

Measuring the Cost of Service Delivery

Supplementary information for financial context for revenue raising consultations



Department of
Finance

An Roinn

Airgeadais

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[The Financial Context for Revenue Raising](#) document published on 11 October showed the funding that would have been required for day-to-day spending (Resource DEL) in 2023-24 and 2024-25 in order to keep up with the impact of inflation since 2021-22. The 2021-22 figure included additional funding provided for Covid support.

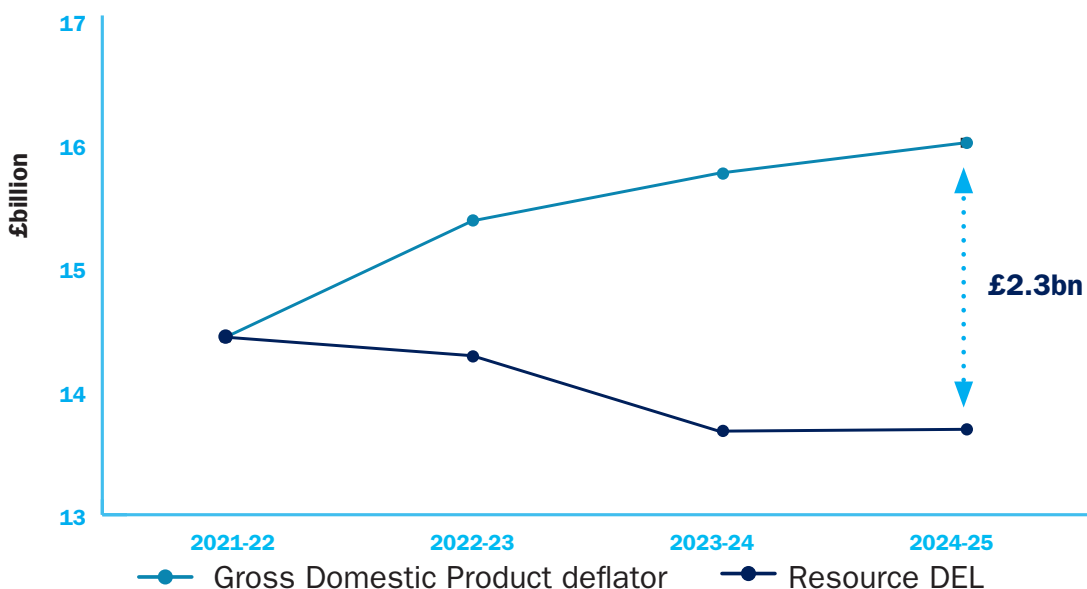
This document outlines the rationale for including COVID-19 funding within the cost of service delivery in the starting year, 2021-22. The document also provides additional information on other methods which could have been used to estimate the cost of delivering services in the following years.

Rationale for including COVID funding

The impact of the pandemic did not end in 2021-22. It is still being felt today as our health service, schools, businesses and other public services strive to recover. The UK Spending Review 2021 recognised this by providing funding for Covid recovery. However, with the exception of a some £270 million over the three years provided as Barnett consequential on employment support and rail income, this funding was no longer separately identifiable. As it is not possible to quantify the Barnett based funding which flowed as a result of Covid recovery measures over the Spending Review period, it would seem reasonable to include Covid funding in 2021-22 for comparison purposes.

Much of the expenditure funded through separately identifiable Covid funding in 2021-22 related to ongoing costs and support. In other areas the funding that was needed for the immediate response is now required to aid recovery.

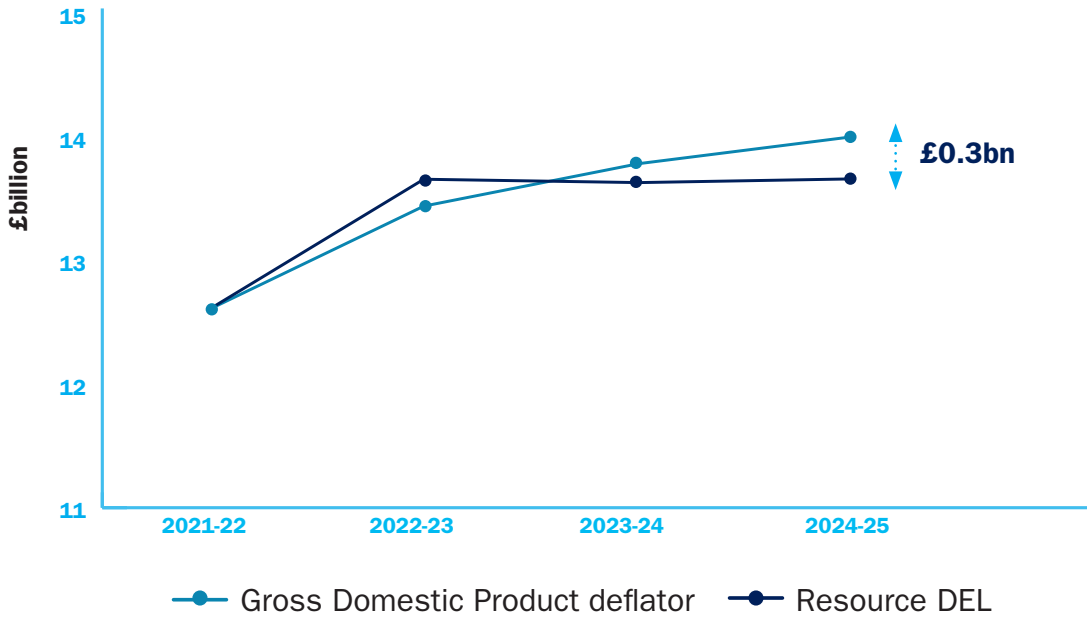
Day-to-day spending required (chart includes Covid funding)



