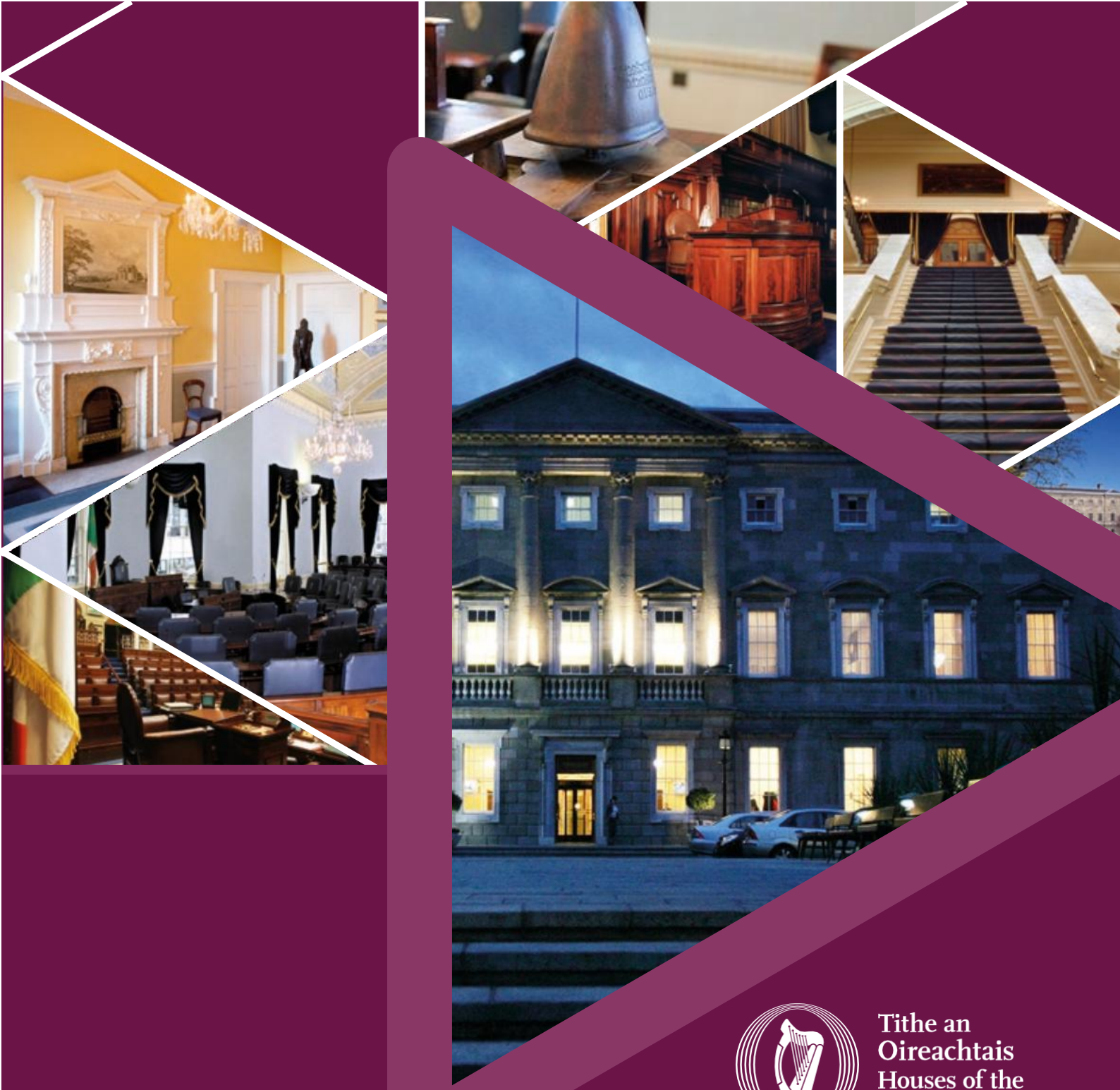


Tithe an Oireachtais
Houses of the Oireachtas

An Oifig Buiséid Pharlaiminteach

Parliamentary Budget Office

Estimated ELS Costs for Budget 2027

Publication 18 of 2026

Séanadh

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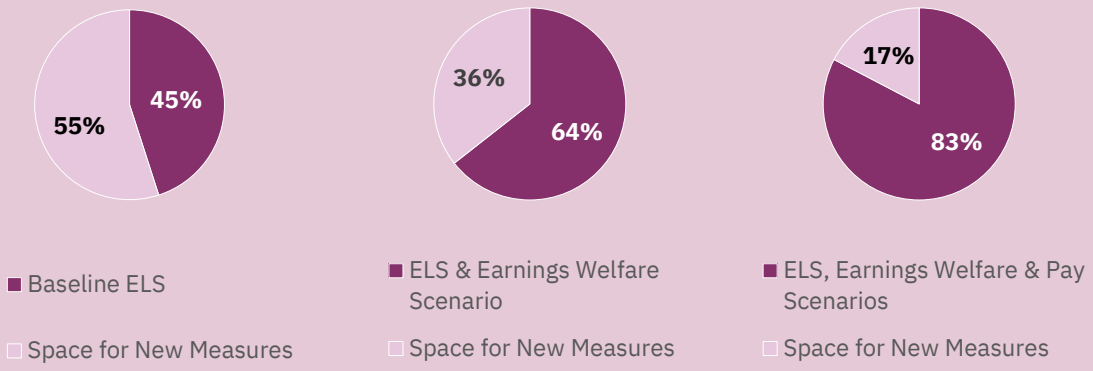
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1. Key Messages

- Estimating the cost of maintaining existing levels of service (ELS) into the future, taking account of demographic and price changes, helps answer a fundamental budgetary question: how much of next year's budget would be required to maintain existing public services?
- This paper examines how much of the Government's proposed €5.9 billion increase in current voted expenditure may be required to maintain the existing level of public services and supports.
- This analysis estimates that baseline ELS would cost approximately €2.7 billion in 2027 before any new public sector pay agreement or increase in social welfare payment rates are considered. This baseline estimate includes:
    - €1.6 billion arising from demographic change.
    - €980 million arising from increases in non-pay prices.
- Increasing social welfare payments in line with forecast earnings growth would leave €2.1 billion for any new measures, including any potential public sector pay deal.
- A modelled public sector pay agreement scenario, based on the average annual increase under the 2024 to 2026 agreement, would leave €1.0 billion for any further new measures.

Budget 2027 Current Spending Increase: ELS, Policy Scenarios and Remaining Space for New Measures (%)



- Baseline ELS assumes no efficiency improvements or changes in the way services are delivered. Efficiency improvements could offset some demographic and price pressures.

2. Introduction

One of the key questions in budgeting is not just what new policies can be funded, but how much it costs to keep existing services running. The increased funding required to maintain current public services is known as 'Existing Levels of Service' (ELS). Ultimately, understanding ELS helps answer a fundamental budgetary question: how much of next year's budget would be required to maintain existing services and supports?

