

Equalisation Methodology

1. Equalisation Method

- 1.1. In the circumstances, a Net Present Value (NPV) calculation of all cash outflows using the interest rate and duration applicable to each loan is the appropriate method to use to determine the current value of all future liabilities arising from the transfer of these loans. This is because NPV calculations consider the value to be repaid, the interest rate and duration of each loan to arrive at an overall liability.
- 1.2. To arrive at each authority's liability, the NPV of Northamptonshire County Council's (NCC) loan portfolio can be shared based on the agreed proportional split. A separate calculation of the NPV of the revised allocations is undertaken. The resulting proportional share of the overall NPV for each authority, which accurately represents what each authority's actual liability should be can then be compared to the NPV of the revised allocations. The difference between the two (i.e. NPV allocation under CT basis and NPV of revised allocations) would be the assessed equalisation payment that is due from one of the authorities to the other.

2. Results of NPV Calculations

- 2.1. A summary of the outcome of the NPV calculations of all cash outflows is presented in Table 1 below. A discount rate of 3.5% which is the rate recommended in the Green Book for measuring the time value of money over a long period is used in the NPV calculations.

Table 1

Organisation	NPV of Interest & Principal (£'000)	NPV on Council Tax Basis (£'000)	Adjustment to be applied (£'000)
North	238,315	238,507	193
PWLB	178,528		
Market Debt	10,884		
LOBO's	48,903		
West	295,976	295,783	-193
PWLB	217,508		
Market Debt	15,843		
LOBO's	62,624		
Grand Total	534,291	534,291	

3. Review of Results

- 3.1. The result of the analysis, per above table, shows that NNC should pay £193k to WNC.
- 3.2. Table 2 compares the revised allocations for each authority against the true liability over the life of the loans based on the NPV of cashflows based on each authority's revised allocations. It shows the NPV of cashflow for each authority based on the revised allocation. The table shows that NNC's allocation is slightly below the agreed council tax split and conversely WNC shows a slightly higher level by the same percentage. This analysis supports the conclusion that an equalisation payment (£193k) should be paid by NNC to WNC.

Table 2

	Principal Outstanding (£'000)	NPV (Cashflows) of Revised Allocations (£'000)	NPV (Cashflows) Loan Split (%)	Council Tax Split (%)	NPV of Actual Cashflow vs Agreed (%)
North	237,500	238,315	44.60%	44.64%	0.04%
West	294,730	295,976	55.40%	55.36%	-0.04%
Grand Total	532,230	534,291	100.00%	100.00%	0.00%

- 3.3. The principal amount, interest rate and duration are accounted for in the total cash outflows which are then adjusted for the time value of money by discounting using the discount rate (3.5%) recommended in the Green Book.