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**Coverage**

UK

**Theme**

Government

# Changing costs of public services

ONS today published new estimates of how much the unit costs of public services, such as the NHS and schools, have changed compared to unit costs in general: the change in the relative cost of public service output.

Between 1997 and 2007, the unit cost of public service output in total grew by 13.7 per cent more than unit costs for the whole economy, an annual average relative rise of 1.3 per cent (see chart overleaf).

In 2007, the unit cost of public service output rose by 0.6 per cent less than costs in general, the only time relative costs fell over the 10 year period.

The relative cost of public service output changes as a result of a combination of two factors:

- changes in the price of inputs used in the public service, such as pay rates for people employed and prices paid for the goods and services used as inputs. The aggregate price index for these inputs rose by 9.8 per cent more than prices in general for the whole economy between 1997 and 2007, an annual average rise of 0.9 per cent.
- changes in the efficiency and effectiveness with which resources are used to produce the output. In other words, there is a change in productivity. Between 1997 and 2007, public service productivity fell by 3.4 per cent, meaning that the volume of input needed to produce a unit of output rose by an annual average of 0.3 per cent

These are experimental statistics and work continues to develop the measures.

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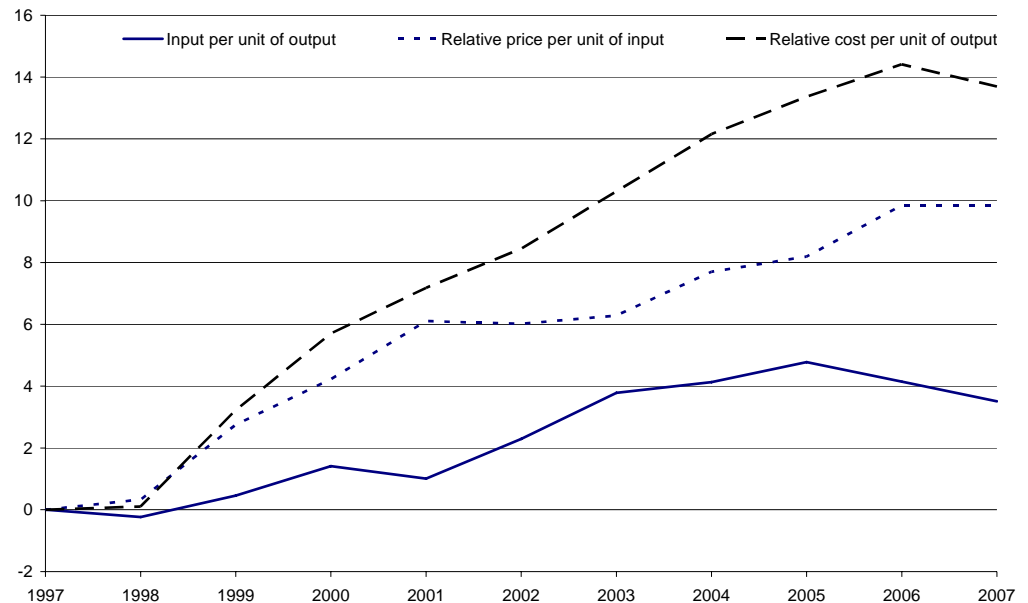
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## The change in total public service relative cost per unit of output, input per unit of output and relative cost per unit of input since 1997

United Kingdom  
Per cent



The article also looks at the major areas of spending, with most detail for healthcare and education.

Between 1997 and 2007, the costs of public service healthcare output grew by 13.6 per cent more than unit costs in the whole economy, an annual average of 1.3 per cent. In 2007, the costs of public service healthcare grew by 0.7 per cent less than the unit costs in the whole economy, mainly due to an increase in productivity.

Labour costs in healthcare rose at an annual average rate of 5.6 per cent between 1997 and 2007, compared to 4.5 per cent a year for the whole economy. Most of the difference occurred after 2003. But the costs of goods and services used to provide healthcare grew more slowly than whole economy costs.

For public service education output over the period 1997 to 2007, unit costs grew by 24.4 per cent more than unit costs in the whole economy, an annual average of 2.2 per cent.

Labour costs in education, as in healthcare, grew faster than labour costs in the whole economy, by an annual average rate of 5.5 per cent compared to 4.5 per cent for the whole economy. But goods and services inputs costs in education grew at a very similar rate to those in the whole economy.

## BACKGROUND NOTES

1. The relative cost of public service output is the cost of a unit of public service output (public service inflation) relative to unit costs of output in the whole economy.
2. Output is measured by adding together the quantities of underlying activities, such as health procedures performed and pupils taught, using cost weights, and in the case of health and education, adjusting for quality.
3. There are several indices of whole economy prices that could be used for this comparison. The one chosen for this article is the index of total home costs per unit of output published in *United Kingdom National Accounts Blue Book 2008* ONS (2008a), reflecting factors such as total labour costs per unit of output. This comparison gives an indication of what goods and services might have been produced if the resources devoted to public service provision had instead been devoted to producing goods and services in the same mix as was produced by the whole economy. The article can be found on <http://www.statistics.gov.uk/cci/article.asp?ID=2302>.
4. Inputs include all labour inputs, differentiated by type, but also inputs of goods and services such as energy, drugs, medical supplies, teaching materials etc as well as capital inputs.
5. The aggregate price index for inputs is a weighted average of all the input prices.
6. The index of relative input prices compares public service input prices with total home costs. It is not a simple public sector /private sector comparison. This index can rise if either costs (e.g. pay) rise faster in public services than in the whole economy or if labour has a larger share in costs than in the whole economy and labour costs are rising faster than costs in general.
7. Details of the policy governing the release of new data are available from the Media Relations Office.
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