Audit Committee – Supplementary agenda No.2

A meeting of the Audit Committee will be held on:

Date:	29 July 2019
Time:	7.00pm
Venue:	Meeting Room 9 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

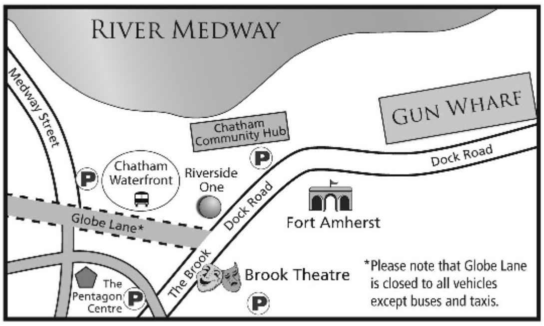
Items

5. Audit Findings Report 2018/19 and Statement of Accounts 2018/19 **(Pages 3 - 24)**

Please find enclosed an addendum report which details amendments to the Statement of Accounts.

For further information please contact Michael Turner, Democratic Services Officer on Telephone: 01634 332817 or Email: democratic.services@medway.gov.uk

Date: 26 July 2019



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A summary of this information can be made available in other formats from **01634 333333**

If you have any questions about this meeting and you want to speak to someone in your own language please ring **01634 335577**

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Medway Council
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AUDIT COMMITTEE

29 JULY 2019

AUDIT FINDINGS REPORT 2018/19 AND STATEMENT OF ACCOUNTS 2018/19 - ADDENDUM REPORT

Report from: Phil Watts, Chief Finance Officer

Author: Katey Durkin, Head of Finance Strategy

Summary

This report details amendments to the Statement of Accounts presented in item 5 of the Agenda.

1. Budget and Policy Framework

1.1 The Audit Commission's Code of Audit Practice and International Standard of Auditing (ISA 260) requires the results of the audit to be reported to those charged with governance. This Committee has been delegated with the responsibility for considering these reports and agreeing the Council's response. In addition, the Committee, on behalf of the Council, must explain reasons for not adjusting the Statement of Accounts for the issues raised within the auditor's report. All amendments to factual data have been made.

1.2 The Accounts and Audit Regulations 2015 require that the Audit Committee consider these issues by 31 July 2019.

2. Background

2.1 The draft Statement of Accounts for 2018/19 (agenda item 5) has been found to require some further amendments, in the main due to an error in which an out of date version of some elements was sent for publication in the agenda. In addition, as the Auditors have continued work to complete their Audit they have identified some further, minor amendments.

2.2 The elements of the Statements that have been amended are presented in the appendices of this Addendum Report, with those figures changed highlighted in red. The remainder of the Statements remain as published in the main agenda.

2.3 None of these amendments have any overall impact on the reported net expenditure for the year ending 31 March 2019.

3. Amendments to the Statements

3.1 The Amendments made since the publication are as follows:

3.2 Comprehensive Income & Expenditure Statement (CIES, Appendix 1 to this report) – As reported in Appendix C of the Audit Findings Report, the amendments made correct the erroneous grossing up of grant income and expenditure in the draft statements; there is no impact on the bottom line of the CIES.

3.3 Balance Sheet, and Note 32 – Creditors (Appendices 2 and 3 to this report) – As reported in Appendix C of the Audit Findings Report, the amendments made correct the classification of investments between short term and long term investments; there is no impact on the bottom line of the Balance Sheet.

3.4 Movement in Reserves Statement (MiRS, Appendix 4 to this report) – The amendments correct the subtotals, which were incorrect in the original version; there is no impact on the bottom line of the MiRS.

3.5 Note 14 – Officers Remuneration (Appendix 5 to this report) – As reported in Appendix C of the Audit Findings Report, the amendments made correct the errors in the original Note; there is no impact on the core financial statements.

3.6 Note 25 – Financial Instruments (Appendix 6 to this report) – The amendments reflect additional disclosures agreed with the Auditor; there is no impact on the core financial statements.

3.7 Note 35 – Capital Adjustment Account within Unusable Reserves (CAA, Appendix 7 to this report) – The amendments correct an error on revaluation gains and a compensating adjustment on the amounts written off on disposal; there is no impact on the bottom line of the CAA.

