Guidelines on a reasonable standard of living and reasonable living expenses

Seirbhís Dócmhainneachta na hÉireann

Insolvency Service of Ireland

DISCLAIMER

The Insolvency Service of Ireland (“ISI”), following consultation with the Minister for Justice and Equality, the Minister for Finance, the Minister for Social Protection and such other persons or bodies as the ISI has considered appropriate has pursuant to section 23 of the Personal Insolvency Act 2012 prepared and is issuing these guidelines as to what constitutes a reasonable standard of living and reasonable living expenses. These guidelines have been prepared and issued by the ISI for the purposes of sections 26, 65(4) and 99(4) of the Personal Insolvency Act 2012 and section 85D of the Bankruptcy Act 1988 (as inserted by section 157 of the Personal Insolvency Act 2012) and for no other purpose. The ISI does not authorise or take any responsibility for the use of these guidelines for any other purpose.

These guidelines are effective from April 2013.

Contents

Summary

The Insolvency Service of Ireland ("ISI") was established by the Personal Insolvency Act 2012 ("the Act"). The Act continues the reform of the Bankruptcy Act 1988 and includes the introduction of an automatic discharge from bankruptcy after three years, subject to certain conditions. It also introduces three new alternatives to bankruptcy ("new arrangements"), namely a Debt Relief Notice ("DRN"), a Debt Settlement Arrangement ("DSA") and a Personal Insolvency Arrangement ("PIA").

The ISI believes the new arrangements will play an important part in addressing financial difficulties currently faced by many insolvent debtors and their creditors by enabling a resolution of over-indebtedness in an orderly and rational manner without recourse to bankruptcy.

The ISI is charged with a number of functions under the Act. Section 9 of the Act lists that one of those functions is to prepare and issue guidelines as to what constitutes a reasonable standard of living and reasonable living expenses under section 23 of the Act[1].

These guidelines are relevant to the assessment of a debtor's eligibility for a DRN, the formulation of DSA and PIA proposals and the Court's making of a bankruptcy payment order. In particular, they are intended to give direction to Approved Intermediaries ("AIs") and guidance to Personal Insolvency Practitioners ("PIPs") in assessing, for relevant provisions of the Act, what may be considered 'reasonable' in the context of a standard of living and living expenses. Guidelines on a reasonable standard of living and reasonable living expenses are essential to the process of moving towards long-term restructuring measures in that they enable the debt servicing capacity of a distressed debtor to be calculated in a fair and consistent manner so that the sustainability of repayments can be established. The guidelines safeguard a minimum standard of living so as to protect debtors while facilitating creditors in recovering all, or at least a portion, of the debts due to them.

Section 23 of the Act requires the ISI to have regard to certain criteria in preparing guidelines on a reasonable standard of living and reasonable living expenses. The ISI, in view of these requirements and following a series of meetings and consultations (listed on page 17), has decided to use a model ("ISI model") which is a modified version of the consensual budget

[1] The text of Section 23 is reproduced in full as Appendix A to these guidelines.

standards model originally developed in Ireland by the Vincentian Partnership for Social Justice ("VPSJ model")[2].

The ISI model allows for food for a nutritionally balanced diet, clothing, personal care, health, household goods, household services, communications, social inclusion and participation, education, transport, household energy, childcare, insurance and modest allowances for savings and contingencies.

Under the ISI model, a 'reasonable standard of living' does not mean that a person should live at a luxury level but neither does it mean that a person should only live at subsistence level. A debtor should be able to participate in the life of the community, as other citizens do. It should be possible for the debtor 'to eat nutritious food …, to have clothes for different weather and situations, to keep the home clean and tidy, to have furniture and equipment at home for rest and recreation, to be able to devote some time to leisure activities, and to read books, newspapers and watch television'[3]. It follows that 'reasonable living expenses' are the expenses a person will necessarily incur in achieving a reasonable standard of living which fulfils these criteria.

The use of the ISI model satisfies the requirement contained in section 23 of the Act to have regard to differences in the size and composition of households. The cost of a child, for example, varies according to the age of the child and this is taken into account under the ISI model. So too is the requirement to facilitate the social inclusion of debtors and their dependants and their active participation in economic activity in the State.

These guidelines set a base level for a reasonable standard of living and reasonable living expenses. Where either a DSA or a PIA is proposed, the decision on the reasonableness or otherwise of living expenses will be a matter for the creditors to determine on a case-by-case basis with the PIP acting to facilitate debtors and creditors in working out an arrangement acceptable to both.

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[2] http://www.budgeting.ie/

[3] Nordenankur, '*More than A Minimum Budget in Sweden'* in 'Money Matters - Reference Budgets for Social Inclusion'; European Consumer Debt Network (No. 6, 2009) page 8.

In formulating the ISI model, the ISI liaised with the Central Statistics Office (CSO) and the Central Bank of Ireland and compared the output of the ISI model to a CSO analysis of the Household Budget Survey and an analysis by the Central Bank of Ireland of cases in the Mortgage Arrears Resolution Process. While certain expenditure categories may vary across the above referenced sources, in aggregate the expenditure levels generated through the ISI model are not materially different to the CSO or the Central Bank of Ireland analyses.

One of the greatest strengths of using consensual budget standards is the level of transparency it affords. Each category of expenditure is supported by detailed lists of items within each category which are individually priced. Different people will naturally have different opinions on what is meant by reasonable living expenses but the level of transparency offered by this method should help inform any discussion.

The ISI is required to update these guidelines at intervals of not more than a year under the Act. These guidelines will be kept under review and the ISI may amend them at any time if the ISI considers this is warranted.

The current version of these guidelines is publicly available on the website of the ISI at www.isi.gov.ie.

The ISI welcomes comments on these guidelines by email to rle@isi.gov.ie.

1. Legislative requirements

Section 9 of the Act lists the preparation and issuance of guidelines as to what constitutes a reasonable standard of living and reasonable living expenses under section 23 of the Act amongst the principal functions of the ISI.

Section 23 of the Act requires the ISI to hold consultations on these guidelines and specifies certain factors which are to be taken into account in preparing the guidelines. Section 23(3) of the Act requires the ISI to have regard to:

a) such measures and indicators of poverty set out in Government policy publications on poverty and social inclusion as the ISI considers appropriate;

b) such official statistics (within the meaning of the Statistics Act 1993) and surveys relating to household income and expenditure published by the Central Statistics Office as the Insolvency Service considers appropriate;

c) the Consumer Price Index (All Items) published by the Central Statistics Office or any equivalent index published from time to time by that Office;

d) such other information as the ISI considers appropriate for the performance of its functions under this section;

e) differences in the size and composition of households, and the differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability; and

f) the need to facilitate the social inclusion of debtors and their dependants, and their active participation in economic activity in the State.

Section 23(1) of the Act provides that these guidelines are prepared and issued by the ISI for the purposes of sections 26, 65(4) and 99(4) of the Act and section 85D (as inserted by section 157 of the Act) of the Bankruptcy Act 1988.

Section 23 of the Act is set out in full in Appendix A.

2. Reasonable standard of living

The ISI considers that, for the purposes of the Act, a reasonable standard of living is one which meets a person's physical, psychological and social needs. Under the ISI model, a 'reasonable standard of living' does not mean that a person should live at a luxury level but neither does it mean that a person should only live at subsistence level. A debtor should be able to participate in the life of the community, as other citizens do. It should be possible for the debtor 'to eat nutritious food …, to have clothes for different weather and situations, to keep the home clean and tidy, to have furniture and equipment at home for rest and recreation, to be able to devote some time to leisure activities, and to read books, newspapers and watch television'[4].

It follows that 'reasonable living expenses' are the expenses a person will necessarily incur in achieving a 'reasonable standard of living' which fulfils these criteria.

[4] Nordenankur, '*More than A Minimum Budget in Sweden'* in 'Money Matters - Reference Budgets for Social Inclusion'; European Consumer Debt Network (No. 6, 2009) page 8.

3. Reasonable living expenses

Under the ISI model, reasonable living expenses are the expenses a person necessarily incurs in achieving a reasonable standard of living, this being one which meets a person's physical, psychological and social needs.

Reasonable living expenses will vary depending on a number of factors such as the particular composition of a household and the *need* for a car. Beyond that, when determining reasonable living expenses, provision needs to be made for reasonable housing costs in terms of rent or mortgage payments as well as for reasonable payments in respect of childcare where this expense arises. To use the tables contained in Schedule 1, the Approved Intermediary ("AI") or Personal Insolvency Practitioner ("PIP") should follow a four-step process shown here in Figure 1 and described below:

