

## EXECUTIVE 19<sup>th</sup> May 2022

<b>Report Title</b>	<b>Loan Disaggregation</b>
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<b>Lead Member</b>	Councillor Lloyd Bunday, Executive Member for Finance and Transformation

<b>Key Decision</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Is the decision eligible for call-in by Scrutiny?</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b>Are there public sector equality duty implications?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Does the report contain confidential or exempt information (whether in appendices or not)?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Applicable paragraph number for exemption from publication under Schedule 12A Local Government Act 1974</b>	

### List of Appendices

#### Appendix A – Equalisation methodology

#### 1. Purpose of Report

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- 1.1 The purpose of this report is to request approval for the proposed final allocation of the loans previously held by the former Northamptonshire County Council which are to be disaggregated between North Northamptonshire Council and West Northamptonshire Council based on disaggregation principles that were agreed prior to vesting day on 1<sup>st</sup> April 2021.

#### 2. Executive Summary

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- 2.1 This report contains details of the proposed allocation of the loan portfolio for the former Northamptonshire County Council between North Northamptonshire Council and West Northamptonshire Council following Local Government Reorganisation.
- 2.2 The overall loan portfolio to be disaggregated totals £532.23m based on the value of the loans as at 31<sup>st</sup> March 2021 as this was the date that the

disaggregation would be effective from. The disaggregation methodology agreed between the two Councils, following independent work undertaken by LINK Asset Group on behalf of the two Councils, was to distribute the loans pro rata to the Council Tax Base 2020/21 for each of the successor Unitary Councils. The use of Council Tax base as a suitable methodology for disaggregation follows consideration of the approach used by Councils in other areas that have undergone Local Government Reorganisation. Using Council Tax Base resulted in a proposed distribution of 44.64% to North Northamptonshire Council and 55.36% to West Northamptonshire Council.

- 2.3 However, whilst a proportionate split of the total loan book has been agreed, each individual loan agreement must transfer in its entirety to one Council or the other. Therefore, the portfolio of the loans held by the former County Council must be distributed in a way which, overall, replicates the proportionate split as closely as possible and also distributes the loans fairly in terms of repayment periods and interest applying.
- 2.4 Ultimately, however, there will inevitably be a comparatively small imbalance between the two Councils due to the vagaries of the former County Council's loan portfolio. Therefore, a payment will be required from one Council to the other to equalise the split and ensure that no Council is disadvantaged overall as a result of the allocation of the loan book. Applying the proposed split and a discount rate of 3.5% based on the Green Book<sup>1</sup> would require an equalisation payment from North Northamptonshire Council to West Northamptonshire Council of £193k.
- 2.5 Once the recommendations in this paper are approved the loans will be novated to each of the respective Councils.

### **3. Recommendations**

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- 3.1 It is recommended that Executive:
  - a. Note the disaggregation of the former County Council loan book based on the agreed methodology of Council Tax base 2020/21 and the novation of individual loans to reflect this split as closely as possible, including the consideration of the repayment requirements.
  - b. Approve an equalisation payment of £193k to West Northamptonshire Council based on the proposed split of the loan book.
  - c. Delegate authority to the Executive Member for Finance and Transformation in consultation with the Executive Director of Finance and the Monitoring Officer to finalise the novation of the loans to North Northamptonshire Council.

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<sup>1</sup> The Green Book: appraisal and evaluation in central government - HM Treasury guidance on how to appraise and evaluate policies, projects, and programmes (pg. 116) - [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/938046/The\\_Green\\_Book\\_2020.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938046/The_Green_Book_2020.pdf)

3.2 Reasons for Recommendation are set out in greater detail within section 5 of the report, but can be summarised as:

- To note proposed split of the loan book of the former County Council to North Northamptonshire Council and West Northamptonshire Council and based on the detailed review in section 5, recommend the equalisation payment to West Northamptonshire of £193k.

3.3 Alternative Options Considered:

- The proposed distribution of the former County Council loans was made to closely reflect the agreed proportionate split of 44.64% and 55.36% between North Northamptonshire Council and West Northamptonshire Council respectively. The value of each loan, repayment timeline and interest rates were considered in order that each Authority had a comparable and fair distribution. Alternative options would be to alter the individual loans allocated to each Local Authority which would affect the profiling and any settlement payment. The allocation of the loans, that form the basis for this report, has been agreed with West Northamptonshire Council (S151 Officer). There is, therefore, no alternative option proposed.

## 4. Report Background

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4.1 The principles of disaggregation had been established for the vast majority of the County Council balance sheet items through the work of the Task and Finish Group established under the Shadow Authority arrangements. As part of this exercise and to ensure that the loans were distributed on a fair and equitable basis, independent external advice was sought to consider the options.

4.2 Link Asset Group were engaged to provide the two shadow unitary authorities with options on which to base the disaggregation of the County Council loan debt which totalled £532.23m as at March 2021. This included consideration of the methodology applied in previous instances where Councils had been re-organised.