Lead officer contact
Andy McNally-Johnson, Finance Business Partner – Corporate Reporting,
andy.mcnallyjohnson@medway.gov.uk

Appendices
Appendix 1 – Amended CIES
Appendix 2 – Amended Balance Sheet
Appendix 3 – Amended Note 32 – Creditors
Appendix 4 – Amended MiRS
Appendix 5 – Amended Note 14 – Officers Remuneration
Appendix 6 – Amended Note 25 – Financial Instruments
Appendix 7 – Amended Note 35 – Capital Adjustment Account

Background papers
None

Appendix 1

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2017/18			Service	Notes	2018/19		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
111,124	(105,843)	5,281	Business Support Department		104,090	(95,206)	8,883
280,577	(153,593)	126,984	Children's and Adults		272,384	(142,024)	130,360
10,342	(14,426)	(4,084)	Local authority housing (HRA)		8,791	(14,358)	(5,567)
(6,299)	0	(6,299)	Local authority housing (HRA) – reversal of impairments		0	0	0
16,518	(18,803)	(2,285)	Public Health		14,948	(17,947)	(2,999)
119,548	(41,730)	77,818	Regeneration, Culture, Environment and Transformation		130,638	(48,906)	81,732
531,809	**(334,395)**	**197,414**	**Cost of Services**		**530,850**	**(318,441)**	**212,409**
42,889	0	42,889	Other operating expenditure	9	3,894	0	3,894
19,928	(4,942)	14,986	Financing and investment income and expenditure	10	16,000	(4,155)	11,845
0	(195,562)	(195,562)	Taxation and non-specific grant income and expenditure	11	0	(211,642)	(211,642)
594,628	**(534,899)**	**59,728**	**(Surplus) or Deficit on Provision of Services**		**550,745**	**(534,239)**	**16,506**
		Items that will not be reclassified to the (Surplus) or Deficit on the Provision of Services					
		(26,446)	Surplus on revaluation of property, plant and equipment assets	35			(58,128)
		5,160	Revaluation losses on non-current assets charged to the Revaluation Reserve	35			14,027
		(26,581)	Re-measurement of net defined pension liability/(asset)	36			(34,558)
		(47,868)					**(78,658)**
		Items that may be reclassified to the (Surplus) or Deficit on the Provision of Services					
		470	(Surplus)/deficit on revaluation of available for sale financial assets	35			0
		470					**0**
		(47,398)	**Other Comprehensive Income and Expenditure**				**(78,658)**
		12,331	**Total Comprehensive Income and Expenditure**				**(62,152)**

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Appendix 2

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations.

31 March 2018 £'000	Balance Sheet Summary	Notes	31 March 2019 £'000
653,637	Property Plant & Equipment	21	689,148
16,983	Heritage Assets	22	17,436
8,443	Investment Property	24	16,967
2,422	Intangible Assets		1,842
32,428	Long Term Investments	25	22,725
538	Long Term Debtors	29	1,033
714,452	**Long Term Assets**		**749,150**
122	Inventories		83
5,100	Short Term Investments	25	17,076
55,569	Short Term Debtors	29	75,546
12,235	Cash and Cash Equivalents	31	3,764
73,027	**Current Assets**		**96,469**
(68,941)	Short Term Borrowing	25	(41,656)
(42,281)	Short Term Creditors	32	(41,363)
(21)	Finance Leases > 1 Year	28	(21)
(4,213)	Provisions (Short Term)	33	(5,393)
(115,456)	**Current Liabilities**		**(88,434)**
(34,346)	Long Term Creditors	32	(33,244)
(5,843)	Provisions (Long Term)	33	(10,509)
(171,288)	Long Term Borrowing	25	(211,861)
(277,740)	Other Long Term Liabilities	28,36	(261,345)
(5,711)	Grants Receipts in Advance - Capital	17	(978)
(494,927)	**Long Term Liabilities**		**(517,937)**
177,096	**Net Assets**		**239,248**
(32,668)	Usable Reserves	MiRS	(40,532)
(144,428)	Unusable Reserves	35	(198,716)
(177,096)	**Total Reserves**		**(239,248)**

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Appendix 3

Note 32. Creditors

31 March 2018				31 March 2019		
Long-Term £'000	Short-Term £'000	Total £'000		Long-Term £'000	Short-Term £'000	Total £'000
(318)	(24,495)	(24,813)	Trade payables	(577)	(35,822)	(36,399)
(34,028)	(17,786)	(51,814)	Other payables	(32,666)	(5,541)	(38,208)
(34,346)	**(42,281)**	**(76,627)**	**Total Creditors**	**(33,244)**	**(41,363)**	**(74,607)**

This note has been reclassified for 2017/18 to reflect new disclosure requirements for 2018/19 onwards in order to give a direct comparison between years.