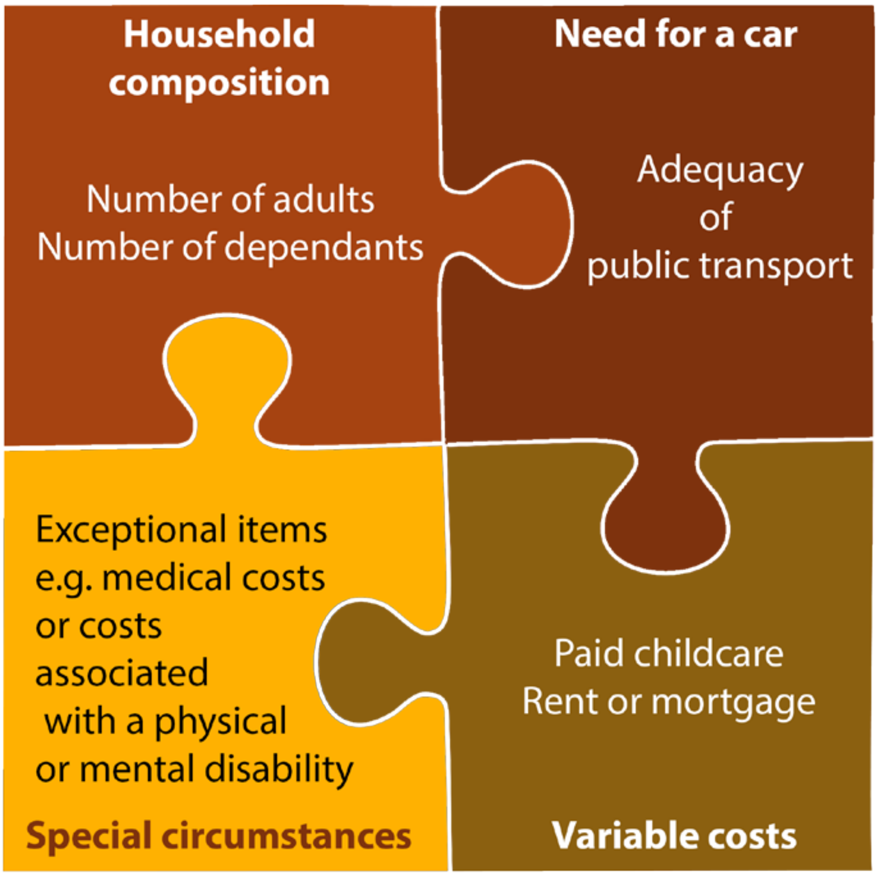

Figure 1: Determinants of reasonable living expenses.

1. Household composition:

The AI or PIP should begin by selecting the set of tables in Schedule 1 which best fits the situation of the debtor based on household composition i.e. whether or not the applicant has children and whether he or she is the only adult in the household.

2. Need for a car:

The household will not normally need a car where the applicant lives in an urban location with adequate public transport links. Where public transport is not adequate to meet the needs of the household, the AI or PIP should choose the vehicle option based on the needs of the household (needs, not wants). A car will be required where a debtor needs it to travel to and from work. Where a car is not included, the ISI model includes costs associated with the use of public transport.

3. Childcare and housing costs:

a. Childcare costs

A significant expense connected with employment arises where childcare is needed, particularly at the first two stages of childhood i.e. infancy and pre-school.

Under the ISI model, childcare costs are brought in under 'other costs'. This means that reasonable costs incurred for childcare – as with housing costs - are added to the total for set costs to produce the final figure for reasonable living expenses.

Where childcare is paid for, the reasonableness of this expense should be considered by the AI or PIP taking into account the hours of childcare needed, the type of childcare (e.g. crèche, childminder, etc.) and the typical cost of childcare in the debtor's locality. Proof in the form of receipts, bank statements or similar may have to be sought where childcare costs appear excessive. Where applicable, the Early Childhood Care and Education ("ECCE") Scheme, which provides a free year of childcare and early education for children of pre-school age, should be deducted when calculating childcare costs given that each of the new arrangements continues over a number of years.

b. Housing costs

As with childcare, housing can also be a significant expense. In considering what constitutes a reasonable and sustainable accommodation expenditure in an individual case, the AI or PIP shall have regard to the following matters:

- The costs likely to be incurred by the debtor by remaining in occupation of his or her current accommodation;
- The ability of other persons residing with the debtor to contribute to the costs of maintaining the debtor's current accommodation; and
- The reasonable living accommodation needs of the debtor and his or her dependants and, having regard to those needs, the cost of alternative accommodation.

In forming an opinion on the reasonable living accommodation needs of the debtor and his or her dependants the AI or PIP shall take into consideration the size and composition of the household, and the differing needs of persons having regard to the matters set out in section 23(3)(e) of the Act.

The AI or PIP, in assessing the reasonableness of the existing housing costs of the debtor and the cost of alternative accommodation, may draw on his or her knowledge of the local housing market and on such publicly available data sources as he or she considers appropriate. These sources may include the Central Statistics Office Rental Indices, the Private Residential Tenancies Board ("PRTB") databases, the Residential Property Price Register produced by the Property Services Regulatory Authority ("PSRA"), the quarterly Daft.ie Rental Reports and leading websites advertising properties for rent or sale. The AI or PIP should support his or her assessment as to the reasonableness of housing and childcare costs by reference to the matters he or she has taken into account in arriving at his or her opinion.

4. Special circumstances:

The Act contains a requirement to take account of the differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability. Given the number of possible variables, and the individual nature of physical and mental health conditions and disabilities, the ISI believes this aspect is best addressed through making allowance in these guidelines for a debtor to specify reasonable costs which arise as a consequence of ill-health or disability[5]. The PIP may request that the debtor provide appropriate documentation in support of extra expenses related to disability, for example evidence from a professional, such as a doctor or disability service, to support a claim for allowances in respect of special circumstances[6].

The category of special circumstances may also be used where a debtor has persons other than his or her minor children financially dependent on him or her, such as where the debtor is contributing financially to the care of an adult dependent such as, for example, an elderly relative or a college-going child. The PIP may request that the debtor provide documentation in support of these expenses prior to recognising under this category the additional costs incurred in such cases.

The output from the above work, based on various household compositions and circumstances, is to be found in Schedule 1 on page 36.

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[5] In *'A Strategy for Equality': Report of the Commission on the Status of Persons with Disabilities (1996)* the Commission identified five areas where the cost of living for people with a disability could be higher than for people without a disability. These are: mobility and communication, medical costs, equipment and assistive technology, care and assistance and general living expenses.

[6] In '*Disability and the Cost of Living': National Disability Authority (2004)* the NDA concluded that while it is not possible to come up with any reliable 'typical' additional cost of living related to disability, the evidence suggests that a significant minority of people with disabilities face additional costs of living related to their disability; that those additional costs of living can vary with the nature of the disability and its complexity or severity; and that while there are schemes of State supports which address some of these areas of need or their costs, some people are either not covered or have their extra needs or extra costs only partly met.

Determining reasonable living expenses

The ISI has prepared these guidelines to, amongst other things, give direction to AIs and guidance to PIPs in assessing what may be considered 'reasonable' in the context of reasonable living expenses for certain purposes of the Act. The ISI recognises that reasonable living expenses will necessarily vary depending on the debtor's relationship status, employment status, his or her need for a vehicle, and the number and ages of his or her children (if any). These factors have been reflected in the tables in Schedule 1 of these guidelines.

While reasonable living expenses have to be calculated to a mainly objective standard, it is important that some flexibility be allowed so as to recognise and provide for the differing needs of persons; particularly in relation to ill-health and disability. This flexibility is contemplated by the Act in section 23(3)(e).

DRNs

Section 26(2)(b) of the Act provides that to be eligible for a DRN the debtor must have net disposable income, calculated in accordance with *subsection (5)*, of €60 or less a month. The Act sets out the basis on which net disposable income is to be calculated. Essentially it is the income available to the debtor less specified deductions, as shown below:

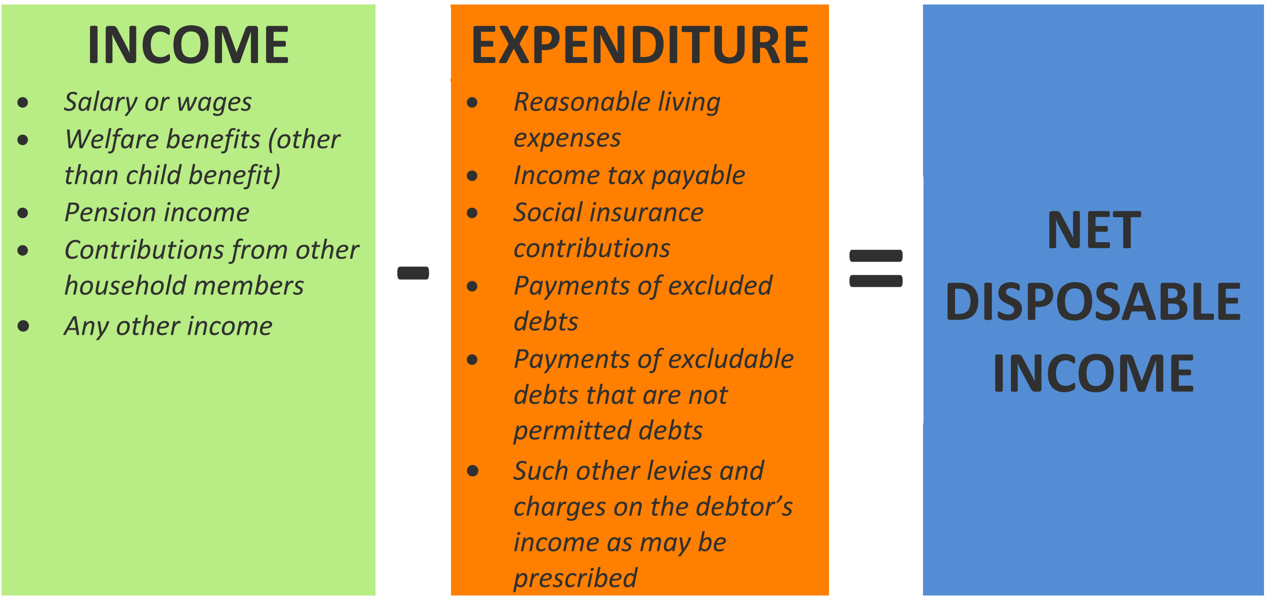

Figure 2: Calculation of net disposable income.