4.3 Based on the options put forward and discussion between representatives of the two Shadow Authorities, it was agreed that the distribution of the loan debt should reflect the Council Tax Base as at 2020/21 for each of the new Unitary Authorities. This resulted in a proposed allocation of the loan debt as shown in the table below:

<b>Council</b>	<b>Allocation %</b>	<b>Loan Debt £m</b>
North Northamptonshire	44.64	237.60
West Northamptonshire	55.36	294.63
<b>TOTAL</b>	<b>100.00</b>	<b>532.23</b>

4.4 Whilst the overall allocation had been agreed, work was then required to assign each of the individual loans to either North Northamptonshire Council or West

Northamptonshire Council to reflect the proportionate allocation as the loans themselves cannot be split.

- 4.5 The majority of the loan portfolio is provided through the Public Works Loan Board (PWLB), with the remainder being market debt attributable to banks, LOBO arrangements and other Local Authorities. The distribution is shown below:

<b>Lender</b>	<b>Loan Debt Amount £m</b>	<b>%</b>
PWLB	412.23	77.45
Market Debt (Banks, Other LAs)	25.00	4.70
LOBOs	95.00	17.85
<b>TOTAL</b>	<b>532.23</b>	

- 4.6 The financial institutions providing the loans are aware that they will need to be novated to either North Northamptonshire Council or West Northamptonshire Council once the individual allocation has been determined. Currently all the ex-County Council loans are held by West Northamptonshire Council on an interim basis following the cessation of the former County Council.

## **5. Issues and Choices**

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- 5.1 The allocation of the loans results in North Northamptonshire Council being allocated £237.6m (44.6%) of the total debt.
- 5.2 As individual loans cannot be divided up between the two Councils, it is not possible to allocate the legacy County Council loans in a way that allows each authority's allocation to match exactly back to the agreed proportional split of 44.64% to NNC and 55.36% to West Northamptonshire Council. Aside from the variation in principal value, there are disparities between the average interest rate and duration of loans in the allocations. The restriction on splitting of individual loans also means that it is not possible to get the weighted average interest rate and weighted average life of allocations to match exactly back to the portfolio averages.
- 5.3 The table below highlights the discrepancies described above. It shows that the average interest rate and average life of the loans between the two authorities based on the revised allocations do not match each other exactly. The averages for each Council do not match the weighted average interest rate and weighted average life of the portfolio at 3.474% and 35.848 years respectively. Given these disparities and the fact that each element of value, interest rate and duration impact on overall liability, a form of equalisation payment is required to ensure that the total cost (liability) of servicing and repaying each authority's allocation is in line with the agreed proportional split of 44.64% to North Northamptonshire Council and 55.36% to West Northamptonshire Council.

	Council Tax Percentage Split (%)	Share of NCC Loans	Percentage Share of Loans	Weighted Avg Rate	Weighted Avg Life (Yrs)
<b>NCC Portfolio</b>	<b>100.00%</b>	<b>532,230</b>	<b>100.00%</b>	<b>3.474%</b>	<b>35.848</b>
North	44.64%	237,500	44.62%	3.467%	35.784
West	55.36%	294,730	55.38%	3.480%	35.901

5.4 To achieve this an equalisation methodology needs to be adopted, which is outlined in **Appendix A**.

5.5 This looks at applying a net present value (NPV) calculation to the loan portfolio, considering the future cash payments over the loan duration and interest payments of each loan. 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.

5.6 A summary of the NPV calculations is shown in the table below:

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

5.7 As shown in the table above, in order to ensure equity and that each authority's loans allocation is commensurate with their liability under the agreed proportional split (i.e. 44.64% to NNC and 55.36% to WNC), WNC should receive a payment equivalent to the difference between the NPV of WNC's share of the revised allocations and what its share should have been based on the agreed proportional split of the NPV of total cashflows which, using the methodology and discount rate set out in this report, equates to £193k.

## **6. Implications (including financial implications)**

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### **6.1 Finance and Transformation**

6.1.1 Disaggregating the loan debt on the basis of Council Tax 2020/21 and applying the equalisation methodology to ensure that the split of the individual loans reflects that proportion results in a non-recurring financial payment from North Northamptonshire Council to West Northamptonshire Council of £193k.

### **6.2 Legal**

6.2.1 As part of the transfer of the assets from Northamptonshire County Council, there is a legal obligation to transfer across loans into the name of North Northamptonshire Council.

### **6.3 Risk**

6.3.1 There are no significant risks arising from the proposed recommendations in this report.

### **6.4 Consultation**

6.4.1 None specific to this report.

### **6.5 Climate Impact**

6.5.1 None specific to this report.

### **6.6 Community Impact**

6.6.1 None specific to this report.

### **6.7 Crime and Disorder Impact**

6.7.1 None specific to this report.

## **7. Background Documents**

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7.1 Review and options analysis report by Link Asset Group