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Appendix 4

Movement in Reserves Statement (continued)

2018/19	Notes	Revenue Reserves						Capital Reserves					
		General Fund Balance £000s	Earmarked General Fund Reserves £000s	Total General Fund Balance £000s	Housing Revenue Account £000s	Earmarked Housing Revenue Account Reserves £000s	Total Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Reserves £000s
Balance at 1 April 2018		**(5,000)**	**(14,164)**	**(19,163)**	**(4,910)**	**(6)**	**(4,916)**	**(331)**	**(8)**	**(8,250)**	**(32,668)**	**(144,427)**	**(177,096)**
Movement in reserves during													
Total Comprehensive Expenditure		20,449	0	20,449	(3,943)	0	(3,943)	0	0	0	**16,506**	(78,658)	**(62,152)**
Adjustments between accounting & funding basis under regulations	19	(23,312)	0	(23,312)	2,551	0	2,551	(779)	(92)	(2,739)	**(24,370)**	24,370	**0**
Net (increase)/decrease before transfers to Earmarked Reserves		**(2,864)**	**0**	**(2,864)**	**(1,391)**	**0**	**(1,391)**	**(779)**	**(92)**	**(2,739)**	**(7,864)**	**(54,288)**	**(62,152)**
Movements in Earmarked Reserves	20	2,864	(2,864)	0	1,188	(1,188)	0	0	0	0	**0**		**0**
(Increase)/Decrease in 2018/19		**0**	**(2,864)**	**(2,864)**	**(203)**	**(1,188)**	**(1,391)**	**(779)**	**(92)**	**(2,739)**	**(7,864)**	**(54,288)**	**(62,152)**
Balance at 31 March 2019		**(5,000)**	**(17,028)**	**(22,027)**	**(5,113)**	**(1,194)**	**(6,307)**	**(1,110)**	**(100)**	**(10,988)**	**(40,532)**	**(198,716)**	**(239,248)**

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Appendix 5

Note 14. Officers Remuneration

Senior Officers Remuneration by Job Title

The remuneration paid to the Authority's senior employees during 2018/19 is as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension Contribution £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	150,937	8,642	159,579	54	0	159,633	27,752	187,385
Director of Children & Adult Services	117,665	7,751	125,416	0	0	125,416	21,664	147,080
Director of Regeneration, Community, Environment & Transformation	114,957	7,751	122,708	0	0	122,708	21,168	143,876
Director of Public Health	108,236	7,751	115,987	141	0	116,128	19,938	136,066
Assistant Director - Transformation	81,904	5,365	87,269	0	0	87,269	14,022	101,291
Chief Finance Officer	97,870	5,365	103,235	41	0	103,276	16,495	119,771
Deputy Director - Childrens and Adults	95,975	7,934	103,909	0	0	103,909	18,164	122,073
Assistant Director - Commissioning, Business & Intelligence (Left 13/05/2019)	10,079	634	10,713	0	0	10,713	1,623	12,336
Assistant Director - Adult Social Care	73,428	5,365	78,793	0	0	78,793	12,939	91,732
Assistant Director - Legal & Corporate Services	87,980	5,365	93,345	0	0	93,345	16,231	109,576
Assistant Director - Physical and Cultural Regeneration (Left 12/08/2018)	31,978	3,597	35,575	0	0	35,575	5,810	41,385
Assistant Director - Physical and Cultural Regeneration (Appointed 03/12/2018)	23,986	1,759	25,745	0	0	25,745	4,432	30,177
Assistant Director - Front Line Services	73,720	7,365	81,085	0	0	81,085	13,988	95,073

During 2018/19 the Commissioning, Business and Intelligence Assistant Director post (previously named Partnership Commissioning) within the Children and Adult's Directorate was deleted. Business and Intelligence, Self-Directed Support and Client Financial Affairs teams now sit within Adult Social Care and Adult Partnership Commissioning team is now within Public Health.