All of these income and expenditure items, other than reasonable living expenses, are a matter of fact. What is 'reasonable' is an objective standard, but one open to interpretation. As contemplated by section 23(3)(e) of the Act , it may vary from one person to another but it is fundamental to achieving fairness and consistency in evaluating eligibility for DRNs that reasonable living expenses be as objective as possible. It would clearly be wrong to penalise the frugal by making it easier for a debtor to pass the test for net disposable income simply by spending more of his or her money on anything he or she considers reasonable.

DSAs and PIAs

Section 65(2)(d) of the Act provides that a DSA shall not contain any terms which would require the debtor to make payments of such an amount that the debtor would not have sufficient income to maintain a reasonable standard of living for himself or herself and his or her dependants. Section 65(4) of the Act specifies that, in determining whether a debtor would have a sufficient income to maintain a reasonable standard of living for the debtor and his or her dependants, regard shall be had to these guidelines. Section 99(2)(e) and section 99(4) of the Act contain corresponding provisions in respect of a PIA.

It is important that individuals in financial difficulty, who are also in employment, be given some incentive to continue working. A reduction to the income level which that individual would have if he or she were to be unemployed and in receipt of social welfare could take away the incentive to go to work. In the context of working debtors entering into DSAs and PIAs, such individuals should be able to retain some of the money they are earning before the balance of their income goes to discharge their debt.

There will be a need for PIPs to engage with creditors and debtors in order to ensure that workable arrangements are put in place. Creditors have an interest in getting all, or at least a portion, of their debts repaid and so have an interest in the debtor being at work, getting a financial benefit from working and thereby having the ability to pay off a greater amount of his or her debts over a period of time, than might otherwise be the case if they were not at work.

A balance will have to be struck between the allocation of earnings to creditors and their retention by the debtor. This will vary from individual to individual, depending on personal circumstances, family situation, debt levels, income, health and a range of other issues.

Ultimately, where either a DSA or a PIA is proposed, the decision on the reasonableness or otherwise of living expenses will be a matter for the creditors to determine on a case-by-case basis in accordance with the voting thresholds set out in section 73 or, as applicable, section 110 of the Act. This is subject to the provision that the debtor will not be required to make payments of such an amount that he or she would not have sufficient income to maintain a reasonable standard of living. Where a PIP has put forward a proposal which contains unrealistic or disproportionate living expenses there is a likelihood that creditors will vote against acceptance of the arrangement on that basis.

Distinguishing between the DRN and the other new personal insolvency measures

<table>
<tr><th>DRN
DEBT RELIEF NOTICE</th><th>DSA
DEBT SETTLEMENT ARRANGEMENT</th><th>PIA
PERSONAL INSOLVENCY ARRANGEMENT</th></tr>
<tr><td>Strict application of the reasonable living expenses model in determining the eligibility of an applicant.</td><td colspan="2">Ultimately, it is a matter for the Personal Insolvency Practitioner to determine an acceptable level of reasonable living expenses and for creditors to agree on this and vote in favour of it.</td></tr>
<tr><td>To be eligible the applicant must have €60 or less in net disposable income a month.</td><td colspan="2">The Act requires that the debtor have sufficient income to maintain a reasonable standard of living. Accordingly, reasonable living expenses should not be at a level below that proposed under these guidelines.</td></tr>
<tr><td>Actual expenditure would not give reasonable results. An objective standard must be set.</td><td colspan="2">Reasonable living standards may be higher than these guidelines propose where acceptable to creditors. This may occur where creditors can see value for themselves in incentivising the debtor.</td></tr>
</table>

Figure 3: Differences between a DRN and the other new insolvency measures

4. The approach of the ISI

In developing these guidelines, in addition to those persons the Act required the ISI to consult, the ISI consulted with a number of additional persons or bodies which the ISI considered appropriate to consult. These included the Money Advice and Budgeting Service, the Free Legal Advice Centres, the Vincentian Partnership for Social Justice, the Central Statistics Office, the Economic and Social Research Institute, the Official Assignee in Bankruptcy, representatives from the financial services sector, the Central Bank of Ireland and the Citizens Information Board.

The ISI also consulted with the Minister for Social Protection, the Minister for Finance and the Minister for Justice and Equality as required by the Act.

Following these consultations, and bearing in mind the requirements under the Act, the ISI has decided to use as its model ("ISI model") a modified version of the consensual budgeting model ("VPSJ model") originally developed in Ireland by the Vincentian Partnership for Social Justice ("VPSJ")[7]. These guidelines have been prepared and issued by the ISI for the purposes of sections 26, 65(4) and 99(4) of the Personal Insolvency Act 2012 and section 85D of the Bankruptcy Act 1988 (as inserted by section 157 of the Personal Insolvency Act 2012) and for no other purpose.

Under the consensual budgeting model, a minimum essential standard of living is one which meets a person's physical, psychological and social needs.

It is a standard of living that is based on needs, not wants, but it is more than survival and allows for meaningful participation in society. It should not be regarded as a standard of living for people in poverty.

The work of the VPSJ was noted by the Law Reform Commission in a December 2010 report on *Personal Debt Management and Debt Enforcement*[8] as a possible basis for guidelines on reasonable living standards.

The logic behind the figures is in line with a 2008 study[9] conducted by the European Commission which, in seeking to establish a single European definition of over-indebtedness, considered that regard had to be paid to the standard of living of the household. For a household to be classed as over-indebted, the Commission believed that it must be unable to meet its contractual commitments without reducing its

[7] More information on the work of VPSJ is available at http://www.budgeting.ie/.

[8] *Personal Debt Management and Debt Enforcement, Law Reform Commission, (LRC 100 - 2010) page 129.*

[9] *Towards A Common Operational European Definition of Over-Indebtedness* (European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities 2008).

minimum standard of living. The Commission elaborated on this point in 2010[10] in defining an over-indebted household as one:

> *'whose existing and foreseeable resources are insufficient to meet its financial commitments without lowering its living standards, which has both social and policy implications if this means reducing them below what is regarded as the minimum acceptable in the country concerned'.*

There is also a requirement under the Act at section 23(3)(e) to take account of the differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability. Taking into account the number of possible variables, and the very individual nature of physical and mental conditions and disabilities, the ISI believes this aspect is best addressed by permitting a debtor to specify reasonable costs over and above a typical household which are necessarily incurred for these reasons.

The ISI considers that, for the purposes of the Personal Insolvency Act 2012, a reasonable standard of living is one which meets a person's physical, psychological and social needs and reasonable living expenses are expenses necessarily incurred in achieving this standard of living.

The ISI did consider some items of expenditure included in the VPSJ model not to be appropriate in the context of personal insolvency. The ISI has adapted the VPSJ model to exclude private medical insurance, holiday costs, having more than one car and payment of discretionary items (such as voluntary donations). The ISI model is predicated on needs rather than wants and private health insurance should normally be excluded on the basis that it is not a necessity. Notwithstanding this general rule, some situations may arise where it is reasonable for a pre-existing private health insurance policy to be kept in place.

Examples of such situations include where the employer of an applicant pays the premium or where the applicant or a dependent has a health condition which would otherwise result in a higher expenditure on health as compared to the insurance premium. It might also be proposed to retain a policy where an existing medical condition would make it difficult or impossible to regain insurance cover in the future or where an individual is of an age such that it is reasonable for a private health insurance policy to be maintained. In such circumstances the AI or PIP may consider continuance of private health insurance as an

[10] *Over-indebtedness - New evidence from the EU-SILC special module* (European Commission, Research note 4/2010) page 4.

exceptional item and should include an explanatory note to that effect in the relevant section of the application form.

Expenditures on electricity and home heating under the VPSJ model are based on a specific standard of housing and the ISI required these costs to be more broadly applicable. The ISI has therefore opted to use average expenditures on electricity and home heating from the Household Budget Survey for the ISI model.

In addition, the ISI has adjusted the original model to reflect the fact that child benefit payments are, under section 26(5)(b)(ii) of the Act, not to be included in assessing income for the purposes of determining eligibility for a DRN. On the basis that child benefit payments are intended to be spent on a child, child benefit has been deducted from the reasonable living expenses of a child. To do otherwise would effectively mean double counting child benefit in the ISI model. Also, the capital cost of a car, set at a value of €5,950-€8,500 in the original consensual budget standards model, has been reduced to €2,000.

In choosing this model, the ISI liaised with the Central Statistics Office and the Central Bank of Ireland and compared the output of this model to a CSO analysis of the Household Budget Survey conducted in February 2013 and an analysis by the Central Bank of Ireland of cases in the Mortgage Arrears Resolution Process conducted in January 2013. While certain expenditure categories may vary across the above referenced sources, in aggregate the expenditure levels generated through the ISI model are not materially different to the CSO or the Central Bank analyses.

The reasonable standard of living and reasonable living expenses set out in these guidelines have been developed by the ISI in accordance with its statutory functions under the Act. The figures used in these guidelines have unique application to personal insolvency and are not intended to be used for purposes other than the stated purposes of these guidelines under the Act.

5. The Vincentian Partnership for Social Justice

The Vincentian Partnership for Social Justice ("VPSJ") was established in 1996 to work for social and economic change by tackling poverty and social exclusion; it is made up of the Society of St Vincent de Paul, the Vincentian Congregation, the Daughters of Charity, and the Sisters of the Holy Faith.

As part of this work, the VPSJ has conducted research in Ireland for over 12 years so as to develop necessary expenditure figures for different types of households.

In brief, these household expenditure figures are arrived at through a process of consensual budgeting using focus groups with experts being involved where needed (such as nutritionists for the food elements of the budgets). The approach adopted is that the standard be set at a minimum but acceptable level.

