

BOX D: STAND-STILL EXPENDITURE SCENARIO

This Box updates the medium-term scenario for government expenditure contained in IFAC's June 2016 *Fiscal Assessment Report*. A description of the methodology used to produce the scenario is provided in Box E of the June FAR.

It is important to note that the stand-still scenario is not intended as an alternative expenditure forecast to that outlined in *Budget 2017*. Rather, the stand-still approach serves as an illustrative exercise which projects the cost of maintaining today's level of public services and benefits in real terms given demographic costs and price changes. Such information should provide a crucial input into the ultimate expenditure forecasts which are produced for policy purposes. It is important to stress that while the stand-still allows for price and wage changes, there is no suggestion on the Council's part that automatic indexation should be adopted as policy.

IFAC's stand-still analysis does not take into account possible efficiency gains or Government policy changes that could deliver expenditure savings over time.¹ Along with the approach developed by the Council, alternative methodologies could be used to estimate a stand-still scenario.

The current expenditure projections in *Budget 2017* make allowance for certain pre-committed nominal spending for demographic pressures in Health, Education and Social Protection and the Lansdowne Road Agreement (until 2018). Additional current spending for new programmes or to maintain the real value of existing services would need to be funded out of the estimated net fiscal space.

TABLE D1: COMPARISON OF ESTIMATED STAND-STILL CURRENT EXPENDITURE AND ALLOCATED FISCAL SPACE

		2017	2018	2019	2020	2021	Total (2017- 2021)
Gross voted current spending - IFAC Stand-still (A)	Annual change, € billion	1.2	1.2	1.4	1.5	1.5	6.8
of which: Demographics	€ billion	0.6	0.4	0.6	0.6	0.6	2.7
Prices	€ billion	0.6	0.8	0.9	0.9	0.9	4.1
Budget 2017 pre-committed gross voted current expenditure (B)	€ billion	0.7	0.6	0.4	0.4	0.5	2.6
of which: Demographics	€ billion	0.4	0.3	0.4	0.4	0.5	2.0
Lansdowne Road Agreement	€ billion	0.3	0.3	0.0	0.0	0.0	0.6
Amount of net fiscal space needed to stand still C=(A-B)	€ billion	0.5	0.6	1.0	1.1	1.0	4.2
Net fiscal space allocated to current expenditure (Budget 2017/SES 2016) (D)	€ billion	0.8	0.6	1.0	1.0	1.0	4.4
Difference Between Net Fiscal Space Needed to Stand still and Net Fiscal Space Allocated to Current Expenditure Increases E=(D-C)	€ billion	0.3	0.0	0.0	-0.1	0.0	0.2

Notes: Rounding may affect totals.

Table D1 below shows a comparison between the annual increases in current expenditure in the stand-still scenario, the pre-committed spending in *Budget 2017* and the overall amount of net fiscal space allocated to spending in *SES 2016*. Taking 2018 as an example, in the stand-still scenario the increase in spending required in that year to maintain real benefits and services is estimated at €1.2

¹ For example, industry agreements such as the recent agreement on drug pricing could limit the direct impact of price increases on public service costs.

billion (A). The Government has included €0.6 billion of pre-committed spending, half for the *Lansdowne Road Agreement* and half for demographics (B). Deducting this €0.6 billion pre-committed spending from the €1.2 billion estimated increase in the stand-still scenario means that €0.6 billion of the net fiscal space would be needed in 2018 to stand still (C). The 2017 *Expenditure Report* allocates €0.6 billion of the net fiscal space to current spending, almost exactly matching the estimated additional expenditure identified in the stand-still scenario (E).

From 2019-2021, the estimated additional expenditure in the stand-still scenario is close to the current allocation of net fiscal space for spending (Figure D1). This illustrates that fully accommodating estimated demographic pressures and the cost of maintaining real public services and benefits would absorb all of the net fiscal space currently budgeted for expenditure increases from 2019-2021.

In the Mid-Year Expenditure Report, the Department of Public Expenditure and Reform states that work is underway to develop a methodology that “will separately model the evolution of volume / demand and price impact” on public expenditure. The stand-still analysis presented here highlights the potential usefulness of developing this work. Starting from an estimate of the cost of standing still is an important basic input into good expenditure planning and would help inform policymakers of the scope for new spending or tax initiatives, in the absence of efficiency gains or cuts to services and real benefits.