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Note 14. Officers Remuneration (continued)

Comparative figures for 2017/18 are as follows:

Post	Salary £	Fees and Allowances £	Salaries, Fees and Allowances £	Expenses £	Compensation for Loss of Office £	Total Excluding Pension £	Pension Contribution £	Total £
Chief Executive (Neil Davies)	149,295	8,548	157,843	0	0	157,843	27,450	185,293
Director of Children & Adult Services	104,584	7,666	112,250	32	0	112,282	19,268	131,550
Director of Regeneration, Community, Environment & Transformation	108,642	7,666	116,308	0	0	116,308	20,010	136,318
Director of Public Health (Left 30/04/2017)	6,899	7,141	14,040	81	0	14,121	0	14,121
Director of Public Health (Appointed 01/05/2017)	95,868	7,027	102,895	283	0	103,178	17,662	120,840
Chief People Officer (Left 10/09/2017)	33,438	2,358	35,796	0	0	35,796	5,725	41,521
Assistant Director - Transformation (Left 10/09/2017)	38,451	3,968	42,419	0	0	42,419	7,094	49,513
Assistant Director - Transformation (Appointed 11/09/2017)	44,830	2,947	47,777	0	0	47,777	7,644	55,421
Chief Finance Officer	91,860	5,306	97,166	326	0	97,492	15,551	113,043
Deputy Director - Childrens and Adults	92,573	8,452	101,025	0	0	101,025	17,645	118,670
Assistant Director - Commissioning, Business & Intelligence	82,604	5,306	87,910	0	0	87,910	14,337	102,247
Assistant Director - Adult Social Care (Appointed 18/12/17)	20,808	1,526	22,334	0	0	22,334	3,635	25,969
Assistant Director - Legal & Corporate Services	86,000	5,306	91,306	0	0	91,306	15,867	107,173
Assistant Director - Physical and Cultural Regeneration	86,516	5,306	91,822	38	0	91,860	16,643	108,503
Assistant Director - Front Line Services	72,586	5,306	77,892	150	0	78,042	13,412	91,454

Note 14. Officers Remuneration (continued)

Officers Remuneration > £50,000

The Council's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration Band	Number of Employees			
	Schools		Non-Schools	
	2017/18	2018/19	2017/18	2018/19
£50,000 to £54,999	12	15	32	38
£55,000 to £59,999	14	15	19	13
£60,000 to £64,999	14	11	11	19
£65,000 to £69,999	4	9	13	12
£70,000 to £74,999	4	3	5	4
£75,000 to £79,999	1	4	2	0
£80,000 to £84,999	2	0	3	2
£85,000 to £89,999	1	1	0	0
£90,000 to £95,999	0	1	0	0
£95,000 to £99,999	0	0	0	0
£100,000 to £104,999	0	1	0	0
£105,000 to £109,999	0	1	0	0
£110,000 to £114,999	0	0	0	0
£115,000 to £119,999	0	1	0	0
£120,000 to £124,999	2	0	0	0
£125,000 to £129,999	0	1	0	0
£130,000 to £149,999	0	0	1	0
£150,000 to £154,999	0	0	0	0
Total	**54**	**63**	**86**	**88**

Note 14. Officers Remuneration (continued)

Number of Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies 2018/19			Number of other departures agreed 2018/19			Total number of exit packages by cost band 2018/19			Total cost of exit packages in each band £ 2018/19		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	7	29	36	6	31	37	13	60	73	73,451	236,534	309,985
£20,001 - £40,000	0	0	0	1	3	4	1	3	4	31,205	86,678	117,883
£40,001 - £60,000	0	0	0	0	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0	0	0	0	0
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0
Total	**7**	**29**	**36**	**7**	**34**	**41**	**14**	**63**	**77**	**104,656**	**323,212**	**427,868**

The total cost of £0.448m detailed in the table above for exit packages agreed during 2018/19. An amount of £0.368m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