The approach of the VPSJ goes a long way to addressing the requirements set out in section 23 of the Act. The minimum but acceptable standard which emerges from their consensual budgeting work means that the requirement to avoid impoverishing insolvent debtors and to facilitate both their social inclusion and economic participation is already built in.

Differences in the size and composition of households are accommodated in respect of dependent children under the VPSJ research which takes account of the way in which the cost of a child varies depending on the age and lifestage of the child. Categorising children into infant, pre-school, primary school level or secondary school level enables a more accurate assessment to be made of the reasonable living expenses of a household.

6. What is consensual budgeting?

Ernst Engel, the German statistician and economist, is credited with the development of a consensual budget standards approach in the mid 19th century[11] though it was Seebohm Rowntree who developed and popularised it in the English speaking world through his studies on poverty in York[12].

The consensual budget standards model is a form of reference budget[13] based on a detailed budget approach using focus groups. Reference budgets, by definition, refer to something, such as a consensus arrived at by focus groups or they may refer to average consumer expenditure. The ISI considered both of these approaches to see which would be more applicable to personal insolvency in Ireland and determined that consensual budget standards best satisfied the requirements of the Act.

The Vincentian Partnership for Social Justice has developed a consensual budget standards model for Ireland. This model allows for food for a nutritionally balanced diet, clothing, personal care, health, household goods, household services, communications, social inclusion and participation, education, transport, housing energy, personal costs, childcare, insurance and modest allowances for savings and contingencies.

The VPSJ consensual budget standards model is an adaptation of the *Low Cost but Acceptable* standard of living constructed by the Family Budget Unit of the University of York and draws also on the work of the Centre for Research and Social Policy at the University of Loughborough[14].

How this works in practice is that panels of ordinary people in each household type compile lists of budget items necessary for a family to achieve a minimum acceptable standard of living. In a series of sessions, members of the focus groups separately arrive at a negotiated consensus about the goods and services a household requires in order to have a minimum standard of living. Experts are consulted so as to ensure that the negotiated consensus meets basic criteria such as, for example, nutritional standards.

[11] Parker, H.: Low Cost but Acceptable: A Minimum Income Standard for the UK: Families with Young Children (Policy Press, 1998).
[12] Rowntree B.S., Poverty: A Study of Town Life (MacMillan & Co., 1901).
[13] Reference budgets are also sometimes known as ‘budget standards’, ‘standard budgets’ or ‘example budgets’.
[14] Further information on the methodology used is available online at http://www.budgeting.ie/.

Each focus group consists of between 8 and 12 people from a mixture of social and economic backgrounds, and represents the household under consideration e.g. focus groups of parents with children determine the minimum requirements of such households. In order to ensure reliability and validity three different focus groups are separately established for each household type.

This consensual budgeting model addresses the dual questions of:

1. What is a reasonable standard of living in Ireland today?

and

2. How much expenditure must a household necessarily incur to achieve this standard?

Each focus group acts as their own budget standard committee where 'the actual expenditure choices and judgements that are made by people in real life on the ground, as they manage their money contributes to the final consensus'[15] on minimum essential living standard requirements. Experts are consulted when necessary (e.g. nutritionists and energy experts). There are four phases in the focus group stage of the consensual budget standards process[16]:

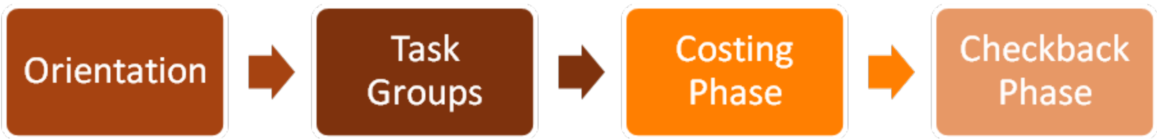

Figure 4: The four phases in the focus group stage.

1. Orientation Phase:

The initial phase explores the language, concepts and priorities that people use in thinking about spending and consumption. During this phase the group develops a working definition of a minimum essential standard of living and identifies the difference between needs and wants.

[15] (Middleton, 2000: 62-3).
[16] For a more detailed description of Consensual Budget Standards see Middleton, S. (2000) and Bradshaw et al., (2008).

2. Task Groups:

In this phase, each budget component is considered in turn (i.e. food, clothing, personal care, household goods, household services, social inclusion, fuel, transport etc). Each item is then categorised as essential, desirable or luxury. Together, the participants produce an agreed list of essential items.

Two groups are involved at this phase. The second task group examines the consensus of the first task group and makes any necessary changes by adding to or subtracting from the list of the first group.

3. Costing Phase:

The items agreed by the focus group are costed by the researchers to compile a minimum essential budget. Up to two thousand individual items are priced.

4. Checkback Phase:

The final phase involves the rechecking of items and costs in order to reach a final consensus. Firstly, participants are asked whether they think the amount allocated to provide the agreed list of items is too high or too low. Secondly, the group is asked how much they would be prepared to reduce the budget.

Where appropriate, these lists are checked by experts (e.g. nutritionists), and where there are difficulties (with nutritional standards, for example), these are reported to subsequent groups who are able to amend the budgets if necessary. The budgets include both material possessions and the cost of activities and services required for social participation.

Focus groups have put a strong emphasis on ensuring that families do not just have basics like food and shelter, but also can afford a minimum of social participation that is necessary to have an acceptable living standard[17].

The VPSJ has observed that focus groups have been very clear in their view that a minimum standard of living is neither a survival standard nor a standard for people in poverty; rather it is a standard of living that should allow for people to engage in activities that are considered the norm for Irish society.

This approach to a reasonable standard of living corresponds to that set out in section 23(3)(f) of the Act which requires the social inclusion of debtors and their dependents and their active participation in economic activity in the State to be facilitated.

[17] This experience is not confined to Ireland. A similar finding is reported from research done in the Netherlands in which focus groups were described as '*consistent in that they all explicitly set aside an amount for social participation. Under this we include hobbies and sports for both adults and children, holidays, going out, going visiting (including giving gifts) and receiving visitors (including celebrating birthdays)*'. 'The Minimum Agreed Upon - Consensual budget standards for the Netherlands', The Netherlands Institute for Social Research and the National Institute for Family Finance Information, (Utrecht, 2010) at page 148.

7. Transparency, consultation and debate

The use of the consensual budgeting method brings with it a high degree of transparency. Every item of expenditure has been listed and costed. Professor Jonathan Bradshaw of the University of York in a foreword to the initial 2004 Irish research observed that 'all budget standards are derived using a combination of science and normative judgement' and that inevitably 'there will be arguments about the Vincentian Irish budget standards'[18].

Discussion and debate on the question of what constitutes reasonable living expenses is to be welcomed and it should be borne in mind that changes can be made to these guidelines from time to time by the ISI where sound reasons exist to support such changes.

The ISI is committed under section 23(6) of the Act to issuing guidelines at least every year and under section 23(5) to making them available to the public on its website. The guidelines may be revised from time to time to take account of new issues and new circumstances that arise as experience of operating the Act develops.

[18] Bradshaw in 'Low Cost but Acceptable Budgets for Three Households', VPSJ (2004) at page 11.

8. Household expenditure allowances

The focus groups (discussed earlier on pages 22-23) reach a consensus view on the reasonable needs of particular household types.

Once these reasonable needs are established, each item is then costed to derive a figure representing reasonable living expenses. The headline figure for reasonable living expenses is made up of 15 main categories, namely;

1. Food
2. Clothing
3. Personal Care
4. Health
5. Household Goods
6. Household Services
7. Communications
8. Education
9. Transport
10. Household Energy
11. Insurance
12. Savings and Contingencies
13. Social Inclusion and Participation
14. Housing
15. Childcare

Figure 5: The main categories of expenditures.

As a general principle, the ISI wishes to see debtors retaining the autonomy to make their own choices as to what is best for them, though necessarily within the constraints of reasonableness and the overall expenditure limits. Thus, while the focus groups have decided that cable or satellite television subscriptions are not necessary and that allowance for a SAORVIEW approved set-top-box or television is sufficient, a debtor may choose to retain such a subscription by prioritising it within his or her budget.

So long as an applicant for one of the three new personal insolvency processes under the Act comes within the overall headline figure for reasonable living expenses, the ISI will not be prescriptive in terms of what the applicant can or cannot spend their money on.

Only where an applicant spends in excess of what is considered to be reasonable under these guidelines will it become necessary for the AI or PIP to look at his or her spending across the categories of expenditure.

Figure 6 on pages 29-30 sets out the main categories of expenditure and gives a short overview of the types of goods and services contained within each category of expenditure. As outlined earlier, the ISI has modified some of the categories by eliminating some specific expenditure items on the basis that they were unsuitable in the context of personal insolvency[19].

The ISI has reconfigured the weekly figures to present them on a monthly basis. This was done to achieve consistency with the requirement contained in section 26(2)(b) of the Act that the net disposable income of a debtor must amount to €60 or less a month in order to be eligible to apply for a DRN.

Housing costs have been kept out of the expenditure categories within the ISI model of reasonable living expenses. Given the number and variety of housing situations possible, the ISI considers this item is best treated by including the actual accommodation costs of an applicant where these are reasonable. Under the provisions for either a DSA or a PIA, a PIP is to have regard to the costs likely to be incurred by the debtor by remaining in occupation of his or her principal private residence. Where the PIP forms the opinion that the costs of continuing to reside in the debtor's principal private residence are disproportionately large

[19] The full content of the expenditures categories included by the focus groups in the consensual budgets can be found on the website www.budgeting.ie.

he or she will not be required to formulate a proposal on the basis of the debtor continuing to occupy the property.

