It's Our County: response to key decision "The rescheduling of debt repayment costs".

It is disappointing that, once again, this decision notice was circulated without the necessary background information (and in this case data) from officers to enable properly informed comments to be made. We are however grateful to the Head of Corporate Finance for providing, on request, more detail and context for the decision notice.

Our concerns about the proposed change to MRP policy centre on the following: the new policy appears to minimise the debt interest costs charged against revenue in-year, and to push these costs 'downstream' into later years. This would effectively disguise the cash flow impact, the real impact of borrowings and increase the accruals shown in the balance sheet, but would only give an illusory impression of a more favourable financial position for the council by spreading these borrowing costs over a longer term, with consequently longer repayment periods and therefore greater interest paid.

The Head of Corporate Finance states that the proposed rescheduling is intended to "match the flow of benefits generated by the assets funded from borrowing to the annual MRP charge"; and to reflect "the economic benefit the council receives from using the asset to deliver services over its useful life". The claim that the proposed change in policy "will result in savings, due to the annuity debt repayment method being the cheapest MRP option *in early years*" (our italics), is also noted.

These statements and claims give rise to more specific concerns, and beg a number of questions:

Have changed circumstances in interest charged on borrowings driven this proposed change now? And what is the 'best practice' recommendation of professional accounting bodies?

How will the "useful life" of an asset be determined? On disposal of an asset, would accumulated interest held in the balance sheet as a creditor be charged in full to the revenue accounts – potentially a large 'in year' negative impact?

What sort of capital assets will the policy apply to, and what sort of assets will be handled in the current - or another - manner, and why? Whilst aligning costs to income – eg rental income from property – is understandable, what about assets such as highways, which have been considered for inclusion as a capital asset but which cannot be sold as property?

What rate would be applied to the interest calculation over the "useful life" of an asset? Since current rates could hardly be lower, would higher rates and costs in later years be recognised in early years accounting and budgeting or are we always borrowing at fixed rates?

How is this proposal related to the issues being raised by Grant Thornton, in their role as external auditor, concerning the valuations placed on the council's asset portfolio?

Finally, we would like to see an example for a specific asset of how the accounts would look; and to have an explanation of how the actual annual costs of debt interest and repayments would be presented in financial statements.

Cllr Anthony Powers, group leader, on behalf of It's Our County
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