ELS specifically accounts for the current level of service. It does not include any envisioned improvements, any new policies, or any savings from delivering services more efficiently. The annual cost of ELS is, however, subject to change due to changing demand for services from demographic and price changes. This paper also considers the impacts of changes in social welfare payment rates and a public sector pay agreement on expenditure. These changes are reflected as additional scenarios to the baseline ELS estimate because they are considered as policy changes made at Budget time.

ELS estimates necessarily involve simplifying assumptions, particularly where detailed information on expenditure, service utilisation or recipient numbers is unavailable. In such cases, this analysis applies transparent demographic or price proxies to the relevant expenditure base. This approach provides an indication of the scale of expenditure pressures rather than a detailed bottom-up forecast for each Department or programme.

2.1. Budget 2027

The Summer Economic Statement 2026 allocated a spending package of €7.0 billion for Budget 2027, consisting of a €5.9 billion increase in current voted

spending and €1.1 billion in capital voted spending, in line with the National Development Plan (NDP).[1]

This analysis provides an estimate of the ELS cost for current voted expenditure in 2027, considering:

- The impact of demographics and non-pay prices on ELS;
- Estimated Budget overruns in 2026;
- A public sector pay agreement scenario; and
- Welfare rate indexation scenarios.

Due to the lack of departmental-level information, this analysis does not estimate the cost of carry-over expenditure. Carry-over refers to the additional full-year cost in 2027 of measures implemented during 2026 or as part of previous budget decisions. This could potentially absorb a further portion of the 2027 increase in current voted expenditure.

We then provide an estimate of the overall available space for new measures given the above ELS estimate; a 2027 public sector pay agreement scenario and welfare rate indexation scenarios.

