

## 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		
	2015-16	2016-17	2017-18
Prudent forecast (includes reduction of 2% pa)	(216,917)	(252,198)	(307,719)
Optimistic forecast (includes growth estimates)	222,873	370,084	342,095

A 'Safety Net' is in place to protect local authorities from large decreases in Business Rates income, for Breckland the maximum income lost for 2015-16 would be £1,216k (or a 10.2% reduction in overall business rates).

An allowance for lost income relating to Business Rates appeals is incorporated into the estimated retained income. The current appeals level is estimated as 1.26% of overall rates income. Each 0.5% change in the appeals level equates to an overall change of £191k (around £38k effect to Breckland).

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.

The estimated council tax collection rate for 2015-16 is 98.56%. Each 0.5% change in this collection rates equates to an overall change in Council Tax income of £601k overall (around £28k effect to Breckland).

### **Government Settlement sensitivity**

Only a small amount of the Local Government Settlement is now received in the form of Revenue Support Grant (RSG), the remainder of funding is received through NNDR receipts, New Homes Bonus income and other smaller Government non-ring fenced (S31) grants.

The budget assumes a reduction in RSG based on the LGA forecast of:

	2015-16	2016-17	2017-18	2018-19
RSG reduction	-30.9%	-21.3%	-23.51%	-29.4%
RSG forecast	£2,756,259	£2,168,073	£1,658,370	£1,170,382

If the RSG reductions were larger in value the lost income to the council (compared to above) would be:

	2016-17	2017-18	2018-19
40% reduction	(514,318)	(666,117)	(575,030)
30% reduction	(238,692)	(307,803)	(224,985)

### **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				
	14,000,000	19,000,000	24,000,000	29,000,000	34,000,000
Annual investment income					
0.250%	35,000	47,500	60,000	72,500	85,000
0.750%	105,000	142,500	180,000	217,500	255,000
1.250%	175,000	237,500	300,000	362,500	425,000
1.750%	245,000	332,500	420,000	507,500	595,000

### **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 2015-16 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	23,108	46,217	69,325	92,434
Leisure PFI	9,768	19,535	29,303	39,071
Planning & Building Control	11,232	22,465	33,697	44,930
NCC ICT	3,394	6,788	10,181	13,575
<b>TOTAL</b>	<b>47,502</b>	<b>95,005</b>	<b>142,507</b>	<b>190,010</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		
	2015-16	2016-17	2017-18
£250,000	£1,875	£3,050	£4,200
£500,000	£3,750	£6,100	£8,400
£1,000,000	£7,500	£12,200	£16,800

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 2.50%)	25,000	142,588
Provision for repayment of principal	89,259	1,000,000
<b>Total Revenue Cost</b>	<b>114,259</b>	<b>1,142,588</b>