An applicant seeking a DRN will generally not be the owner of the property in which he or she is living given the eligibility requirement that the assets of an applicant, including real property, must be worth no more than €400.

Regardless of whether the debtor owns or rents their principal private residence, the same principle should apply that he or she should only have to consider surrendering the property where the costs of continuing to reside in it are disproportionately large as may occur, for example, where the size of the property exceeds the needs of the debtor and his or her dependants. The ISI considers it appropriate at this time to avoid being overly prescriptive in setting out reasonable housing costs choosing instead to specify matters to which a PIP or an AI should have regard in determining the reasonableness of the housing costs of a debtor.

Childcare costs are also subject to variance depending on how much childcare is required and who is providing the childcare. Accordingly, childcare costs, like housing costs, have not been included in the set costs. The reasonable cost of childcare will rather be added to the set costs. These guidelines contain guidance to AIs and PIPs on factors to consider in assessing the reasonableness of childcare costs.

Expenditure category	A guide to what is included in each expenditure category.	For a single adult of working age living alone this comes to a monthly total of:	For a single adult of working age living alone this comes to an annual total of:
Food	The expenditure on food is based on a balanced, nutritious diet. The consensual budget standards model is premised on a healthy lifestyle.	**€247.04**	**€2,964.48**
Clothing	Clothing and footwear for all seasons, including accessories.	**€35.73**	**€428.76**
Personal Care	Personal hygiene and grooming items.	**€33.40**	**€400.80**
Health	Medications, and visits to a General Practitioner, Optician, Dentist, etc. It also includes small items such as plasters, antiseptic, and over-the-counter medicines.	**€31.09**	**€373.08**
Household Goods	Furniture, appliances, cleaning products, etc. Single adults of working age living in an urban area are assumed to be living in a rented furnished studio apartment.	**€31.47**	**€377.64**
Household Services	Vital household related services such as waste charges, getting an annual boiler service, and having chimneys swept.	**€28.61**	**€343.32**
Communications	Telephone, postage and basic internet; an internet dongle/wireless connection at €4.69 per week and phone credit at €5.00 per week.	**€43.45**	**€521.40**
Education	The minimum education needs of a household as decided by the focus groups. This category includes uniforms, books, and stationery where applicable and also adult education.	**€24.50**	**€294.00**

Transport	The cost of a car is allowed where public transport is inadequate to get to work, school and the local shop.	**€136.29 for public transport costs or €240.13 if a car is necessary**	**€1,635.48 for public transport costs or €2,881.56 if a car is necessary**
Household Energy	Electricity and home heating fuel. Electricity and heating costs come from the CSO Household Budget Survey.	**€48.87 electricity** **€57.31 heating**	**€586.44 electricity** **€687.72 heating**
Insurance	Home insurance and also car insurance where a car is needed. Note that the ISI model does not ordinarily include private health insurance though this may be included in some circumstances where warranted.	**€12.22 home contents** **€25.91 car insurance where applicable**	**€146.64 home contents** **€310.92 car insurance where applicable**
Savings and Contingencies	Savings and life assurance (for households with dependents). For a single person, savings at €5 a week are assumed as is €5 a week to be put aside for contingencies and emergencies[20].	**€43.33**	**€519.96**
Social Inclusion and Participation	At €28.97 a week, the minimum considered necessary for participation and inclusion. It includes sports activities and social events such as visits to the cinema. The ISI model does not factor in the cost of a holiday.	**€125.97**	**€1,511.64**
Housing	The cost of renting or making mortgage payments.	**Variable – subject to PIP or AI assessing cost to be reasonable**	**Variable – subject to PIP or AI assessing cost to be reasonable**
Childcare	The cost of full or part-time childcare. This is dependent on the employment status of the adults in the household as well as the age of the child.	**Variable – subject to PIP or AI assessing cost to be reasonable.to be reasonable**	**Variable – subject to PIP or AI assessing cost to be reasonable**

Figure 6: The main categories of expenditure with a description of each

[20] In the alternative any relatively small but unforeseen event might well cause the failure of an insolvency arrangement since a person in an insolvency arrangement will likely have only limited access to credit. This savings allowance may also assist in preventing people on low incomes being cut off from sources of regulated credit.

9. Tables of reasonable living expenses

Using the tables

The costs attributed to a typical household in these guidelines are termed 'set costs'. To these are added the reasonable costs of housing, childcare and special circumstances where these arise. This produces the total for reasonable living expenses for the household.

Where only one adult resides in the household, the reasonable living expenses for that adult and any dependents will be fully attributed to that adult.

Where two adults reside in the household then it will be presumed that the reasonable living expenses of the household are split equally between them, though a debtor may rebut this presumption and produce evidence to show that he or she pays a different proportion of these reasonable living expenses.

Where adults reside together in a house-sharing arrangement, the reasonable living expenses of the debtor should be based on those of a single person. In such cases, the AI or PIP should assess the reasonableness of the rent based on the portion which the debtor pays rather than the rent of the property.

Step 1: Set costs – household composition

The AI or PIP should begin by selecting the set of tables which best fits the situation of the applicant based on household composition i.e. whether or not the applicant is the only adult in the household and whether or not the applicant has children. The set costs of a household are compiled by totalling the costs for each individual in the household. For households with children, the AI or PIP should first identify the costs for the adult(s). To this is then added the cost for the first child. These should correspond to the age group of that child. This step is repeated for each subsequent child. Where there are three or more children in the household, an adjustment will need to be made to capture the additional costs associated with the larger households. These tables enable the calculation of the minimum set costs for single adult households, for households with couples and no children, and for two-parent and one-parent households with one or more children.

Step 2: Set costs – need for a motor vehicle

If the household does not have a motor vehicle and does not need a motor vehicle this will usually mean the applicant lives in an urban location with adequate public transport links. The AI or PIP should choose the vehicle option based on the needs of the household (needs, not wants). Where a car or motor vehicle is not included, the model includes costs associated with the use of public transport.

Step 3: Reasonable costs of housing and childcare

Under the ISI model, childcare costs and housing costs are added to the total for set costs to produce the final figure for reasonable living expenses.

Where childcare or housing costs are paid for, the AI or PIP should assess the reasonableness of these expenses taking into account the factors outlined earlier under the heading ‘Childcare and housing costs’ on pages 11-12 of these guidelines. The AI or PIP should support his or her assessment as to the reasonableness of childcare and housing costs by reference to the matters he or she has taken into account in arriving at this opinion.

Step 4: Special circumstances

The Act contains a requirement to take account of the differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability. Given the number of possible variables, and the individual nature of physical and mental health conditions and disabilities, the ISI believes this aspect is best addressed through making allowance in these guidelines for a debtor to specify reasonable costs which arise as a consequence of ill-health, age or disability.

The category of special circumstances may also be used where a debtor has persons other than his or her minor children financially dependent on him or her, such as where the debtor is contributing financially to the care of an adult dependent such as, for example, an elderly relative or a college-going child.

Two illustrations follow to show how set costs are combined to compile household costs for a debtor and his or her dependents.

Illustration 1: Household – One adult, two children aged 3 and 10 years old, and a private car needed

The cost for the adult, highlighted in blue below, is taken from table 4 on page 40 which shows reasonable living expenses for a single-parent family which has a car. To this is added the appropriate child costs, here highlighted in orange; in this case the Pre-School and Primary School age groups are selected.

ONE ADULT HOUSEHOLD — PRIVATE CAR NEEDED

Mar 2013

MONTHLY	Adult	Child Age Groups: Infant	Pre-School	Primary	Secondary	Adjustment if more than two children: Third Child	Fourth Child
Total before deductions	€ 1,066.75	€ 372.49	€ 194.99	€ 334.88	€ 547.40	€ 9.83	€ 52.23
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00	€ 0.00	-€ 10.00
Total set costs	€ 1,066.75	€ 242.49	€ 64.99	€ 204.88	€ 417.40	€ 9.83	€ 42.23

OTHER COSTS

Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

To arrive at the total set costs for this household, the AI or PIP will take the total set costs for the adult (circled in blue) which are €1,066.75. To this is added the total set costs for one Pre-School child which are €64.99 and one Primary School child which are €204.88 (circled in orange). Total set costs for this household are €1,336.62 a month. Since this household has fewer than three children no adjustment for additional costs is necessary.

Illustration 2: Household – Two-parents, four children aged 3, 5, 10 and 14 years old, and no private car needed

The relevant table is table 5 on page 41. To the set costs for the couple, circled in blue, are added the appropriate child costs, circled in orange. In this case the Pre-School, Primary School (twice for the two primary age children) and Secondary School age groups are selected.

TWO ADULT HOUSEHOLD								NO CAR NEEDED
Mar 2013								
		Child Age Groups					Adjustment if more than two children	
MONTHLY	Couple	Infant	Pre-School	Primary	Secondary		Third Child	Fourth Child
Total before deductions	€ 1,305.77	€ 372.49	€ 176.09	€ 307.13	€ 509.74		€ 9.83	€ 9.27
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00		€ 0.00	-€ 10.00
Total set costs	€ 1,305.77	€ 242.49	€ 46.09	€ 177.13	€ 379.74		€ 9.83	-€ 0.73
				X2				

OTHER COSTS	
Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

As the household has four children an adjustment is made to reflect the additional costs associated with a third and fourth child. In this example both are included, circled in green.

Working through this example, the AI or PIP will add the figure of €1,305.77 in respect of the two adults, €46.09 in respect of the Pre-School child, €354.26 in respect of the two Primary School children (€177.13 multiplied by two) and €379.74 in respect of the Secondary School child. An adjustment is then made to reflect the additional costs associated with having more than two children – in this example it is €9.10 (€9.83 plus -€0.73). The total set costs are €2,094.96.