[1] Department of Finance, Summer Economic Statement 2026. This analysis focuses on ELS current voted expenditure and does not provide an ELS estimate for capital expenditure. However, the Government's planned capital expenditure under the National Development Plan (NDP) is €1.1bn in 2027. This reflects planned investment levels and should not be interpreted as an estimate of the cost of maintaining existing capital services or infrastructure.

3. Overview of Data and Methodology

3.1. The Impact of Demographics and Prices

3.1.1. Demographics

- The 2027 population was estimated, using the latest CSO 2026 population estimates by single year of age and sex as a base.[2] These 2026 figures were projected forward using the CSO's M1 high-migration scenario growth rates by age and sex.[3]
- The demographic impact on ELS expenditure for Social Protection is estimated at 2.2% in 2027. This was estimated using data on recipients of Social Protection schemes disaggregated by age and sex in 2025.[4] For schemes other than the key disability and carer schemes[5], recipient data were used to estimate the distribution of expenditure by age and sex, and projected forward using the corresponding 2027 age and sex specific population projections.[6] The proportion of people receiving key disability and carer schemes, by age and sex was used to estimate future recipients. These estimates were then projected forward by applying the annual growth rate

[2] CSO Population Estimates, 1926-2025.
[3] CSO Population and Labour Force Projections, 2022-2042. High migration growth rates under the M1 scenario are used for the 2027 estimate because this scenario has most closely tracked estimated actual increases in the population in recent years.
[4] Department of Social Protection, Annual Statistics Report 2025.
[5] Key disability and carer schemes include Carer's Allowance, Carer's Support Grant, Disability Allowance, Domiciliary Care Allowance, Invalidity Pension and Illness Benefit.
[6] The projected expenditure method for Social Protection assumes that the share of recipients by age and sex in each scheme is proportional to the share of expenditure by age and sex in each scheme. The projection of expenditure for Maternity and Paternity Benefits assumes that the current birth rates are maintained. However, there is evidence to suggest that birth rates are declining, which might overstate the 2027 expenditure under these schemes from this perspective. Yet, as Maternity and Paternity Benefits are conditional on sufficient PRSI contributions, the birth rates are not the sole determinant of their recipient numbers. Given the strong employment growth over the last few years, it may cancel out some of the impact of the declining birth rates.

observed in recipients of the corresponding schemes between 2024 and 2025.[7]

- The demographic impact for Health ELS expenditure is estimated as 2.2% overall. This was estimated using cost profiles by age and sex for key health services and projected forward using the corresponding 2027 age and sex specific population projections.[8]
- The demographic impact on ELS expenditure for Disability Services is estimated as 1.3% using demographic projections for Disability Services.[9]
- The demographic impact on ELS expenditure for primary and secondary level education is estimated as the projected change in the population aged 4-18 of -1.0%.[10]
- The demographic impact on ELS expenditure for Further and Higher Education is estimated as the projected increase in the population aged 18-22 of 2.9%.[11]
- The demographic impact on ELS expenditure for public sector pensions is estimated using the projected increase in the population aged 65+ of 3.4%.[12]

[7] Disability and carer schemes are projected using scheme-specific growth rates as opposed to population growth, as they provide a more accurate representation of recent trends in recipient numbers. This projection method follows a standard "random walk" assumption, whereby the most recent observed annual growth rate is carried forward over the projection period. The estimates are therefore sensitive to whether recent recipient growth persists.

[8] Age and sex expenditure profiles were provided for Acute hospitals, PCRS, Older People Services, Long-term care, and Palliative care by the Department of Health and Economic and Social Research Institute (ESRI), Research Programme in Healthcare Reform. Responsibility for the application of these profiles with regard to estimating ELS increases for Health in this paper rests with the PBO.

[9] The demographic projections for Disability Services were taken from Lindberg & McCarthy (2021).

[10] This provides a mechanical estimate of the demographic effect. It may not translate fully into an immediate reduction in expenditure because of fixed costs, geographic differences in enrolment trends and lags in adjusting staffing and other resources.

[11] This is substantially above projected general population growth of 1.1%. However, it does appear in line with the high growth rate of 5% seen in the latest available enrolment data for all third level students in Ireland between the academic years beginning in 2023 and 2024. Higher Education Authority - Statistics.

[12] In the absence of detailed projections of public service pensioner numbers, growth in the population aged 65 and over is used as a broad proxy.

