



Agenda

Meeting: **Audit and Governance Committee**
Date: **8 December 2021**
Time: **7.00 pm**
Place: **Council Chamber - Civic Centre Folkestone**

To: **All members of the Audit and Governance Committee**

The committee will consider the matters, listed below, at the date, time and place shown above. The meeting will be open to the press and public.

Members of the committee, who wish to have information on any matter arising on the agenda, which is not fully covered in these papers, are requested to give notice, prior to the meeting, to the Chairman or appropriate officer.

Members of the public are encouraged to view the meeting online as this meeting will be streamed live to the internet and can be viewed at: <https://folkestone-hythe.public-i.tv/core/portal/home>

Although social distancing rules have been relaxed, for the safety of the public, elected members and staff, we will continue to seat members of the public approximately one metre apart. This means that there will be 13 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

All attendees at meetings are kindly asked to wear face coverings, unless they are addressing the meeting.

1. **Apologies for Absence**
2. **Declarations of Interest (Pages 5 - 6)**

Members of the committee should declare any interests which fall under the following categories:

- a) disclosable pecuniary interests (DPI);

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- b) other significant interests (OSI);
- c) voluntary announcements of other interests.

3. **Minutes (Pages 7 - 10)**

To consider and approve, as a correct record, the minutes of the meeting held on 28 September 2021.

4. **Quarterly update on Code of Conduct Complaints (Pages 11 - 14)**

This report provides an update to the Committee on Member Code of Conduct complaints received during the first and second quarter of 2021/22 (1 April to 30 September 2021).

5. **Appointment of External Auditor (Pages 15 - 30)**

Report AuG/21/19 sets out an update on the options available and a recommended course of action regarding the appointment of the External Auditor to the Council.

6. **Quarterly Internal Audit update Report from the Head of East Kent Audit Partnership (Pages 31 - 50)**

This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th September 2021.

7. **The Audit Findings for Folkestone & Hythe District Council 2020/21 (Pages 51 - 98)**

Grant Thornton are required to issue a Report to those charged with governance, summarising the findings and conclusions of their audit work. They are also required by professional auditing standards to report certain matters before giving an opinion on the financial statements for the year ended 31 March 2021.

8. **Statement of Accounts 2020/21 (Pages 99 - 250)**

In accordance with the Accounts and Audit (Amendment) Regulations 2021 the council must consider and approve its Statement of Accounts no later than 30 September 2021. The Accounts have been subjected to audit, the details of which are set out in Grant Thornton's Audit Findings report.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

Where a Member has a new or registered DPI in a matter under consideration they must disclose that they have an interest and, unless the Monitoring Officer has agreed in advance that the DPI is a 'Sensitive Interest', explain the nature of that interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a DPI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation permitting them to do so. If during the consideration of any item a Member becomes aware that they have a DPI in the matter they should declare the interest immediately and, subject to any dispensations, withdraw from the meeting.

Other Significant Interest (OSI)

Where a Member is declaring an OSI they must also disclose the interest and explain the nature of the interest at the meeting. The Member must withdraw from the meeting at the commencement of the consideration of any matter in which they have declared a OSI and must not participate in any discussion of, or vote taken on, the matter unless they have been granted a dispensation to do so or the meeting is one at which members of the public are permitted to speak for the purpose of making representations, answering questions or giving evidence relating to the matter. In the latter case, the Member may only participate on the same basis as a member of the public and cannot participate in any discussion of, or vote taken on, the matter and must withdraw from the meeting in accordance with the Council's procedure rules.

Voluntary Announcement of Other Interests (VAOI)

Where a Member does not have either a DPI or OSI but is of the opinion that for transparency reasons alone s/he should make an announcement in respect of a matter under consideration, they can make a VAOI. A Member declaring a VAOI may still remain at the meeting and vote on the matter under consideration.

Note to the Code:

Situations in which a Member may wish to make a VAOI include membership of outside bodies that have made representations on agenda items; where a Member knows a person involved, but does not have a close association with that person; or where an item would affect the well-being of a Member, relative, close associate, employer, etc. but not his/her financial position. It should be emphasised that an effect on the financial position of a Member, relative, close associate, employer, etc OR an application made by a Member, relative, close associate, employer, etc would both probably constitute either an OSI or in some cases a DPI.

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Minutes

Audit and Governance Committee

Held at: Council Chamber - Civic Centre Folkestone

Date: Tuesday, 28 September 2021

Present: Councillors Mrs Ann Berry (Vice-Chair), Laura Davison, Philip Martin (Chairman), Terence Mullard and Rebecca Shoob and Andy Vanburen (Independent Member)

Apologies for Absence:

Officers Present: Sue Lewis (Committee Services Officer), Mrs Christine Parker (Head of Audit Partnership) and Charlotte Spendley (Director of Corporate Services)

Others Present: Paul Dossett (Grant Thornton)

10. **Declarations of Interest**

There were no declarations of interest.

11. **Minutes**

The minutes of the meeting held on 29 July 2021 were submitted, approved and virtually signed by the Chairman.

12. **Quarterly Internal Audit Update Report from the Head of East Kent Partnership**

The report included the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 31st August 2021.

The Head of Audit Partnership presented the summary of work along with the appendices.

The summary of reports shows one providing substantial, two reasonable, one limited and one not applicable for an assurance, details of which are provided within the report. In addition, one follow up report was highlighted as remaining

partially limited assurance with regards to Licensing and the outstanding high risk action is due to a staff vacancy.

