

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 measurement 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 or 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)

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	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:

- in the principal market for the asset or liability, or
- 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.

Note 25. Financial Instruments (continued)

Fair Value Hierarchy and Valuation Techniques

The fair value of the property fund investments (classified as available for sale) has been 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.