

1 Background

1.1 Inflation has traditionally been added to the base budget as a blanket uplift on the pay (2007-08 £506k), non-pay (2007-08 £185k), and Income (2007-08 -£20). This approach has two drawbacks:

- It over-inflates some areas, where there is little or negative inflation, and under-inflates areas that have high inflation. Overall there is the belief that too much inflation is being built into the budget;
- It produces inaccurate budgets. Not only under and over-inflating areas, but also, by ignoring areas of cost that are offset by increased income, it understates total income and total expenditure. The most obvious example is inflation on Housing Benefits, which is offset by increased Government grant. The ever-present danger is that when there is a change in the level of support, the cost to the Council is overlooked. Table 1 sets out the Medium Term Planning assumptions, and shows where inflation is not added.

Table 1: Inflation - MTFP budgets 2007-08 £k

Line	Descriptor	2007-08	2008-09	2009-10	Comment
1	Pay	506	366	377	Direct pay 4% 2.75% 2.75% Indirect pay on specific items
3	Non pay:				
	Premises	38	41	42	3% 3% 3%
	Transport	51	54	55	3% 3% 3%
	Supplies & S	96	100	102	2% 2% 2%
	Third Party	0	0	0	
	Transfers	0	0	0	
	Sub total	185	195	199	
4	Income	-20	-22	-22	3% 3% 3%
5	MTFP control total	671	539	554	

2 Analysis

2.1 The approach for 2007-10 is to apply inflation on an exception basis. Inflation is only added if it is contractually or quasi-contractually committed, at 2% or the rate stated in the relevant agreement. The results represent a work in progress.

2.2 Pay inflation has been adulterated with other pay changes we have analysed (see Annex 11); in the time available, we have not carried the detailed analysis into the figures presented in the main report. However, the overall result is that the pay costs are equal to the MTFP target of £506k.

2.3 The non-pay inflation has required officers to re-acquaint themselves with budget details that they had previously not been required to know. In the time available, good work has been undertaken. However there could still be areas of activity that are not fully understood, which will become clear in the first 6 months of

2007-08. That is why, although the inflation comes to less than the MTFP, the prudent approach is to retain the 'unused' budget as a "contingent budget". This will only be distributed by the Executive on a case-by-case basis through the in-year monitoring reports. This is a **recommendation** in the main report.

2.4 Table 2 sets out the position on non-pay inflation.

Table 2: Inflation on non-pay for 2007-08 £k

Line	Factors	2007-08	2008-09	2009-10
1	Premises	14.2		
2	Transport.	0		
3	Supplies & S	17.0		
4	Third Party	9.7		
5	Transfers	0		
6	Sub total	40.9		
7	Contingent budget	144.1		
	Total	185.0	195	199

2.5 Although the work on the inflation on income is at an early stage, a large increase in Housing Benefit Administration grant (of £37k) is shown in the Savings schedule, rather than here. To avoid double counting, the inflation target of £20k- for 2007-08, has been excised.

2.6 Officers will report back on progress in identifying inflation, to the Executive, so that the matter can be closed, by the summer of 2007.