Excluding COVID funding

The chart below shows the impact of inflation if all separately identifiable Covid funding is removed from 2021-22 onwards. The Resource DEL figure for 2022-23 includes the £297 million Reserve Claim. This chart illustrates that excluding Covid funding results in a gap of some £0.3 billion compared to the £2.3 billion gap when additional Covid funding is included.

Day-to-day spending required (chart excludes all identifiable Covid funding from 2021-22 onwards)



However, as highlighted on page 2, there is a rationale for showing the starting point in 2021-22 as the amount of Resource DEL funding with Covid funding included. The funding that has been provided to the Department of Health (see page 4) illustrates this.

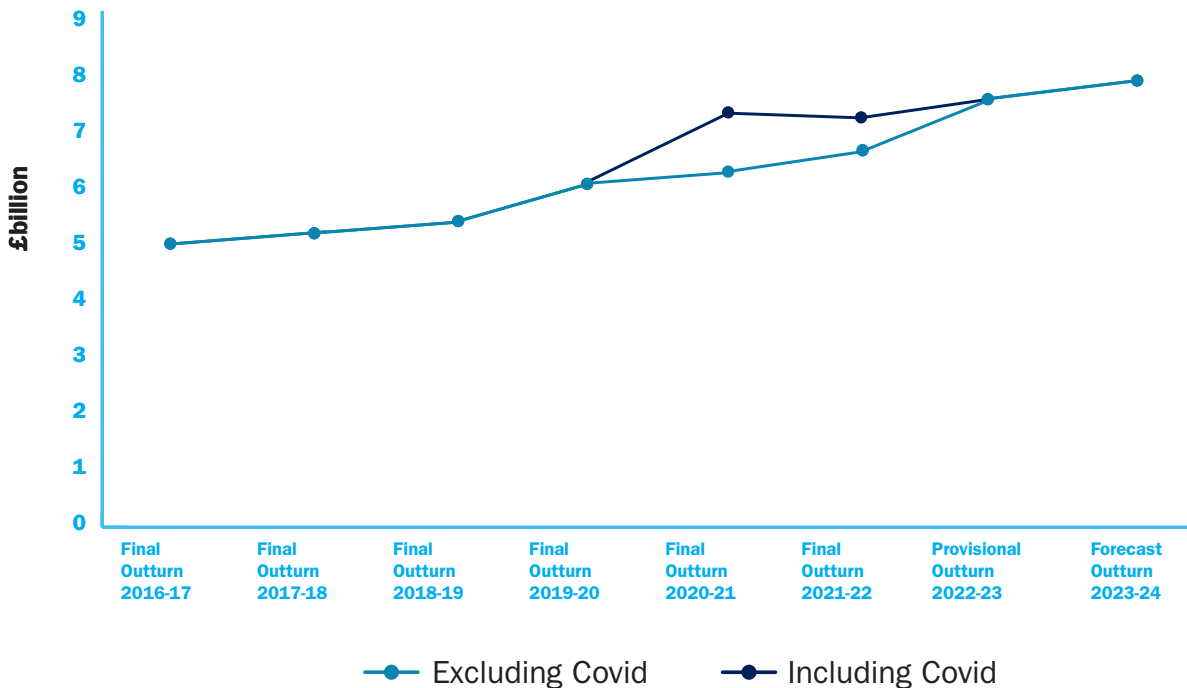
Health funding

With the Department of Health (DoH) now receiving over half of the NI Resource DEL budget annually, its spending has a considerable impact on the amount of funding available for other services.

The chart below illustrates the growth in DoH expenditure since 2016-17. This illustrates that the Health and Social Care Service has not reverted to a pre-Covid world, in terms of the funding needed to deliver services. The increased costs facing the Service as it emerges from the pandemic are considerable.

In considering these figures it is important to note that a number of difficult decisions had to be taken in both 2022-23 and 2023-24 to limit spending to the funding available. To try to provide a better indication of growing health costs the 2023-24 figure shown in the chart below includes the projected cost of pay awards which are unaffordable within current funding.