Restated exit package cost band (including special payments)	Number of compulsory redundancies 2017/18			Number of other departures agreed 2017/18			Total number of exit packages by cost band 2017/18			Total cost of exit packages in each band £ 2017/18		
	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total	Schools	Non-School	Total
£0 - £20,000	57	38	95	11	13	24	68	51	119	272,026	354,817	626,843
£20,001 - £40,000	1	12	13	1	0	1	2	12	14	54,812	328,180	382,992
£40,001 - £60,000	0	1	1	0	1	1	0	2	2	0	91,214	91,214
£60,001 - £80,000	0	1	1	0	0	0	0	1	1	0	60,819	60,819
£80,001 - £100,000	0	0	0	0	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	1	1	0	0	0	0	1	1	0	120,404	120,404
£150,001 - £200,000	0	0	0	0	0	0	0	0	0	0	0	0
Total	**58**	**53**	**111**	**12**	**14**	**26**	**70**	**67**	**137**	**326,838**	**955,434**	**1,282,272**

The total cost of £1.282m detailed in the table above for exit packages agreed during 2017/18. An amount of £1.296m has been charged to the Authority's Comprehensive Income and Expenditure Statement in that financial year.

Note 25. Financial Instruments

Accounting Policy

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of
interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus
accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and m1easurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (ie where the cash flows do not take the form of a basic debt instrument).

Loans and Receivables (applicable up to 31 March 2018 only)

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

The Authority has made a small number of loans to eligible employees, e.g. for the purchase of motor vehicles and charitable organisations at less than market rates (soft loans). The value of these loans has been considered to be immaterial and the calculation of the present value of interest foregone, required by the Code, has not been undertaken.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant Directorate (for receivables specific to that Directorate) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Note 25. Financial Instruments (continued)

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

However, the authority has made a number of loans to employees at less than market rates (soft loans). When soft loans are made, a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised line in the CIES.

cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure. ~~Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:~~

- ~~instruments with quoted market prices – the market price~~
- ~~other instruments with fixed and determinable payments – discounted cash flow analysis~~
- ~~equity shares with no quoted market prices – independent appraisal of company valuations.~~

~~The inputs to the measurement techniques are categorised in accordance with the following three levels:~~

- ~~Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.~~
- ~~Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.~~
- ~~Level 3 inputs – unobservable inputs for the asset.~~

~~Changes on fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or deficit on revaluation of Available- for- Sale Financial Assets.~~

~~The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and~~

~~Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flow discounted at the asset's original effective interest rate.~~

~~Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).~~

~~Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale reserve.~~

~~Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).~~

Note 25. Financial Instruments (continued)

Expected Credit Loss Model

The need to provide for impairment losses on financial assets held at amortised cost is assessed using the expected credit loss model.

This requires an evaluation of lifetime losses based upon any expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services. The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices - the market price
- other instruments with fixed and determinable payments -discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Categories of Financial Instruments

The following categories of financial instrument are carried in the balance sheet:

	31 March 2018 (Reclassified)		31 March 2019	
	Current £'000	Non-Current	Current	Non-Current
Loans and Receivables				
Cash and Cash Equivalents	12,235	0	0	0
Debtors	28,840	538	0	0
Investments	5,100	10,120	0	0
Financial Assets at Amortised Cost				
Investments *	0	22,308	0	0
Fair Value Through Profit and Loss - Financial Assets				
Investments	0	0	0	22,724
Financial Assets at Amortised Cost				
Cash and Cash Equivalents	0	0	3,764	0
Debtors	0	0	45,336	1,032
Investments	0	0	17,076	0
Total Financial Assets	**46,175**	**32,966**	**66,176**	**23,757**
Financial Liabilities at Amortised Cost				
Borrowing	(68,941)	(171,288)	(41,656)	(211,861)
Creditors	(34,341)	(29,089)	(33,235)	(31,034)
Total Financial Liabilities	**(103,282)**	**(200,377)**	**(74,891)**	**(242,895)**

*** Reclassifications as a result of implementing IFRS 9**

Assets previously held as Financial Assets Held for Sale have been recategorised as Fair Value Through Profit and Loss. Loans and receivables have been reclassified as Financial Assets at Amortised Cost.