- The demographic impact on all other current ELS expenditure is estimated as the projected increase in general population growth of 1.1%.[13] This includes non-pay expenditure unrelated to social welfare payments[14] as well as administration expenditure across votes.
- Finally, the relevant demographic increases are applied to pay and non-pay current expenditure on the assumption that the resources required to maintain services change in line with the relevant demand measure.[15] This assumption means that, in the absence of efficiency gains or changes in the model of service delivery, both pay and non-pay resources adjust in line with the relevant demographic driver.

3.1.2. Prices

- Since ELS expenditure reflects a 'no policy change' scenario, and changes to social welfare payment rates are considered discretionary rather than automatically indexed, the note later presents two scenarios for welfare rate increases: one uprated in line with forecasted price inflation, and the other uprated in line with forecasted earnings growth. Non-pay expenditure on Auto Enrolment, Miscellaneous Services and Grants to the Citizens Information Board is excluded from the welfare rate increase scenarios as these expenditures are unrelated to social welfare rates.
- Forecasted price inflation (HICP) and earnings growth are taken from the Department of Finance's Annual Progress Report 2026[16] and are applied to non-pay expenditure in all sectors except Health, where a percentage point

[13] General population growth is used as a transparent demand proxy where more specific demographic or utilisation information is unavailable.
[14] Non-pay expenditure unrelated to weekly social welfare payments comprises expenditure on Auto Enrolment, Miscellaneous Services and Grants to the Citizens Information Board.
[15] The 2026 expenditure base comes from the Department of Public Expenditure and Reform - Databank.
[16] Department of Finance, Annual Progress Report 2026.

premium is applied in order to account for rises in technology costs in the health sector.[17]

- No general efficiency savings are assumed. The estimates therefore show the cost of maintaining services under unchanged delivery arrangements and should not be interpreted as a judgement that efficiency improvements are unavailable.

3.1.3. Estimated Budget Overruns in 2026

- The Government expenditure ceiling includes a confirmed increase of €700 million in current expenditure for 2026. Of this, €646 million has been allocated to the Department of Education and Youth to provide increased supports and staffing.[18] The remaining €54 million has been allocated to cover increased fuel costs across the transport, farming and fisheries sectors.[19]
- The confirmed 2026 expenditure increase for Education is reflected in the cost of maintaining ELS in 2027. However, the €54 million allocated for increased fuel costs is excluded because it is treated as a temporary expenditure measure.
- Health is a consistent source of current expenditure overruns, accounting for a large share of the total overrun expenditure in recent years.[20]
- The estimate of the 2026 Health overrun is an indicative projection based on an analysis of the historical relationship between cumulative August overruns and final full-year overruns using Fiscal Monitor data from 2017

[17] The addition of a 1 percentage point premium in this regard has also been used by Fiscal Council (2021) and the OBR (2018). This is a simplifying assumption intended to capture the tendency for Health input costs to rise more rapidly than general consumer prices. It does not constitute a detailed forecast of individual health-sector input prices.
[18] Departmental Budgets, Tuesday, 9 Jun 2026 – Parliamentary Questions (34th Dáil) – Houses of the Oireachtas.
[19] Department of Finance, Annual Progress Report 2026.
[20] Department of Finance, Latest Fiscal Monitors (2017-2026).

onwards.[21] On average, over the period, the August percentage variance in expenditure was broadly in line with full-year percentage variance, supporting its use as a forecasting indicator.

- The cumulative Health current expenditure overrun recorded in August 2026 was 3.9% above profile. Applying this to the estimated 2026 gross current expenditure results in an estimated overrun in Health of €1 billion.[22]
- The previously estimated percentage ELS increases required for Education and Health in 2027 are applied to their respective projected overruns.

3.1.4. Public Sector Pay Agreement Scenario

- In the absence of a public sector pay agreement for 2027, we model a pay scenario based on the average annual increase under the previous public sector pay agreement, which was implemented between 2024 and 2026.[23]
- This results in a modelled 2.9% increase in the public sector pay bill in 2027.[24] The same rate of increase is also applied to public sector pensions in line with the policy of pay parity regarding public sector pay increases.[25]
- This is a stylised full-year scenario and should not be interpreted as a forecast of the scale, composition or implementation dates of a future pay agreement.

