

NOTES TO THE CORE FINANCIAL STATEMENTS

18. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial Instrument are carried on the Balance Sheet.

	Long-term		Current	
	31-Mar-17 £000	31-Mar-18 £000	31-Mar-17 £000	31-Mar-18 £000
Investments:				
Available-for-sale financial assets	400	400	-	-
Cash and cash equivalents:				
Cash and cash equivalents	-	-	27,926	39,280
Loans and receivables:				
Loans and receivables (excluding prepayments)	71,370	78,466	82,052	66,525
Borrowings:				
Financial liabilities at amortised cost	-345,298	-351,214	-95,399	-148,522
Other liabilities:				
Other liabilities	-123,323	-118,623	-83,408	-96,179

Income, Expense, Gains and Losses

	2016-17				2017-18			
	Financial Liabilities at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000	Financial Liabilities at amortised cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for Sale £000	Total £000
Interest expense	26,090	-	-	26,090	27,675	-	-	27,675
Total expense in the Deficit on the Provision of Services	26,090	-	-	26,090	27,675	-	-	27,675
Interest income	-	-1,408	-	-1,408	-	-1,928	-	-1,928
Total income in the Deficit on the Provision of Services	-	-1,408	-	-1,408	-	-1,928	-	-1,928
Net gain (-) / loss for the year	26,090	-1,408	0	24,682	27,675	-1,928	-	25,747

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Fair Values

There are material changes to the Fair Value notes, some based on the category of their initial valuation:

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

Some of the Council's financial assets are measured in the balance sheet at fair value on a recurring basis. All other available for sale investments are carried at historic cost, as a fair value cannot be established or they are commercially sensitive. The total value of these available for sale investments at 31 March 2018 is £400k. These relate to Municipal Bonds Agency financial assets.

There were no transfers between input levels during the financial year.

There has been no change in the valuation technique used during the year for the financial instruments.

Except for the financial assets carried at fair value, all other financial assets and financial liabilities represented by loans and receivables and long term debtors and creditors 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 (Level 2), using the following assumptions:

- For loans from the Public Works Loan Board (PWLb) payable, early repayment rates from the PWLB have been applied to provide the fair value.
- For non-PWLB loans payable, PWLB prevailing market rates 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 has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

All other financial assets are classed as Loans and Receivables. The financial liabilities are held with PWLB and Market lenders. All of these investments and borrowings were not quoted on an active market and a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, we have used a financial model valuation. This valuation applies the Net Present Value approach, which provides an estimate of the value of payments in the future in today's terms as at the balance sheet date. Our accounting policy uses premature repayment borrowing rates to discount the future cash flows. The fair values are as follows:

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Fair value hierarchy for financial liabilities

	31 March 2017		31 March 2018	
	Total Carrying amount	Fair value	Total Carrying amount	Fair value
	£000	£000	£000	£000
PWLB borrowing	-283,482	-402,822	-283,398	-391,618
Non-PWLB borrowing	-157,214	-215,186	-216,338	-275,380
Short term creditors/payables	-83,408	-83,408	-96,179	-96,179
Long term finance lease & PFI liability	-123,323	-123,323	-118,623	-118,623
Financial liabilities	-647,427	-824,739	-714,538	-881,800

The fair value of the liabilities is greater than the carrying amount because the Council'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. This shows a notional loss (based on economic conditions at 31st March 2018) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £391.618m measures the economic effects of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the Council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £283.398m would be valued at £350.016m. But if the Council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption.

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Fair value hierarchy for financial assets

	31 March 2017		31 March 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and Cash Equivalents	£000 27,926	£000 27,926	£000 39,280	£000 39,280
Short term debtors (excluding prepayments)	82,052	82,052	66,525	66,525
Long term debtors	71,370	71,370	81,266	81,266
Loans and receivables	181,348	181,348	187,071	187,071
Municipal Bonds Agency	400	400	400	400
Available for Sale	400	400	400	400

The fair value of the assets is the same as the carrying amount because the Council's portfolio of loans and receivables amortised cost is a fair approximation of their value. The fair value of long term debtors is also taken to be the carrying amount.

19. FAIR VALUE HIERARCHY

Details of the Council's Surplus Assets, Assets Held for Sale and Investment Properties and information about the fair value hierarchy as at 31 March 2018 and 2017 are as follows:

	Other significant observable inputs	Significant unobservable inputs	Fair value as at 31 March 2018
	Level 2 £000	Level 3 £000	£000
<i>Fair value measurements for:</i>			
Surplus Assets	2,651	803	3,454
Assets Held for Sale	3,394	6,053	9,447
Investment Properties	9,029	72	9,101
	15,074	6,928	22,002