

space for other spending but risks tackling issues like housing or climate change, and should be avoided, particularly so as rising prices are already likely.

Box D: The Stand-Still approach and the Government's medium-term spending estimates

In recent forecasting rounds, there has been progress on the methodologies employed by the Department of Finance to project spending by Government departments.

The Department of Finance has made welcome progress towards more accurately incorporating the costs of maintaining existing levels of service in real terms, something the Council had recommended for many years. Such an approach is broadly in line with that the Council itself has developed with its Stand-Still methodology.

This box outlines in broad terms both the methodology used by the Council and the available details on the "Existing Level of Service" (ELS) approach used by the Department, noting where improvements to the latter could be introduced.

The Stand-Still approach of the Council

In 2018, the Council developed an approach to projecting medium-term spending pressures it named the Stand-Still scenario. This was motivated by the necessity to produce realistic estimates of the cost of maintaining the prevailing level of public services and benefits in real terms over the medium-term that would allow for expected price, wage and demographic pressures.

The Council's approach as part of its Stand-Still analysis makes explicit assumptions regarding the path of government spending through channels such as public sector pay increases, the indexation of benefits such as jobseeker's allowance and pensions payments, and the costs to the government of providing services like healthcare (Table D1). These assumptions allow for a full passthrough of price pressures to government spending and offer an illustration of the extent to which maintaining the real value of government spending can use much of the perceived fiscal space generated by growth in the economy.

The "ELS" approach

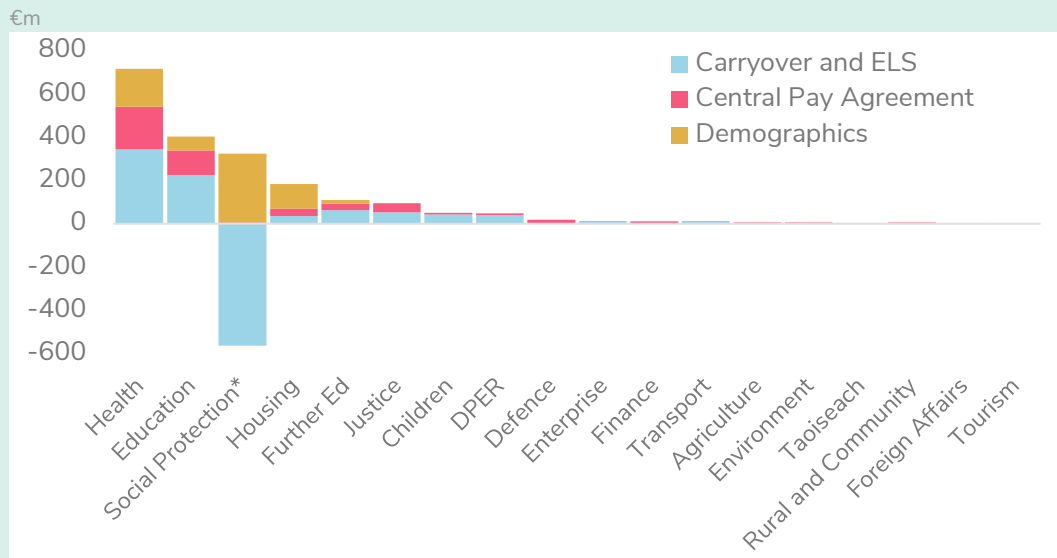
After years in which medium-term forecasts for government spending were based on arbitrary growth rate assumptions, following repeated calls from the Council to move towards a Stand-Still methodology, the Government has recently adopted a new approach, which it refers to as the "ELS". This approach, which is similar in principle to the Council's Stand-Still, provides disaggregated accounts for the year ahead of the factors affecting the provision of the same levels of services; public sector pay increases, costs associated with changing demographics, and 'existing levels of services' along with annual amounts carried over (Figure D1).

Table D1: Select drivers of the Stand-Still approach

	Demographic	Price
Health spending	Cohort-specific projections for service use	Wage growth / GNP +1%
Pensions payments	Projections for cohort age 66+	Wage growth
Unemployment benefits	Unemployment levels	Wage growth

Notes: The Council's current Stand-Still approach forms part of its broader Long-term model. Details on the wider methodology employed can be found [here](#). The above table is not an exhaustive list of the modelled costs as part of the Long-Term Model and is provided here only to illustrate the generalised way in which costs are modelled,

Figure D1: Departmental ELS, demographics, and public pay allocations for 2022 in Budget 2022



Source: Budget 2022

Notes: *The decrease in carryover and ELS costs associated with social protection spending reflects the projected fall in unemployment in 2022.

This approach is useful by providing clarity on the expected real levels of spending, disaggregated overall spending at the Government level, and more realistic expectations of the growth rate of spending to harmonise with the Government's new spending rule.

Greater detail on the medium-term path for ELS spending is required

While Budget 2022 outlined the assumed costs for maintaining the Existing Levels of Services (ELS) in 2022, there were only indicative allocations showing total "allocated" and "unallocated" amounts based on technical assumptions for 2023-2025. This supported a projection for overall spending in line with the Government's 5% rule and broadly sufficient to cover Stand-Still costs in total, although the "allocated" part was less than the Stand-Still estimates imply.

While this is an improvement, without details on the assumed costs of the main spending drivers, there is little sense as to the Government's policy priorities over the medium term, including the extent of indexation in areas such as pensions payments and unemployment benefits. These factors also have important implications for the effective implementation of the new spending rule, explored in greater detail in Box I. Moreover, for consistency, the results of the ELS approach should be incorporated into the broader macro forecasts over the medium-term. Further moves towards institutionalising the budgetary framework in this regard would also shed light on the assumed costs of major drivers of public spending over the medium term and help improve focus on medium-term budgeting.