

**EU-Project under the DG Employment/PROGRESS call for
Mutual learning projects**

Standard Budgets

**An instrument to fight and prevent overindebtedness and to promote
financial inclusion and well-being**

**Project proposal prepared by
NIBUD and ASB**

BACKGROUND AND AIMS OF THE PROJECT

What are standard budgets?

Standard budgets are expenditure patterns for different types of households. Given the household composition, the disposable income and some other characteristics (like housing situation, possession of a car), an expenditure pattern is given that suits the situation of the household. Standard budgets can be based on empirical data (e.g. budget enquiries) or constructed by budget experts. Standard budgets based on empirical data often show deficits for households with a low income. So, these standard budgets are not quite useful for budget information (where balanced budgets are needed). That is why constructed standard budgets are needed, with the empirical data as reference. Standard budgets are a reference for households spending patterns, never a prescription how an individual household should spend its money. Personal circumstances must always be taken into account.

What are standard budgets used for?

Standard budgets are widely used. Nibud has an experience of more than 25 years in using them in different areas. The most important issues are the following:

Budget information

Households that cannot make ends meet, can be helped by presenting a standard budget to them for their situation. They can compare their own expenditures with the standard budget, and they can get ideas on what expenditure groups spending can be cut. With that, problems of overindebtedness may be tackled. Not only the individual household, but also debt advisers can make use of these standard budgets.

On the Nibud website one can calculate a standard budget for one's own household: <https://service.nibud.nl/pba/ad.aspx>.

Credit scores

Having standard budgets, it is possible to calculate what a certain household can borrow (loan to income-ratios). The methodology used by Nibud based on standard budgets fits rather well with the credit scores of banks etc. Nibud is responsible for the loan-to-income ratios for mortgages in the Netherlands, and is in discussion with the financial sector to do this also for other credits.

Purchasing power calculations

With standard budgets it is possible to trace differences in income and expenditures of a certain type of household due to (changes in) policies. Standard budgets can make visible which household groups are faced with problems making ends meet. They can also be used to show the poverty trap, where households are worse off when working than with a social benefit. Nibud advises local authorities in their policy for social assistance. The Dutch parliament decided that Nibud should also calculate poverty-trap effects for households for all new proposals for law that effects budgets of households. Also due to Nibud the Central Bureau of Statistics of the Netherlands is planning to develop a personal inflation-meter, based on national price indexes and expenditures of one's individual household.

AIMS OF THE PROJECT

The main aim of the project is to promote the construction and use of standard budgets in different countries in Europe. The use of standard budgets in the above mentioned areas is an important instrument in combating social exclusion. Budget information and credit scores reduce problematic debts, and thus stimulates social inclusion. Advising public authorities on purchasing power effects of their policies also stimulates that these policies are more directed towards households that really need it.

The project also aims to develop and strengthen the instruments (which instruments?) that are needed to (better) use Standard Budgets in the fields mentioned above.

PROJECT ACTIVITIES/METHOD

Under the supervision of Nibud 3-4 core partners will develop national Standard Budgets.

The development of these Standard Budgets will be informed by:

+ 3 European seminars with additional input and feedback by 'consulting partners' from various fields relevant to the project (research, debt advice, financial education, consumer protection, public authorities, anti-poverty NGOs)
+ 2 national workshops in each of the countries where Standard Budgets will be developed, gathering up to 15 relevant stake holders, including people experiencing financial exclusion (e.g. clients of debt advice centers), as well as national representatives of the above mentioned groups.

RESULTS OF THE PROJECT

- Standard Budgets for the participating core partners
- Handbook on Standard Budgets
- Information leaflet on Standard Budgets and their use in the fight against
- Lobbying strategy with regards to the implementation of the instrument
- Website with general information on Standard Budgets and ideas and instruments on how to use them in different contexts (e.g. financial education, debt prevention, debt advice, credit scores)