

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 2020-21.

A 'Safety Net' is in place to protect local authorities from large decreases in Business Rates income, for Breckland the maximum income lost for 2019-20 would be around £3,503k (or a 29% 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.

An allowance for lost income relating to Business Rates appeals is already incorporated into the estimated retained income. The appeals level for future years is set based on expected appeals under the new 'Check-Challenge-Appeal' system. Each 0.5% change in the appeals level equates to an overall change of £220k (around £88k 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				
	14,209,000	19,209,000	24,209,000	29,209,000	34,209,000
Annual investment income					
0.450%	63,941	86,441	108,941	131,441	153,941
0.950%	134,986	182,486	229,986	277,486	324,986
1.450%	206,031	278,531	351,031	423,531	496,031
1.950%	277,076	374,576	472,076	569,576	667,076

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	24,919	49,839	74,758	99,677
Leisure PFI	11,150	22,300	33,451	44,601
Planning & Building Control	11,590	23,179	34,769	46,359
TOTAL	47,659	95,318	142,978	190,637

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

Commercial Property Rental Income Sensitivity

The budget includes £3,435k 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 £34k 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.

Capital Spend Amount	Additional Cost to Revenue Budget		
	2019-20	2020-21	2021-22
£250,000	£2,375	£3,450	£3,875
£500,000	£4,750	£6,900	£7,750
£1,000,000	£9,500	£13,800	£15,500

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 1.88%)	21,400	121,435
Provision for repayment of principal	90,744	1,000,000
Total Revenue Cost	112,144	1,121,435