Department of Health Resource DEL Expenditure



The chart therefore shows that, while significant Covid funding was provided in 2020-21 and 2021-22, non-Covid funding in those years actually fell below the previous spending trajectory. Therefore, applying inflation to the 2021-22 DoH spending (excluding Covid funding) figure would not accurately reflect the level of funding required by DoH to deliver its services in the years after. Indeed, even applying inflation to the 2021-22 expenditure (including Covid funding) still falls over £160 million short of DoH's forecast for 2023-24 (including estimated cost of pay awards).

Other measures relevant to service delivery costs

The original charts provided used the Gross Domestic Product (GDP) deflator to provide an illustration of what the NI Budget would need to have increased by to keep up with inflation.

	2022-23	2023-24	2024-25
GDP deflator	6.6%	2.5%	1.6%

Source: ONS Quarterly national Accounts June 2023

Other measures of inflation, and indeed other measures which may better illustrate the growing cost of delivering services particularly in a local context, are also available. Some of these are set out below.

Consumer Price Index

In the UK, the main measure of inflation is the Consumer Price Index (CPI). CPI is the speed at which the prices of the goods and services bought by households rise or fall. CPI is a measure of consumer price inflation produced to international standards and in line with European regulations.

	2022-23	2023-24	2024-25
CPI	9.9%	4.1%	0.6%

Source: OBR Economic and Fiscal Outlook March 2023 Table A3

As this shows, CPI is considerably higher than GDP in 2022-23 and 2023-24, although forecast to be lower in 2024-25. Using the CPI figure, the overall effect of inflation on the spending power of the NI Budget would have been higher than using GDP deflators.

However, it is worth noting that both HM Treasury and the Office of Budget Responsibility use GDP to measure spending plans in real terms. The implied gross domestic product (GDP) deflator is the broadest measure of inflation in the domestic economy, reflecting changes in the price of all goods and services that comprise GDP. In contrast CPI captures the rate of the price change of goods and services that are purchased to be consumed by households, where these reflect only what households are buying in the UK to consume.

Retail Price Index

The Retail Price Index (RPI) is an alternative measure of inflation. Although no longer designated as a National Statistic in the UK, the Office of National Statistics continue to publish the RPI, as it is still widely used in industry, such as in commercial contracts.

	2022-23	2023-24	2024-25
RPI	12.7%	6.4%	1.2%

Source: OBR Economic and Fiscal Outlook March 2023 Table A3

As the table above shows, the RPI figure was higher than both the GDP deflator and CPI measures of inflation in both 2022-23 and 23-24, although was forecast to be slightly below the GDP deflator by 2024-25. Using the RPI figure, the overall effect of inflation on the spending power of the NI Budget would have been even higher.

Average Earnings

Changes in average earnings are a useful indicator of the cost pressures facing government because they illustrate the salaries that the public sector must compete with. The figure includes public sector pay itself.

	2022-23	2023-24	2024-25
Average Earnings % change	5.8%	4.1%	1.7%

Source: OBR Economic and Fiscal Outlook March 2023 Table A3

As the table above shows, average earnings growth is expected to exceed (GDP deflator) inflation in both 2023-24 and 2024-25.

Evidence of the growth in wages within the Northern Ireland economy in recent years is also available from HMRC data. For example, the latest NISRA Labour Market Report (October 2023) shows that median monthly pay in Northern Ireland in September 2023 was 6.6% higher than the September 2022 median, and 13.3% higher than the September 2021 figure.

Oil Prices

Higher energy bills have had a significant impact on household budgets in recent months. The public sector has not been immune from these and this has added to the cost of delivering public services.

	2022	2023	2024
Oil Prices (% change compared to 2021)	55.5%	28.8%	21.6%

Source: Derived from OBR Economic and Fiscal Outlook March 2023 Table A3

As the table illustrates, average oil prices in 2022-23 are over 55% higher than they were in 2021-22. And while energy costs are expected to fall compared to those peaks, they are still forecast to be significantly above the 2021-22 baseline in the following years.

Demographic Change

Population change can also have an effect on the pressures facing government departments. This includes changes to the characteristics of the population, such as an ageing population and the impact this could have, for example, on the demand for health and social care services. Again, the statistics point to an increasing pressure in NI, which is higher than for the UK as a whole.

	2022	2023	2024
Age 60+ NI (% change on previous year)	2.1%	2.3%	2.3%

Source: NISRA 2020-Based Population Projections: Principal Projection

	2022	2023	2024
Age 60+ UK (% change on previous year)	1.8%	2.0%	2.0%

Source: ONS 2020-Based Population Projections: Principal Projection

Summary

Measuring service delivery cost is complex. This document has highlighted there are a number of ways to attempt to illustrate the Northern Ireland situation.

It could be argued that covid funding should either be excluded or an earlier period chosen as the comparator. However, public service delivery continues to be impacted by the aftermath of covid.

Equally, different methods could have been used to show the level of additional funding that would have been needed to keep up with the cost and demand pressures experienced since 2021-22.

Whichever measure is used the outcome remains that the funding that would have been required for day-to-day spending (Resource DEL) in 2023-24 and 2024-25 has not kept up with the inflationary increases since 2021-22.