

## 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 and this risk increases with the 75% retention scheme from 2021-22.

A 'Safety Net' is in place to protect local authorities from large decreases in Business Rates income (i.e. from appeals, businesses moving, etc.), for Breckland the maximum income lost for 2020-21 would be around £1,727k (or a 13% reduction in overall business rates). There is currently funding held in the revenues and benefits reserve allocated to protect the Council in any one year from a significant loss in business rates income.

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				
	11,401,110	16,401,110	21,401,110	26,401,110	31,401,110
	<b>Annual investment income</b>				
<b>0.350%</b>	39,904	57,404	74,904	92,404	109,904
<b>0.850%</b>	96,909	139,409	181,909	224,409	266,909
<b>1.350%</b>	153,915	221,415	288,915	356,415	423,915
<b>1.850%</b>	210,921	303,421	395,921	488,421	580,921

### **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 2019-20 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	25,978	51,956	77,935	103,913
Leisure PFI	11,752	23,504	35,256	47,007
Planning & Building Control	12,058	24,117	36,175	48,233
<b>TOTAL</b>	<b>49,788</b>	<b>99,577</b>	<b>149,365</b>	<b>199,153</b>

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

### **Commercial Property Rental Income Sensitivity**

The budget includes £3,305k of rental income from property. This area of income is subject to change from market conditions and therefore a 'buffer fund' has been created which can be used to protect the council in the short term in the event of large voids or timing between disposal and acquisition of properties.

Each 1% change in rental income equates to a £33k change in the overall budget.

### ***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>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
£250,000	£2,125	£2,800	£3,250
£500,000	£4,250	£5,600	£6,500
£1,000,000	£8,500	£11,200	£13,000

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 2.55%)	25,500	145,542
Provision for repayment of principal	89,054	1,000,000
<b>Total Revenue Cost</b>	<b>114,554</b>	<b>1,145,542</b>