[21] Department of Finance, Latest Fiscal Monitors (2017-2026).
[22] The 2026 gross expenditure figure comes from the Revised Estimates for the Public Services 2026. This estimate assumes that the historical relationship between the August variance and the full-year outturn continues to apply in 2026. The final overrun may differ if expenditure profiles, corrective measures or year-end spending patterns differ from previous years.
[23] Public Sector Pay Agreement 2024-2026.
[24] Parliamentary Budget Office (2026), The Cost of a New Public Sector Pay Deal.
[25] Department of Public Expenditure (2024), Application of "Pay Parity" as Pension Increase Policy, in line with the Public Service Agreement 2024-2026.

4. 2027 Cost Estimates

4.1. ELS Baseline Estimate

Table 1 gives the baseline ELS estimate for current expenditure in 2027 of €2.7 billion. This comprises €1.6 billion for demographics, €980 million for non-pay price increases and €36 million for the 2027 ELS associated with 2026 projected overruns.

This overall ELS figure assumes no changes to social welfare rates and does not account for any potential public sector pay agreement.

The estimates in Table 1 should be interpreted as the additional expenditure indicated by the demographic, price and overrun assumptions described previously. They do not represent detailed forecasts of expenditure requirements for individual Departments.

Table 1: Estimated Current Expenditure ELS Costs for Budget 2027, € millions.

	Demographics	Prices (non-pay)	Total
Social Protection & SIF Schemes	625.4	-	625.4
Health	554.5	447.9	1,002.4
Education & Youth	-102.8	39.2	-63.6
Further & Higher Education	79.5	27.5	107.0
Disability Services	50.5	55.0	105.5
All Other Current Expenditure	264.7	410.4	675.1
Public Sector Pension	168.8		168.8
2027 ELS on 2026 Overruns	-	-	36.4
Total ELS	**1,640.6**	**979.9**	**2,656.9**

Source: PBO calculations using DSP data, CSO Population Estimates and Projections, Department of Finance APR 2026 forecast for HICP. For Health, required demographic estimates come from Department of Health and ESRI Research Programme in Healthcare Reform. 2026 expenditure base comes from the Revised Estimates for the Public Services 2026. Figures may not sum due to rounding.

4.2. Separate Policy Scenarios

Baseline ELS assumes no policy changes. Changes to social welfare rates and a new public sector pay agreement are therefore presented separately as policy scenarios. The scenarios illustrate their potential expenditure implications and do not assume that either policy will be adopted.

4.2.1. Cost of Social Welfare Rate Increase Scenarios

Table 2 shows the estimated cost of indexing social welfare payments under two scenarios. Increasing welfare payments in line with HICP would result in increased expenditure of €715 million in 2027, while increasing welfare payments in line with earnings growth results in an increase of €1.1 billion.

The HICP scenario broadly maintains the purchasing power of welfare rates, while the earnings-growth scenario broadly maintains welfare rates relative to economy-wide earnings.[26]

The choice of whether to increase social welfare rates, and what benchmark or rate to use, is a policy decision. No assumption is made in this paper that either approach is preferable. The scenarios are presented on an equivalent basis to illustrate their respective costs and implications for the space available for other measures.

4.2.2. Cost of Public Sector Pay Agreement Scenario

Table 2 also shows the estimated cost of modelling a public sector pay agreement for 2027 based on the previous agreement from 2024-2026. The pay agreement scenario would increase expenditure for 2027 by €1.1 billion, inclusive of public pension rate increases. As no agreement is currently in place for 2027, the estimated cost is presented separately from baseline ELS.

Table 2: Estimated Cost of a Modelled Public Sector Pay Agreement & Indexing Welfare Rates to Forecasted Price Inflation and Earnings Growth, € millions

Scenario	Cost
Indexing Social Welfare Payments to HICP Inflation	714.8
Indexing Social Welfare Payments to Earnings Growth	1,143.7
Public Sector Pay Agreement (including Pensions)	1,076.0

