

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 2018-19 would be around £3,519k (or a 27% 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 for future years is set at 1.5% of overall rates income. Each 0.5% change in the appeals level equates to an overall change of £214k (around £85k 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.

Avg rate of return	Average cash balances				
	2,800,000	7,800,000	12,800,000	17,800,000	22,800,000
Annual investment income					
0.500%	14,000	39,000	64,000	89,000	114,000
1.000%	28,000	78,000	128,000	178,000	228,000
1.500%	42,000	117,000	192,000	267,000	342,000

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 2018-19 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	24,018	48,035	72,053	96,070
Leisure PFI	10,672	21,345	32,017	42,689
Planning & Building Control	11,760	23,520	35,280	47,040
TOTAL	46,450	92,900	139,349	185,799

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		
	2018-19	2019-20	2020-21
£250,000	£938	£1,875	£2,500
£500,000	£1,875	£3,750	£5,000
£1,000,000	£3,750	£7,500	£10,000

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:

	Year 1	Cumulative 10 year
Interest (based on PWLB rate of 1.88%)	18,800	106,287
Provision for repayment of principal	91,829	1,000,000
Total Revenue Cost	110,629	1,106,287