

## Inflation indices

**Table 1**

Year	BCIS/ABI <sup>1</sup>		Retail Price <sup>2</sup>	
	Rebuilding Cost Index (1988=100)	% increase	Index (1986/87= 100)	% increase
1994	118.7	2.9	143.8	2.3
1995	126.0	6.1	147.9	2.9
1996	129.2	2.5	152.3	3.0
1997	134.6	4.2	156.5	2.8
1998	143.3	6.5	160.6	2.6
1999	148.9	3.9	164.3	2.3
2000	154.6	3.8	168.1	2.1
2001	165.7	7.2	172.1	2.4
2002	176.6	6.6	177.6	3.2
2003	183.8	4.1	182.6	2.8
2004	191.3	4.1	188.1	3.1

Hospital and community health services (HCHS) pay and price inflation is a weighted average of two separate inflation indices: the pay cost index (PCI) and the health service cost index (HSCI). The PCI measures pay inflation in the HCHS. The PCI is itself a weighted average of increases in unit staff costs for each of the staff groups within the HCHS sector. Pay cost inflation tends to be higher than pay settlement inflation because of an element of pay drift within each staff group. Pay drift is the tendency for there to be a gradual shift up the incremental scales, and is additional to settlement inflation. The estimate of pay inflator for the current year is based on information supplied by the Department of Health and is based on pay awards of NHS staff. The HSCI is calculated monthly to measure the price change for each of 40 sub-indices of goods and services purchased by the HCHS. The sub-indices are weighted together according to the proportion of total expenditure which they represent to give the overall HSCI value. The pay cost index and the health service cost index are weighted together according to the proportion of HCHS expenditure on each. This provides an HCHS combined pay and prices inflation figure.

**Table 2**

Year	Hospital & Community Health Services (HCHS)		
	Pay and Prices Index (1987/8=100)	Annual percentage increases	
		Pay and Prices	Pay <sup>3</sup>
1995/96	166.0	4.0	4.4
1996/97	170.6	2.8	3.3
1997/98	173.5	1.7	2.5
1998/99	180.4	4.0	4.9
1999/00	188.5	4.5	6.9
2000/01	196.4	4.2	7.2
2001/02	206.4	5.1	8.3
2002/03	213.8	3.6	5.0
2003/04	225.6	5.5	7.3
2004/05(E)	234.2	3.8	5.3

In 2005 the Department of Health completed a review of the Personal Social Services (PSS) Pay and Prices index. This review introduced a capital element and updated the weights accorded to the different cost elements.

1 Building Cost Information Service (2005) Indices and Forecasts, BCIS, Royal Institute of Chartered Surveyors, London.

2 Source [www.statistics.gov.uk/statbase](http://www.statistics.gov.uk/statbase).

3 Provided by the Department of Health.

The 2003/04 index has been calculated, and the 2002/03 index recalculated based on a new data source. An estimate for the projected index in 2004/05, based on the new data source, has also been produced.

The review also included a change in the way the Pay index is calculated, using data on rates of pay change for each occupation group in the PSS sector from the Annual Survey of Hours and Earnings (ASHE), published by ONS. An aggregate PSS pay index was calculated by weighting these pay changes by the occupation group's share of the total PSS paybill. This was carried out using Department of Health estimates of the proportion of whole time equivalent PSS staff in each group and 2004 ASHE data on mean pay for full-time employees in each group. Pay changes for 2004/05 were projected using an average of the deflated pay changes in past years. As in previous years, Her Majesty's Treasury's GDP deflator is used to deflate prices for non-staff revenue spend in the sector shown in table 3 below.

Tables 4 and 5 below set out the PSS Pay and Prices Inflater showing the index excluding the capital element and also including capital. This year instead of one index being used for all services, four different indices have been produced improving on the accuracy of cost estimates. See *Unit Costs of Health and Social Care 2004* for information prior to 2002<sup>1</sup>.

**Table 3**

Year	Personal Social Services Prices/Gross Domestic Product Deflator <sup>2</sup> Annual percentage increase	Tender Price Index for Public Sector Building (non-housing) (PUBSEC) <sup>2</sup>	
		Index (1995=100)	% increase
2001/02	2.5	130	9.2
2002/03	3.2	136	4.6
2003/04	2.6	145	6.6
2004/05	2.1	155	6.9

**Table 4**

Year	PSS All Sectors, All Clients <sup>2</sup>				PSS All Sectors, Adults Only <sup>2</sup>			
	Pay & Prices Index (excluding capital) (1992/3=100)	Annual percentage increases			Pay & Prices Index (excluding capital) (1992/3=100)	Annual percentage increases		
		Pay & Prices (excluding capital)	Pay & Prices (including capital)	Pay		Pay & Prices (excluding capital)	Pay & Prices (including capital)	Pay
2002/03	145.6	6.3	6.1	6.7	145.6	6.3	6.0	6.8
2003/04	151.4	4.0	4.3	4.2	151.4	4.0	4.3	4.2
2004/05(E)	157.9	4.3	4.6	4.6	158.0	4.3	4.7	4.7

**Table 5**

Year	PSS Local Authority, All Clients <sup>2</sup>				PSS Local Authority, Adults Only <sup>2</sup>			
	Pay & Prices Index (excluding capital) (1992/3=100)	Annual percentage increases			Pay & Prices Index (excluding capital) (1992/3=100)	Annual percentage increases		
		Pay & Prices (excluding capital)	Pay & Prices (including capital)	Pay		Pay & Prices (excluding capital)	Pay & Prices (including capital)	Pay
2002/03	145.6	6.3	6.2	6.5	145.9	6.5	6.5	6.8
2003/04	151.4	4.0	4.1	4.1	151.7	4.0	4.1	4.1
2004/05 (E)	157.9	4.3	4.5	4.5	158.4	4.4	4.6	4.6

1 Curtis, L. & Netten, A. (2004) *Unit Costs of Health and Social Care 2004*, Personal Social Services Research Unit, University of Kent.

2 Provided by the Department of Health.