Note in relation to Child Age Groups

For the purposes of these guidelines, infant means a child between the ages of 0-2 years old inclusive, preschool means a child three years of age, primary school means a child between the ages of 4-11 years old inclusive and secondary school means a child between the ages of 12-18 years old inclusive.

Note in relation to Child Benefit

Child Benefit is deducted from the set costs for each child. Child Benefit is paid at the same rate for the first three children in a household and the rate increases for the fourth child. This increase is accounted for by a further Child Benefit deduction in the fourth child column of the tables.

Child benefit payments are, under section 26(5)(b)(ii) of the Act, not to be included in assessing income for the purposes of determining eligibility for a DRN. On the basis that child benefit payments are intended to be spent on a child, child benefit has been deducted from the reasonable living expenses of a child. To do otherwise would effectively mean double counting child benefit in the ISI model.

Note on category totals –v– overall total set costs

So long as a debtor comes within the overall headline figure for reasonable living expenses, the ISI will not be prescriptive in terms of what the applicant may or may not spend their money on.

Applying this principle, regard should be paid to the overall total of what is termed in these guidelines ‘total set costs’ expenditures rather than to each of the expenditure categories making up this total.

The overall total set costs is allowed as a minimum for reasonable living expenses without any need to ensure that an individual applicant confines his or her spending to the total for each category.

The category totals in the tables are provided for information and in the interests of transparency. An AI or PIP may also find them of help in discovering areas of overspend where a debtor’s actual expenditure is found to exceed the figure for total set costs.

Schedule 1: Index of tables

Some practical examples follow the tables which should help to show how the level for reasonable living expenses is determined and how it is then used in calculating monthly net disposable income.

Tables of Reasonable Living Expenses

Table 1. One adult household, no vehicle

SINGLE ADULT, WORKING AGE (LIVING ALONE)

Mar 2013

MONTHLY	NO CAR NEEDED
Total set costs	€ 900.08

OTHER COSTS

Housing	
Special circumstances	
Reasonable Living Expenses	

Table 1 One adult household, no vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

Food	€ 247.04
Clothing	€ 35.73
Personal Care	€ 33.40
Health	€ 31.09
Household Goods	€ 31.47
Household Services	€ 28.61
Communications	€ 43.45
Social Inclusion & Participation	€ 125.97
Education	€ 24.50
Transport (Public)	€ 136.29
Household Electricity	€ 48.87
Home Heating	€ 57.31
Personal Costs	€ 0.79
Home Insurance	€ 12.22
Car Insurance	€ 0.00
Savings & Contingencies	€ 43.33
Total monthly set costs	**€ 900.08**

Table 2. One adult household, vehicle

SINGLE ADULT, WORKING AGE (LIVING ALONE)

Mar 2013

MONTHLY	CAR NEEDED
Total set costs	€ 1,029.83

OTHER COSTS

Housing	
Special circumstances	

Reasonable Living Expenses

Table 2 One adult household, vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

Food	€ 247.04
Clothing	€ 35.73
Personal Care	€ 33.40
Health	€ 31.09
Household Goods	€ 31.47
Household Services	€ 28.61
Communications	€ 43.45
Social Inclusion & Participation	€ 125.97
Education	€ 24.50
Transport (Private)	€ 240.13
Household Electricity	€ 48.87
Home Heating	€ 57.31
Personal Costs	€ 0.79
Home Insurance	€ 12.22
Car Insurance	€ 25.91
Savings & Contingencies	€ 43.33
Total monthly set costs	**€ 1,029.83**

Table 3. One adult household, one or more children, no vehicle

ONE ADULT HOUSEHOLD NO CAR NEEDED

Mar 2013

MONTHLY	Adult	Infant	Child Age Groups Pre-School	Primary	Secondary	*Adjustment if more than two children* Third Child	Fourth Child
Total before deductions	€ 898.96	€ 372.49	€ 207.41	€ 347.30	€ 559.82	*€ 9.83*	*€ 9.27*
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00	*€ 0.00*	*-€ 10.00*
Total set costs	€ 898.96	€ 242.49	€ 77.41	€ 217.30	€ 429.82	*€ 9.83*	*-€ 0.73*

OTHER COSTS

Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

Table 3 One adult household, one or more children, no vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

	Adult	Infant	Child Age Groups Pre-School	Primary	Secondary
Food	€ 219.00	€ 133.30	€ 103.46	€ 159.87	€ 212.50
Clothing	€ 35.72	€ 72.79	€ 22.10	€ 30.23	€ 55.05
Personal Care	€ 31.71	€ 46.98	€ 6.16	€ 11.86	€ 36.80
Health	€ 28.97	€ 35.69	€ 18.70	€ 18.45	€ 24.30
Household Goods	€ 64.50	€ 47.69	€ 12.18	€ 13.62	€ 16.59
Household Services	€ 29.25	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Communications	€ 43.32	€ 0.00	€ 0.00	€ 0.00	€ 21.67
Social Inclusion & Participation	€ 99.21	€ 7.72	€ 10.03	€ 49.53	€ 93.23
Education	€ 11.93	€ 0.00	€ 0.00	€ 28.97	€ 64.90
Transport (Public)	€ 112.98	€ 0.00	€ 12.42	€ 12.42	€ 12.42
Household Electricity	€ 69.68	€ 5.80	€ 0.00	€ 0.00	€ 0.00
Home Heating	€ 74.02	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Personal Costs	€ 0.78	€ 0.86	€ 0.69	€ 0.69	€ 0.69
Home Insurance	€ 18.38	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Car Insurance	€ 0.00	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Savings & Contingencies	€ 59.52	€ 21.67	€ 21.67	€ 21.67	€ 21.67
Total before deductions	€ 898.96	€ 372.49	€ 207.41	€ 347.30	€ 559.82
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00
Total monthly set costs	**€ 898.96**	**€ 242.49**	**€ 77.41**	**€ 217.30**	**€ 429.82**

Table 4. One adult household, one or more children, vehicle

ONE ADULT HOUSEHOLD							PRIVATE CAR NEEDED	
Mar 2013		Child Age Groups					*Adjustment if more than two children*	
MONTHLY	Adult	Infant	Pre-School	Primary	Secondary		Third Child	Fourth Child
Total before deductions	€ 1,066.75	€ 372.49	€ 194.99	€ 334.88	€ 547.40		€ 9.83	€ 52.23
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00		€ 0.00	-€ 10.00
Total set costs	€ 1,066.75	€ 242.49	€ 64.99	€ 204.88	€ 417.40		€ 9.83	€ 42.23

OTHER COSTS	
Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

Table 4 One adult household, one or more children, vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

		Child Age Groups			
	Adult	Infant	Pre-School	Primary	Secondary
Food	€ 219.00	€ 133.30	€ 103.46	€ 159.87	€ 212.50
Clothing	€ 35.72	€ 72.79	€ 22.10	€ 30.23	€ 55.05
Personal Care	€ 31.71	€ 46.98	€ 6.16	€ 11.86	€ 36.80
Health	€ 28.97	€ 35.69	€ 18.70	€ 18.45	€ 24.30
Household Goods	€ 64.50	€ 47.69	€ 12.18	€ 13.62	€ 16.59
Household Services	€ 29.25	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Communications	€ 43.32	€ 0.00	€ 0.00	€ 0.00	€ 21.67
Social Inclusion & Participation	€ 99.21	€ 7.72	€ 10.03	€ 49.53	€ 93.23
Education	€ 11.93	€ 0.00	€ 0.00	€ 28.97	€ 64.90
Transport (Private)	€ 252.55	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Household Electricity	€ 69.68	€ 5.80	€ 0.00	€ 0.00	€ 0.00
Home Heating	€ 74.02	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Personal Costs	€ 0.78	€ 0.86	€ 0.69	€ 0.69	€ 0.69
Home Insurance	€ 18.38	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Car Insurance	€ 28.21	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Savings & Contingencies	€ 59.52	€ 21.67	€ 21.67	€ 21.67	€ 21.67
Total before deductions	€ 1,066.75	€ 372.49	€ 194.99	€ 334.88	€ 547.40
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00
Total monthly set costs	**€ 1,066.75**	**€ 242.49**	**€ 64.99**	**€ 204.88**	**€ 417.40**

Table 5. Two adult household, one or more children, no vehicle

TWO ADULT HOUSEHOLD — NO CAR NEEDED

Mar 2013

MONTHLY	Couple	Child Age Groups: Infant	Pre-School	Primary	Secondary	*Adjustment if more than two children:* *Third Child*	*Fourth Child*
Total before deductions	€ 1,305.77	€ 372.49	€ 176.09	€ 307.13	€ 509.74	*€ 9.83*	*€ 9.27*
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00	*€ 0.00*	*-€ 10.00*
Total set costs	€ 1,305.77	€ 242.49	€ 46.09	€ 177.13	€ 379.74	*€ 9.83*	*-€ 0.73*

OTHER COSTS

Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

Table 5 Two adult household, one or more children, no vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