Note 25. Financial Instruments (continued)

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Income, Expense, Gains and losses

	2017/18			2018/19		
	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Financial Assets: Available for Sale £'000	Financial Liabilities Measured at Amortised Cost £'000	Financial Assets: Loans and Receivables £'000	Financial Assets Measured at Fair Value through Profit and Loss £'000
Net loss on financial assets at fair value through profit and loss	0	0	0	0	0	
Interest Expense	(10,851)	0	0	(11,079)	0	0
Impairment Losses	0	0	0	0	0	0
Gains on Revaluation	0	0	0	0	0	416
Losses on Revaluation	0	0	0	0	0	0
Total Expense in Surplus/Deficit on the Provision of	**(10,851)**	**0**	**0**	**(11,079)**	**0**	**416**
Interest Income	0	2,490		0	0	2,455
Investment Income	0	262	645	0	0	1,999
Total income in Surplus/Deficit on the Provision of Services	**0**	**2,752**	**645**	**0**	**0**	**4,454**
Gains on Revaluation	0	0	52	0	0	0
Losses on Revaluation	0	0	(522)	0	0	0
Surplus/(Deficit) arising on Revaluation of Financial Assets	**0**	**0**	**(470)**	**0**	**0**	**0**
Net Gain/(Loss) for the Year	**(10,851)**	**2,752**	**175**	**(11,079)**	**0**	**4,870**

Note 25. Financial Instruments (continued)

Fair Value of Assets and Liabilities

Accounting Policy - Fair Value Measurement

The Authority measures some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

■ Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date

■ Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

■ Level 3 – unobservable inputs for the asset or liability.

There were no changes to the valuation techniques used between 2017/18 and 2018/19 and no instruments were reclassified within the fair value hierarchy.

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

The fair values calculated are as follows:

■For loans from the PWLB and other loans payable, new borrowing rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;

■ For loans receivable prevailing benchmark market rates have been used to provide the fair value;

■ No early repayment or impairment is recognised;

■ Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value.

■The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities	31 March 2018		31 March 2019	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Borrowing	240,229	352,607	210,280	277,892
Creditors	63,425	63,425	64,269	64,269

The fair value of financial liabilities is higher than the carrying amount for both years because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Financial Assets	31 March 2018		31 March 2019	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value* £'000
Loans and receivables - Investments	15,220	15,734	17,076	17,405
Cash and Cash Equivalents	12,235	12,235	3,764	3,764
Available for sale financial assets	22,308	22,308	0	0
Investments at Fair Value through Profit & Loss			22,724	22,724
Debtors	29,378	29,378	46,368	46,368

Short-term debtors and creditors are carried at cost as this is a fair approximation of their fair value.

* All financial assets held at Fair Value are categorised as Level 1 in the fair value hierarchy.

Fair Value Hierarchy and Valuation Techniques

The fair value of the property fund investments (classified as available for sale) has ben measured using Level 1 inputs i.e. unadjusted quoted prices in active markets for identical shares.

The fair value of other financial assets and liabilities disclosed above are measured using Level 2 inputs i.e. inputs other than quoted prices that are observable for the financial asset or liability.

The fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

Market rates for investments

• Fixed term deposits 0.77% to 1.3%

Discount rates for borrowing

• LOBO 2.05% to 2.358%

• Market Debt 1.42503% to 1.4912%

• PWLB maturity 1.47% to 2.29%

• PWLB annuity 1.56%

Other assumptions

• no early repayment or impairment is recognised

• where an instrument will mature in the next 12 months, carrying amount approximates fair value

• the fair value of trade and other receivables is the invoiced amount net of and bad debt provision

There has been no change in valuation technique and no transfers between levels of the fair value hierarchy in the year.

Note 35. Unusable Reserves (continued)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 19 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance as at 1 April		**(321,689)**		**(296,114)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
● Charges for depreciation and impairment of non-current assets	33,418		26,467	
● Revaluation gains on Property, Plant and Equipment	(7,342)		3,295	
● Amortisation of Intangible Assets	348		731	
● Revenue Expenditure funded from Capital Under Statute	11,850		13,222	
● Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	43,502		8,078	
		81,776		51,793
Adjusting amounts written out of the Revaluation Reserve Other adjustments	(20,140) 0		(7,094)	
Net written out amount of the cost of non-current assets consumed in the year		(20,140)		(7,094)
Capital financing applied in the year:				
● Use of Capital Receipts Reserve to finance new capital expenditure	(2,382)		(2,415)	
● Use of the Major Repairs Reserve to finance new capital expenditure	(3,512)		(3,589)	
● Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(21,978)		(20,341)	
● Application of grants to capital financing from the Capital Grants Unapplied Account	(2,501)		(4,788)	
● Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(4,855)		(4,609)	
● Capital expenditure charged against the General Fund and HRA balances	(2,033)		(564)	
		(37,261)		(36,305)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,200		(1,722)
Balance as at 31 March		**(296,114)**		**(289,442)**