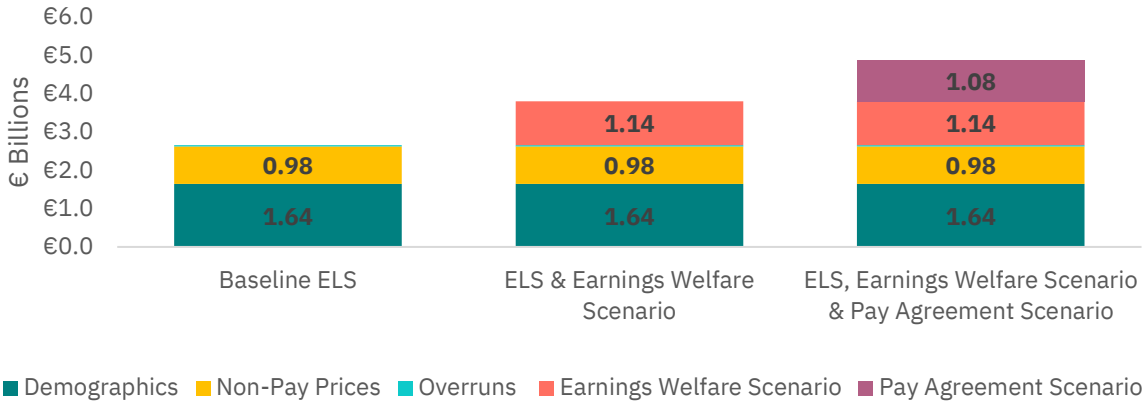
Source: PBO calculations using DSP data, CSO Population Estimates and Projections, Department of Finance APR 2026 forecast for HICP & earnings growth. The 2026 Social Protection non-pay expenditure base comes from the Revised Estimates for the Public Services 2026 and excludes non-pay expenditure unrelated to social welfare rates.

Figure 2 gives a breakdown of the components underpinning the 2027 ELS estimate. Under the baseline scenario, ELS is estimated at €2.7 billion, comprising of demographics (€1.6 billion), non-pay prices (€980 million) and overruns (€36 million). Including the earnings indexation scenario increases the estimate to €3.8

[26] Callan, Keane, and Regan, (2019) Assessing the distributional impact of budgetary policy: the role of benchmarks and indexation, Budget Perspectives 2020/2, Dublin: ESRI

billion and €4.9 billion when a public sector pay agreement scenario is also incorporated.

Figure 2: Breakdown of 2027 ELS Estimate Components, € billions



Source: PBO calculations using DSP data, CSO Population Estimates and Projections, Department of Finance APR 2026 forecast for earnings growth. For Health, required demographic estimates come from Department of Health and ESRI Research Programme in Healthcare Reform**.** 2026 expenditure base comes from Revised Estimates for the Public Services 2026.

4.2.3. Available Space for New Measures

Table 3 shows the available space for new measures given this paper's ELS estimates and the proposed allocation of €5.9 billion in current spending in 2027. Of the €5.9 billion increase in current expenditure, €3.2 billion is available for new measures after covering the estimated increase required to maintain ELS.

Two alternative welfare rate increase scenarios are then considered. Increasing social welfare rates in line with forecast HICP inflation would leave €2.5 billion for additional measures. Increasing social welfare rates in line with forecast earnings growth would leave €2.1 billion.

Including the public pay deal scenario modelled in this paper as well as increasing social welfare rates in line with forecast earnings growth would leave €1.0 billion for new measures.

These estimates do not include the carry-over cost of previous measures, other unmodelled expenditure pressures, or potential savings from efficiency improvements and structural reforms.

Table 3: Available Space for New Measures in 2027 given the ELS Estimates and Policy Scenarios, € billions.

Current Expenditure	Cost
Summer Economic Statement Current Spending Increase	5.9
Current Spending ELS	2.7
Baseline Space for New Measures	3.2
Space if Indexing SP Payments to HICP	2.5
Space if Indexing SP Payments to Earnings Growth	2.1
Space if Indexing SP Payments to Earnings Growth & Pay Deal Scenario	1.0

Source: PBO calculations using DSP data, CSO Population Estimates and Projections, Department of Finance APR 2026 forecast for HICP and earnings growth. For Health, required demographic estimates come from Department of Health and ESRI Research Programme in Healthcare Reform**.** 2026 expenditure base comes from Revised Estimates for the Public Services 2026.

5. Conclusion

Before the Government can fund new measures in Budget 2027, it must first consider the cost of maintaining the current baseline of public services.

This analysis shows that maintaining existing levels of service would absorb a substantial share of the 2027 proposed increase in current expenditure, reducing the available space for the introduction of new measures. This is particularly the case when the separate policy scenarios are taken into account of a potential public sector pay agreement and social welfare payment indexation scenarios.

In this context, efficiency improvements and structural reforms will be an important consideration in managing expenditure pressures and creating fiscal space. Any such measures would need to be clearly identified, deliverable, and capable of generating tangible and sustainable savings or productivity gains.

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