	Couple	Child Age Groups: Infant	Pre-School	Primary	Secondary
Food	€ 278.75	€ 133.30	€ 72.14	€ 119.70	€ 162.42
Clothing	€ 67.47	€ 72.79	€ 22.10	€ 30.23	€ 55.05
Personal Care	€ 65.56	€ 46.98	€ 6.16	€ 11.86	€ 36.80
Health	€ 44.81	€ 35.69	€ 18.70	€ 18.45	€ 24.30
Household Goods	€ 69.93	€ 47.69	€ 12.18	€ 13.62	€ 16.59
Household Services	€ 36.17	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Communications	€ 65.00	€ 0.00	€ 0.00	€ 0.00	€ 21.67
Social Inclusion & Participation	€ 157.86	€ 7.72	€ 10.03	€ 49.53	€ 93.23
Education	€ 11.93	€ 0.00	€ 0.00	€ 28.97	€ 64.90
Transport (Public)	€ 225.96	€ 0.00	€ 12.42	€ 12.42	€ 12.42
Household Electricity	€ 90.97	€ 5.80	€ 0.00	€ 0.00	€ 0.00
Home Heating	€ 92.65	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Personal Costs	€ 1.56	€ 0.86	€ 0.69	€ 0.69	€ 0.69
Home Insurance	€ 18.38	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Car Insurance	€ 0.00	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Savings & Contingencies	€ 78.77	€ 21.67	€ 21.67	€ 21.67	€ 21.67
Total before deductions	€ 1,305.77	€ 372.49	€ 176.09	€ 307.13	€ 509.74
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00
Total monthly set costs	**€ 1,305.77**	**€ 242.49**	**€ 46.09**	**€ 177.13**	**€ 379.74**

Table 6. Two adult household, one or more children, vehicle

TWO ADULT HOUSEHOLD — PRIVATE CAR NEEDED

Mar 2013

MONTHLY	Couple	Child Age Groups: Infant	Pre-School	Primary	Secondary	*Adjustment if more than two children: Third Child*	*Fourth Child*
Total before deductions	€ 1,359.67	€ 372.49	€ 163.67	€ 294.71	€ 497.32	*€ 9.83*	*€ 52.23*
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00	*€ 0.00*	*-€ 10.00*
Total set costs	€ 1,359.67	€ 242.49	€ 33.67	€ 164.71	€ 367.32	*€ 9.83*	*€ 42.23*

OTHER COSTS

Childcare	
Housing	
Special circumstances	
Reasonable Living Expenses	

Table 6 Two adult household, one or more children, vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

	Couple	Child Age Groups: Infant	Pre-School	Primary	Secondary
Food	€ 278.75	€ 133.30	€ 72.14	€ 119.70	€ 162.42
Clothing	€ 67.47	€ 72.79	€ 22.10	€ 30.23	€ 55.05
Personal Care	€ 65.56	€ 46.98	€ 6.16	€ 11.86	€ 36.80
Health	€ 44.81	€ 35.69	€ 18.70	€ 18.45	€ 24.30
Household Goods	€ 69.93	€ 47.69	€ 12.18	€ 13.62	€ 16.59
Household Services	€ 36.17	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Communications	€ 65.00	€ 0.00	€ 0.00	€ 0.00	€ 21.67
Social Inclusion & Participation	€ 157.86	€ 7.72	€ 10.03	€ 49.53	€ 93.23
Education	€ 11.93	€ 0.00	€ 0.00	€ 28.97	€ 64.90
Transport (Private)	€ 252.75	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Household Electricity	€ 90.97	€ 5.80	€ 0.00	€ 0.00	€ 0.00
Home Heating	€ 92.65	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Personal Costs	€ 1.56	€ 0.86	€ 0.69	€ 0.69	€ 0.69
Home Insurance	€ 18.38	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Car Insurance	€ 27.10	€ 0.00	€ 0.00	€ 0.00	€ 0.00
Savings & Contingencies	€ 78.77	€ 21.67	€ 21.67	€ 21.67	€ 21.67
Total before deductions	€ 1,359.67	€ 372.49	€ 163.67	€ 294.71	€ 497.32
LESS child benefit	€ 0.00	-€ 130.00	-€ 130.00	-€ 130.00	-€ 130.00
Total monthly set costs	**€ 1,359.67**	**€ 242.49**	**€ 33.67**	**€ 164.71**	**€ 367.32**

Table 7. Two adult household, no vehicle

TWO ADULT HOUSEHOLD (NO CHILDREN)

Mar 2013

MONTHLY	NO CAR NEEDED
Total set costs	€ 1,438.01

OTHER COSTS

Housing	
Special circumstances	
Reasonable Living Expenses	

Table 7 Two adult household, no vehicle

SET COSTS BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

Food	€ 363.55
Clothing	€ 67.75
Personal Care	€ 65.20
Health	€ 49.91
Household Goods	€ 31.71
Household Services	€ 28.61
Communications	€ 65.13
Social Inclusion & Participation	€ 230.83
Education	€ 38.27
Transport (Public)	€ 272.59
Household Electricity	€ 59.33
Home Heating	€ 86.33
Personal Costs	€ 1.58
Home Insurance	€ 12.22
Car Insurance	€ 0.00
Savings & Contingencies	€ 65.00
Total monthly set costs	**€ 1,438.01**

Table 8. Two adult household, vehicle

TWO ADULT HOUSEHOLD (NO CHILDREN)

Mar 2013

MONTHLY	CAR NEEDED
Total set costs	€ 1,431.58

OTHER COSTS

Housing	
Special circumstances	
Reasonable Living Expenses	

Table 8 Two adult household, vehicle

SET COST BREAKDOWN - FOR INFORMATIONAL PURPOSES ONLY:

Food	€ 363.55
Clothing	€ 67.75
Personal Care	€ 65.20
Health	€ 49.91
Household Goods	€ 31.71
Household Services	€ 28.61
Communications	€ 65.13
Social Inclusion & Participation	€ 230.83
Education	€ 38.27
Transport (Private)	€ 240.34
Household Electricity	€ 59.33
Home Heating	€ 86.33
Personal Costs	€ 1.58
Home Insurance	€ 12.22
Car Insurance	€ 25.82
Savings & Contingencies	€ 65.00
Total monthly set costs	**€ 1,431.58**

10. Examples illustrating the application of reasonable living expenses

Example 1 – Ger – DRN

This example is designed to show how these guidelines link into the assessment of a debtor's eligibility for a DRN.

Ger is a 23 year old single male living alone in a city centre flat which he rents privately at a cost of €600 a month. He doesn't have or need a car. He is in full-time employment and his take home pay is €1,550 a month. He has credit card debt of €11,000 and owes a credit union another €6,000. He is finding it impossible to make the monthly payments on top of his rent and all his other bills and wonders if he can get a DRN.

Ger should look at the eligibility criteria on the ISI website before visiting an AI. He can get a list of AIs from the ISI website. Amongst other matters, the AI will check whether Ger meets the eligibility criteria of having €60 or less disposable income each month.

The AI will use Table 1 (one adult household, no vehicle) which shows the monthly set costs to be €900.08. To this is added his rent of €600 a month, having been assessed as reasonable by the AI in accordance with the criteria on assessing housing costs set out on page 12, making his reasonable living expenses €1,500.08.

The AI will make the following calculation:

Monthly income after income tax and social insurance contributions		€1,550.00
Total set costs	€900.08	
Rent / mortgage	€600.00	
Childcare	None	
Special circumstances	None	
Reasonable living expenses	€1,500.08	€1,500.08
Net disposable income		€49.92

Since the net disposable income is less than €60 a month, the eligibility criteria in respect of net disposable income is satisfied. The AI will assess whether he meets all of the other eligibility criteria. If he does the AI will advise him of his options which may result in Ger requesting the AI to assist him in making an application for a DRN.

Example 2 – Emma – DSA

This example is designed to show how the application of these guidelines may demonstrate that a debtor is ineligible to apply for a DRN and that, in such circumstances, a DSA may remain a possibility for the insolvent debtor.

Emma is self-employed on a part-time basis as an insurance broker and earns €2,500 after tax a month. She is a single mother with a daughter aged five who needs paid childcare on the days Emma works. Emma rents privately and pays €300 a month as rent. She needs a car to transport her daughter to school and to get to her job. She has a 2002 Fiat Punto worth €1,800 which she owns outright. Fees for part-time childcare come to €500 a month. Emma has a personal loan from her bank with an outstanding balance of €18,200. She is finding it difficult to make the repayments and seeks advice.

Emma should look at the eligibility criteria for DRNs and DSAs on the ISI website before proceeding. From the information on the website she can calculate her reasonable living expenses and work out her net disposable income. As this does not meet the eligibility criteria for a DRN, Emma will need to contact a PIP rather than an AI. Emma should obtain the details of registered PIPs from the ISI website and contact one of them.

The PIP will use Table 4 (One adult household, one or more children, vehicle), which shows the monthly set costs to be €1,271.63. This is made up of €1,066.75 for the adult and €204.88 for the child. To this is added €500 a month being the cost of part-time childcare and the €300 a month Emma pays in rent which the PIP has assessed as reasonable having regard to the criteria on pages 11-12. Emma's reasonable living expenses come to €2,071.63.

The PIP will make the following calculation:

Monthly income after income tax and social insurance contributions*		€2,500.00
Total set costs	€1,271.63	
Rent / mortgage	€300.00	
Childcare	€500.00	
Special circumstances	None	
Reasonable living expenses	€2,071.63	€2,071.63
Net disposable income		€428.37

* Child benefit payments are not included.

Emma's net disposable income at €428.37 a month is above the €60 limit. On this basis, she is not eligible for a DRN but a DSA may be a possibility.

The PIP, in formulating a proposal to Emma's creditors, might suggest that all of her income in excess of the base level of reasonable living expenses be paid to creditors for year 1. For year 2, as an incentive to keep with the arrangement, the PIP might put forward that Emma retain an additional €25 a month with similar increases in subsequent years.

It will be for creditors to decide if this is acceptable during negotiations with the PIP and ultimately at the point in time that they are asked to vote on the proposal.

