

## Sensitivity Analysis

We have calculated a sensitivity analysis of our key variables in order to quantify the potential financial impact on the budget. These sensitivities are shown below.

### **Business Rates Retention sensitivity**

This area carries a high level of risk for the Council as the new retained business rates scheme is based on a cash amount and therefore reduced cash receivable will impact the Council. The sensitivities below are based on differing forecast Business Rates income.

Reductions and Increases in Business Rates income collected:

Description	Breckland share of increased/(reduced) income		
	2014-15	2015-16	2016-17
Pessimistic forecast (includes reduction of 1% pa)	(59,721)	(121,345)	(186,472)
Optimistic forecast (includes growth estimates)	29,480	322,992	504,414

A 'Safety Net' is in place to protect local authorities from large decreases in Business Rates income, for Breckland the maximum income lost for 2014-15 would be £463,148 (or an 12.2% reduction in overall business rates).

The assumed Business Rates collection rate is 99% which has historically been achieved, any reduction in collection rate will reduce the income retained by the Council.

Additional income may be received relating to Small Business Rate Relief (SBRR) costs for 2013-14. The final amount is not yet known, but is likely to be 20% of the overall cost received partly in 13-14 and partly in 14-15. The total receivable over the two years could be in the region of £431k.

### **Localised Council Tax Benefit Demand sensitivity**

The cost of the 14-15 new localised council tax support scheme is based on the estimated lost council tax income resulting from the reduction in tax base.

Demand increase	Total Increased Cost	Breckland share of increased cost	Breckland & Parish share of increased cost
1%	84,144	3,913	7,876
2%	168,288	7,825	15,752
5%	420,720	19,563	39,379
10%	841,439	39,127	78,759
20%	1,682,879	78,254	157,517

The estimated council tax collection rate for 2014-15 is 98.52%, the table below shows the estimated impact of reduced collection rates based on the forecast total council tax income for 14-15.

Collection Rate	Total Lost Income	Breckland share of lost income	Breckland & Parish share of lost income
98.02%	282,218	13,123	26,416
97.52%	564,436	26,246	52,831
97.02%	846,654	39,369	79,247
96.52%	1,128,871	52,493	105,662

### **Return on cash investments sensitivity**

One of the most significant factors outside of the Council's control is interest rates, investment income will be closely monitored and our return on investments will not be at the expense of security and liquidity.

Average rate of return	Average cash balances				
	14,962,000	19,962,000	24,962,000	29,962,000	34,962,000
Annual investment income					
0.120%	17,954	23,954	29,954	35,954	41,954
0.620%	92,764	123,764	154,764	185,764	216,764
1.120%	167,574	223,574	279,574	335,574	391,574
1.620%	242,384	323,384	404,384	485,384	566,384

### **Contract Inflation Sensitivity**

Many of the Council's major contracts are in some way linked to differing inflation rates. The table below shows the financial impact of percentage increases/decreases above the inflation rates budgeted for in 2014-15 for the Council's major value contracts.

Contract Area	% inflation increase/decrease compared to budgeted figure			
	+/- 0.5%	+/- 1.0%	+/- 1.5%	+/- 2.0%
Waste Collection	22,334	44,669	67,003	89,337
Leisure PFI	9,768	19,535	29,303	39,071
Planning & Building Control	11,080	22,160	33,240	44,321
NCC ICT	3,473	6,946	10,419	13,892
<b>TOTAL</b>	<b>46,655</b>	<b>93,310</b>	<b>139,966</b>	<b>186,621</b>

Any increase would have a compounding financial effect on future years contract costs.

### **Additional Capital Expenditure Sensitivity**

Additional capital expenditure above that budgeted for creates an additional revenue cost as a result of lost interest on the funds which would previously have been invested. The table below shows the effect of additional capital spend on the revenue budget.

Capital Spend Amount	Additional Cost to Revenue Budget		
	2014-15	2015-16	2016-17
£250,000	£1,550	£1,475	£1,875
£500,000	£3,100	£2,950	£3,750
£1,000,000	£6,200	£5,900	£7,500

If borrowing was required to fund a capital programme this would also have an impact on the revenue budget.

Borrowing of £1m over 10 years would have the following revenue cost per year:

	Year 1	Cumulative 10 year
Interest (based on PWLB rate of 2.66%)	26,600	152,054
Provision for repayment of principal	88,605	1,000,000
<b>Total Revenue Cost</b>	<b>115,205</b>	<b>1,152,054</b>

### **Other Sensitivity**

Pension auto-enrolment - If all staff joined the pension scheme it would increase the costs to the council by around £125k - £130k per year.