

### Box G: The Council's Stand-Still Medium Term Expenditure Scenario

This Box updates the medium-term scenario for government expenditure contained in IFAC's November 2016 *Fiscal Assessment Report* (IFAC 2016c). The Stand-Still approach is intended as an illustrative exercise and should not be seen as an alternative expenditure forecast to that outlined in *SPU 2017*. The exercise outlines the cost of maintaining today's level of public services and benefits in real terms, given demographic costs and price changes. It is important to note that the Council is not suggesting that automatic or semi-automatic indexation should be adopted as a policy. Instead the scenario provides information as an input into the policy decision process through which the ultimate expenditure forecasts are produced.

In constructing the medium-term Stand-Still scenario, government expenditure is split into five headline components: health; education; social payments (including social welfare pensions); national debt interest; and other. The methodology used in each case is described in Box E of the June 2016 *Fiscal Assessment Report* (IFAC, 2016a).

The Stand-Still approach does not consider possible efficiency gains or Government policy changes that could lead to expenditure savings over the timeframe. Rather, the scenario illustrates the cost of maintaining today's level of public services in the absence of such efficiency measures and/or policy changes.

Table G.1 provides a comparison between the fiscal space allocated to current expenditure (including pre-committed amounts) implicit in *SPU 2017* and the Council's Stand-Still scenario for current expenditure.<sup>1</sup>

The Council's Stand-Still scenario shows the estimated increases in current spending if demographic pressures were fully accommodated for and if spending moved in line with inflation as forecast in *SPU 2017* by the Department of Finance. In this scenario, gross voted current spending would increase by €5.96 billion over the period 2018 to 2021.

For the same period (2018 to 2021), the Government has pre-committed €2.27 billion for the cost of: (i) public sector pay arrangements under the Lansdowne Road Agreement (2018); (ii) some estimated demographic pressures; and (iii) to cover other pre-committed spending measures (amounting to €0.16 billion).<sup>2</sup>

Comparing total pre-committed expenditure increases (before any indicative allocations of fiscal space are considered) with the Stand-Still estimates implies that €3.69 billion of the available fiscal space would be required to fully account for demographic pressures and the additional costs of maintaining real services and benefits, should it be decided these are to be maintained. The *SPU* indicatively allocates some €3.6 billion of fiscal space to current spending over the same period (2018-2021). This implies that – in the absence of policy changes, or changes to macroeconomic spending drivers – fully accommodating estimated demographic pressures and the cost of maintaining real public services and benefits would absorb all of the fiscal space currently budgeted for expenditure increases from 2018-2021, and that an additional €0.09 billion would be required. However, it is important to note that the Stand-Still estimates do not take account of any other pre-committed expenditure increases included in *SPU 2017* and are only based on the estimated cost of fully accommodating demographic changes and price increases. Additionally, live register savings noted in *Expenditure Report 2017* could offset the pre-committed gross voted current expenditure increases noted should these savings be realised.

Relative to the Council's previous Stand-Still scenario (IFAC 2016c), the estimated increase in gross voted spending required to stand still is €0.36 billion higher, primarily because of higher price inflation, as forecast in *SPU 2017*. This is offset, in part, by lower demographic pressures, given new Census data, which show changes in the composition of the population.

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<sup>1</sup> Note that the Stand-Still scenario assumes the same levels of capital expenditure for all periods as allocated by the Department.

<sup>2</sup> This relates to pre-committed EU programme funding covered under the Rural Development Fund.

**Table G.1: Comparison of Estimated Stand-still Current Expenditure and Allocated Fiscal Space**

€ Billion

	2018	2019	2020	2021	Total (2018-2021)
Gross Voted Current Spending - IFAC Stand-still (A)	1.00	1.49	1.71	1.76	5.96
of which: Demographics	0.38	0.47	0.61	0.62	2.09
Prices	0.62	1.02	1.10	1.14	3.88
Budget 2017 Net Pre-Committed Gross Voted Current Expenditure (B)	0.77	0.50	0.50	0.50	2.27
of which: Demographics	0.41	0.46	0.46	0.46	1.79
Lansdowne Road Agreement	0.32	0.00	0.00	0.00	0.32
Other	0.04	0.04	0.04	0.04	0.16
Amount of Net Fiscal Space Needed to Stand Still C=(A-B)	0.23	0.99	1.21	1.26	3.69
Net Fiscal Space Allocated to Current Expenditure (Budget 2017/SES 2016) (D)	0.60	1.00	1.00	1.00	3.60
Difference Between Net Fiscal Space Needed to Stand Still and Net Fiscal Space Allocated to Current Expenditure Increases E=(D-C)	0.37	0.01	-0.21	-0.26	-0.09

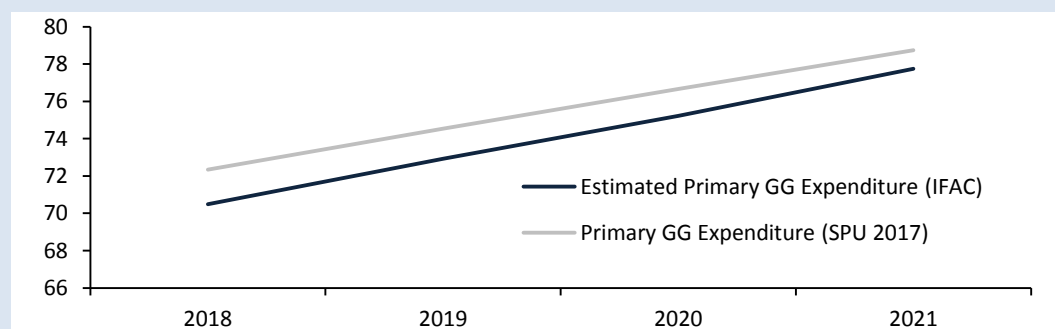
Sources: Department of Finance; DPER; and internal IFAC calculations.

Note: (A) IFAC stand-still gross voted current spending is attained using a bottom up approach based on the latest expenditure estimates for 2016, a cohort component demographics model and the latest macroeconomic and inflation forecasts from SPU 2017. (B) Budget 2017 pre-committed spending takes the demographics and pre-committed spending figures as in Budget 2017 (held constant from 2019-2021) which remained unchanged in SPU 2017. The net fiscal space allocated to current expenditure (D) takes the fiscal space allocated in SES 2016 and updates it for the Budget 2017 package.

Figure G.1 illustrates the scenarios for primary General Government expenditure. The IFAC scenario which illustrates the cost of maintaining today's level of public services in the absence of efficiency measures and policy changes remains below the expenditure scenario as per SPU 2017 for the entirety of the period (2018 to 2021).

**Figure G.1: Scenarios for Government Expenditure (2018-2021)**

€ Billions



Sources: Department of Finance; DPER; and internal IFAC calculations.

Note: IFAC expenditure scenario illustrates the estimated cost of fully accommodating demographic changes and price changes.