Example 3 – Don and Aoife – DRN

This example is designed to show how these guidelines are applied in the case of a couple where only one of them is in receipt of income and bears all of the reasonable living expenses of the household.

Don and Aoife are a married couple in their 20s living in accommodation provided by their local authority for which they pay €65 a month. Neither is employed at the moment but Don is seeking work and receiving jobseeker's allowance. They do not have a car. They have two children, aged 3 and 8. Don is in arrears on a personal loan he took out with a bank two years ago when he was working. The outstanding balance is just over €12,000. He cannot see where he can get the money to pay off his creditors and thinks that a DRN might be an answer.

Don should look at the eligibility criteria on the ISI website before visiting an AI. He can get a list of AIs from the ISI website. Amongst other matters, the AI will check whether Don meets the eligibility criteria of having €60 or less net disposable income each month.

Don receives €188 in jobseeker's allowance plus a payment of €124.80 in respect of Aoife who is a Qualified Adult. In addition, he receives a total of €59.60 a week in Qualified Child Increase payments. Child benefit payments are not included. His total reckonable income comes to €372.40 a week or €1,619.32 a month.

Using table 5 (Two-Parent Household, one or more children, no vehicle) the AI will take set costs of €1,305.77 for the two adults and add €223.22 for the two children (€46.09 for a pre-school child and €177.13 for a child of primary school age). To this is added €65 for their housing costs, having been assessed as reasonable by the AI in accordance with the criteria on assessing housing costs set out on page 12, giving reasonable living expenses of €1,593.99 a month for the household.

The AI will make the following calculation:

Monthly income after income tax and social insurance contributions*		€1,619.32
Total set costs	€1,528.99	
Rent / mortgage	€65.00	
Childcare	None	
Special circumstances	None	
Reasonable living expenses	€1,593.99	€1,593.99
Net disposable income		€25.33

* Child benefit payments are not included.

Normally, with two adults in the household, the reasonable living expenses are assumed to be split evenly between them both. In this case, Don explains to the AI that he receives the only income coming into the household and that he pays all the household expenses in full. Here, the reasonable living expenses are allowed in full against his income.

For Don's application, this means income of €1,619.32 less reasonable living expenses of €1,593.99, giving a net disposable income of €25.33. This is less than €60 and so satisfies the test for net disposable income. The AI will assess whether he meets all of the other eligibility criteria. If he does the AI will advise him of his options which may result in Don requesting the AI to assist him in making an application for a DRN.

Example 4 – Mary and Michael – DRN

This example is designed to show how these guidelines are applied in the case of a couple where there is more than one income and the reasonable living expenses of the household are split between the couple.

Mary and Michael are a married couple in their 20s living in accommodation provided by the local authority for which they pay €100 a month. Neither is employed at the moment but both are seeking work and both are in receipt of jobseeker's allowance. They do not have a car. They have two children, aged 3 and 8. Mary has a credit card with an outstanding balance of €14,000. She cannot see where she can get the money to pay off her creditors and thinks that a DRN might be an answer.

Mary should look at the eligibility criteria on the ISI website before visiting an AI. She can get a list of AIs from the ISI website. Amongst other matters, the AI will check to see if Mary meets the eligibility criteria of having €60 or less net disposable income each month.

Mary receives €188 a week in jobseeker's allowance. Her total reckonable income comes to €817.49 a month.

Using Table 5 (Two adult household, one or more children, no vehicle) the total set costs for the household are €1,528.99 a month. This is made up of €1,305.77 for the two adults, €223.22 for the two children (€177.13 for a child of primary school and €46.09 for a child of pre-school age). To this is added €100 for their housing costs, these having been assessed as reasonable by the AI in accordance with the criteria on assessing housing costs set out on page 12. The total reasonable living expenses for the household are €1,628.99.

The usual presumption is that where there are two adults in the household the reasonable living expenses are split evenly between them. This presumption will be applied here since Michael also receives a jobseeker's allowance payment. The reasonable living expenses assigned against Mary's income are thus half those of the household or €814.50.

The AI will make the following calculation:

Monthly income after income tax and social insurance contributions*		€817.49
Total set costs	€1,528.99	
Rent / mortgage	€100.00	
Childcare	None	
Special circumstances	None	
Reasonable living expenses for the household	€1,628.99	
Reasonable living expenses (half for Mary)		€814.50
Net disposable income		€2.99

* Child benefit payments are not included.

For Mary's application, this means income of €817.49 less reasonable living expenses of €814.50, giving a net disposable income of €2.99. This is less than €60 and so satisfies the test for net disposable income. The AI will assess whether she meets all of the other eligibility criteria. If she does the AI will advise her of her options which may result in Mary requesting the AI to assist her in making an application for a DRN.

Example 5 – Conor – PIA

This example is designed to show how these guidelines are applied in the case of a debtor who is living beyond his or her means.

Conor is employed as an accountant and takes home €4,000 a month. He is single and lives in an apartment which he bought in 2006 for €280,000 but which is now valued at about €160,000. The outstanding mortgage balance is now €258,000 and the monthly payment is €1,200. He also has a mortgage with an outstanding balance of €210,000 on a buy-to-let property which is unoccupied. Conor has a personal loan from a bank with an outstanding balance of €39,000 and outstanding balances totalling €22,000 on three credit cards. He owns outright a car worth €25,000. His discretionary spending leaves him little money to pay his debts. He is hoping that a PIA or DSA can solve his financial problems.

Conor should look at the information on both DSAs and PIAs available on the ISI website before visiting a PIP. He can get a list of PIPs from the ISI website.

Using Table 2 (One adult household, vehicle), the total set costs for the household are €1,029.83 a month. To this is added the €1,200 which Conor pays in mortgage payments which the PIP has assessed as reasonable having regard to the criteria on pages 11-12. Conor's reasonable living expenses come to €2,229.83.

The PIP will make the following calculation:

Monthly income after income tax and social insurance contributions		€4,000.00
Total set costs	€1,029.83	
Mortgage – reduced payment under the proposal	€1,200.00	
Childcare	None	
Special circumstances	None	
Reasonable living expenses	€2,229.83	€2,229.83
Net disposable income		€1,770.17

For Conor's application, this means income of €4,000.00 less reasonable living expenses of €2,229.83, giving a net disposable income of €1,770.17 a month.

Conor is living beyond his means. The PIP will likely advise Conor that he will need to consider reducing his spending so as to enable the PIP to put forward a proposal more likely to achieve creditor support while keeping Conor in his home. The PIP, in formulating a proposal to Conor's creditors, will consider Conor's need for a car and may suggest that he should sell his car and either not replace it at all or replace it with a less expensive model.

11. Appendix A – Section 23 of the Personal Insolvency Act 2012

Guidelines on reasonable standard of living, reasonable living expenses for debtors.

23.—(1) The Insolvency Service shall, for the purposes of *sections 26*, *65(4)* and *99(4)* and section 85D (as inserted by *section 157*) of the Bankruptcy Act 1988, prepare and issue guidelines as to what constitutes a reasonable standard of living and reasonable living expenses.

(2) Before issuing guidelines under subsection (1), the Insolvency Service shall consult with the Minister, the Minister for Finance, the Minister for Social Protection and such other persons or bodies as the Insolvency Service considers appropriate or as the Minister may direct.

(3) In preparing guidelines to be issued under *subsection (1)*, the Insolvency Service shall have regard to—

(*a*) such measures and indicators of poverty set out in Government policy publications on poverty and social inclusion as the Insolvency Service considers appropriate,

(*b*) such official statistics (within the meaning of the Statistics Act 1993) and surveys relating to household income and expenditure published by the Central Statistics Office as the Insolvency Service considers appropriate,

(*c*) the Consumer Price Index (All Items) published by the Central Statistics Office or any equivalent index published from time to time by that Office,

(*d*) such other information as the Insolvency Service considers appropriate for the performance of its functions under this section,

(*e*) differences in the size and composition of households, and the differing needs of persons, having regard to matters such as their age, health and whether they have a physical, sensory, mental health or intellectual disability, and

(*f*) the need to facilitate the social inclusion of debtors and their dependants, and their active participation in economic activity in the State.

(4) Guidelines issued under subsection (1) may provide examples of

(*a*) expenses that may be allowed as reasonable living expenses,

and

(*b*) expenses that may not be allowed as reasonable living expenses.

(5) The Insolvency Service shall make guidelines issued under subsection (1) available to members of the public on its website.

(6) Subject to subsection (7), the Insolvency Service shall issue guidelines under subsection (1) at intervals of such length, not being more than one year, as it considers appropriate.

(7) Failure by the Insolvency Service to comply with subsection (6) shall not render invalid for the purposes of this Act the guidelines most recently issued by it under this section.

12. Glossary

AI	Approved Intermediary
Bankruptcy payments order	A Court order made under section 85D of the Bankruptcy Act 1988.
CSO	Central Statistics Office
ECCE	Early Childhood Care and Education
DRN	Debt Relief Notice
DSA	Debt Settlement Arrangement
ISI	Insolvency Service of Ireland
ISI model	A modified version of the consensual budgeting model originally developed in Ireland by the Vincentian Partnership for Social Justice.
PFS	Prescribed Financial Statement
PIA	Personal Insolvency Arrangement
PIP	Personal Insolvency Practitioner
PRTB	Private Residential Tenancies Board
PSRA	Property Services Regulatory Authority
The Act	Personal Insolvency Act 2012
VPSJ	Vincentian Partnership for Social Justice
VPSJ model	A consensual budgeting model originally developed in Ireland by the Vincentian Partnership for Social Justice

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