

## 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 retained business rates scheme is based on a cash amount and therefore reduced cash receivable will impact the Council.

A 'Safety Net' is in place to protect local authorities from large decreases in Business Rates income, for Breckland the maximum income lost for 2016-17 would be around £1,155k (or a 9.3% reduction in overall business rates).

An allowance for lost income relating to Business Rates appeals is incorporated into the estimated retained income. The appeals level in future years is estimated as 1.5% of overall rates income. Each 0.5% change in the appeals level equates to an overall change of £375k (around £150k 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.

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

Another factor 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				
	11,000,000	16,000,000	21,000,000	26,000,000	31,000,000
<b>Annual investment income</b>					
<b>0.400%</b>	44,000	64,000	84,000	104,000	124,000
<b>0.900%</b>	99,000	144,000	189,000	234,000	279,000
<b>1.400%</b>	154,000	224,000	294,000	364,000	434,000
<b>1.900%</b>	209,000	304,000	399,000	494,000	589,000

### **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 2016-17 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	23,131	46,262	69,392	92,523
Leisure PFI	11,093	22,186	33,280	44,373
Planning & Building Control	11,443	22,886	34,329	45,772
NCC ICT	3,418	6,837	10,255	13,673
<b>TOTAL</b>	<b>49,085</b>	<b>98,171</b>	<b>147,256</b>	<b>196,342</b>

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

### **New Homes Bonus**

The growth in homes within Breckland has brought significant reward through the new homes bonus (NHB) and this is partly re-invested in future years. The current Government consultation on NHB introduces the potential for reduced NHB eligibility in future years:

- NHB may only be payable if a Local Plan has been produced and submitted by 31<sup>st</sup> March 2017.
- On the basis that some growth will occur naturally regardless of a local authority's actions, the consultation introduces a potential "deadweight" of 0.25% of housing growth. This would mean NHB is not payable on the first 0.25% of housing growth. If this is implemented it would reduce the income to Breckland by around £150k per year.
- Another proposal is to reduce by 50% or remove the NHB for homes where planning permission was granted on appeal. Based on historic information this could reduce NHB by around £85k for the Council.

### **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.

<b>Capital Spend Amount</b>	<b>Additional Cost to Revenue Budget</b>		
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>
£250,000	£2,250	£3,750	£5,000
£500,000	£4,500	£7,500	£10,000
£1,000,000	£9,000	£15,000	£20,000

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:

	<b>Year 1</b>	<b>Cumulative 10 year</b>
Interest (based on PWLB rate of 2.27%)	22,700	129,050
Provision for repayment of principal	90,205	1,000,000
<b>Total Revenue Cost</b>	<b>112,905</b>	<b>1,129,050</b>