€11.40	€7.91	€2.15	€2.41	€2.93	€4.82	€13.99	€15.11
Household Services	€7.21	€7.21	€0.00	€0.00	€0.00	€0.00	€4.11	€7.23	€7.23
Communications	€12.50	€8.43	€0.00	€0.00	€0.00	€4.07	€8.46	€11.81	€11.62
Social Inclusion & Participation	€52.41	€30.74	€1.73	€3.96	€13.72	€24.43	€37.46	€39.92	€53.21
Education	€0.53	€0.53	€0.00	€0.00	€6.88	€16.98	€4.62	€0.00	€0.00
Transport (Public)	€55.00	€27.50	€0.00	€0.00	€2.70	€2.70	€32.00	€0.00	€0.00
Household Energy	€47.23	€46.94	€1.60	€0.00	€0.00	€0.00	€30.34	€53.81	€55.82
Personal Costs	€8.23	€8.07	€0.11	€0.11	€0.11	€0.11	€8.07	€6.40	€6.57
Insurance	€31.47	€16.95	€4.30	€4.30	€3.62	€3.62	€16.57	€14.50	€26.71
<i>Home Insurance</i>	€2.81	€2.81	€0.00	€0.00	€0.00	€0.00	€2.43	€2.29	€2.29
<i>Health Insurance</i>	€28.66	€14.14	€4.30	€4.30	€3.62	€3.62	€14.14	€12.21	€24.43
<i>Funeral Insurance</i>	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00	€0.00
Savings & Contingencies	€21.01	€15.87	€5.78	€5.78	€5.78	€5.78	€11.56	€11.56	€17.34
Total	€339.93	€224.55	€77.27	€45.06	€80.50	€127.19	€237.19	€251.87	€320.50
Adjustments									
Childcare PT	€0.00	€0.00	€156.35	€118.83	€14.77	€0.00	€0.00	€0.00	€0.00
Childcare FT	€0.00	€0.00	€237.99	€209.39	€59.09	€0.00	€0.00	€0.00	€0.00
Medical Card Deductions									
Full Medical Card	-€37.16	-€19.69	-€4.92	-€5.83	-€7.38	-€7.69	-€19.69	-€24.36	-€48.73
GP Visit Card	-€3.31	-€2.21	€0.00	€0.00	-€2.21	-€2.21	-€2.21	-€4.42	-€8.83

Endnotes

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- ⁱ McEvoy, O., Mac Mahon, B. and Thornton, R. (2020) *2018/19 Review and Rebase of the Minimum Essential Standard of Living*, Dublin: VPSJ, <https://www.budgeting.ie/publications/mesl-review-rebase-20182019/>
 - ⁱⁱ This schedule is subject to the availability of funding.
 - ⁱⁱⁱ Core MESL excludes housing, childcare and the effect of any secondary benefits (for example Medical Card).
 - ^{iv} A computer has been included in previous iterations of the MESL budgets for working-age household types. The primary rationale for needing a computer was previously linked to educational needs, and so the computer costs were categorised in education. While the range of needs has now widened this categorisation is maintained for continuity in the working-age household budgets. However, the computer is included in the communications category for older people.
 - ^v As noted previously, a laptop computer (and related costs) are included in the Communications category for Pensioner household types.
 - ^{vi} The energy costs for an urban one-parent and two child household (primary and second level age) in reviewed and rebased MESL is €29.24 per week, in 2020. This is based on a dual fuel bundle contract from Energia. The same volume of electricity and gas purchased through Prepay Power would cost an average of €44.29 per week.