Members paid particular attention to the following:

- Community Infrastructure Levy and S106 had an assurance level of limited assurance applied– full details are covered within the report concluding that adjustments are minor therefore no revisions are to be made to previously calculated CILs, rates have now been amended. Members were assured that the planning team had taken on the recommendations, with some actions already complete and management have invested in the team who are now focussing on improving the service and are making great strides.
- Covid grants – work commenced in quarter 2 is current work in progress and will hopefully be reported back to members in December.

Proposed by Councillor Laura Davison
Seconded by Councillor Mrs Ann Berry and

Resolved:

- 1. To receive and note Report AuG/21/12.**
- 2. To note the results of the work carried out by the East Kent Audit Partnership.**

(Voting: For 5; Against 0; Abstentions 0)

13. Grant Thornton Audit Progress Report

Grant Thornton's report gives a progress update on recent audit work undertaken and highlights topical issues.

Paul Dossett, Grant Thornton, informed members that there is still work to be done by them before the Financial Statements audit can be signed off. The delay is disappointing but circumstances have led to this, particularly around audit staffing issues and the wider regulatory framework. He explained that the Council had provided all that was required to meet the statutory deadlines.

The Director, Corporate Services informed members that there are no direct implications for the Council of being unable to meet the statutory deadline, however there were resourcing implications for the finance team who also need to focus on in year monitoring, MTFs and budget setting. Grant Thornton confirmed no additional charges will be made for this audit. She said it was very disappointing, particularly as the staff had worked so hard to finalise the audit. The Council understands Grant Thornton's position but will be writing to them with regards to the delay.

An additional meeting of the Audit and Governance Committee will need to take place to sign off the audit and members will be notified of a date in due course.

Proposed by Councillor Laura Davison
Seconded by Councillor Terence Mullard and

Resolved:

- 1. To receive and note report AuG/21/13.**

(Voting: For 5; Against 0; Abstentions 0)

14. Auditor's Annual Report 2020/21

Grant Thornton are required to undertake a review annually to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Following review they prepare the Annual Report to provide commentary relating to the arrangements in place.

Mr Paul Dossett, Grant Thornton, informed members that there were 3 improvement recommendations to note and these are set out within the report but that he had no significant matters to bring to the committees attention. He informed that it is a positive report and the Council had been excellent in responding to the audit.

Members paid particular attention to the following:

- Risk management/actions – Council has a process for dealing with risks identified and the approach to mitigation could be made clearer in future reports.
- Gifts and hospitality – a request to extend the proposed amendment to include senior officers was made.

Proposed by Councillor Mrs Ann Berry
Seconded by Councillor Terence Mullard and

Resolved:

- 1. To receive and note report Aug/21/14.**
- 2. To receive and note Grant Thornton's draft Annual Report.**

(Voting: For 5; Against 0; Abstentions 0)

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This Report will be made public on 30 November 2021



Report Number **AuG/21/15**

To: Audit and Governance
Date: 8 December 2021
Status: Non – executive decision
Head of service: Amandeep Khroud – Assistant Director – Governance and Law

SUBJECT: QUARTERLY CODE OF CONDUCT COMPLAINTS UPDATE REPORT

SUMMARY: This report provides an update to the Committee on Member Code of Conduct complaints received during the first and second quarter of 2021/22 (1 April to 30 September 2021).

RECOMMENDATIONS:

- 1. To receive and note report AuG/21/15.**

1. INTRODUCTION

- 1.1 Section 27 of the Localism Act 2011 requires that relevant authorities have a statutory duty to promote and maintain high standards of conduct by Members and co-opted Members of the authority.
- 1.2 Authorities are required to adopt a Code dealing with the conduct that is expected of Members when they are acting in that capacity.
- 1.3 Section 28 of the Localism Act 2011 requires that Councils in England have in place arrangements under which allegations can be investigated and on which decisions on allegations can be made.
- 1.4 The terms of reference of the Audit and Governance Committee require the Committee to receive quarterly reports (or less frequently, if there are no complaints to report), from the Monitoring officer on the number and nature of complaints received, and action taken, as a result, in consultation with the Independent Person.

2. SUMMARY OF COMPLAINTS

- 2.1 For the period 1 April to 30 September 2021, there were a total of 2 complaints.

These can be categorised as follows:

Complaints by members against members	0
Complaints by members of the public	2

2.2 Types of complaints

Whilst it is not possible to identify particular trends in the nature of the complaints made (and some complaints may include multiple complaints), the following broad types of complaint have been received:

Public statements including social media / website / internet / email comment	0
Unacceptable Conduct at Council/Committee	1
Conflict of interest	0
Breach of Member/officer protocol	0
Breach of data protection rules	0
Other/miscellaneous	1

2.3 Investigation of complaints

The Monitoring Officer will initially consider the complaint and decide if formal investigation is required. Any formal investigation will be carried out by an independent person, who will then report to the Monitoring Officer. The Monitoring Officer will then report to the Audit and Governance if a

breach of the Code of Conduct is found and will advise the committee as to whether further action is recommended.

3. RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
None			

4. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 Legal Officer's Comments (AK)

No legal comments.

4.2 Finance Officer's Comments (CS)

There are no direct financial implications arising from this report.

4.3 Diversities and Equalities Implications

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Amandeep Khroud – Assistant Director – Governance and Law

Tel No: 01303 853253

Email: Amandeep.khroud@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

None

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This Report will be made public on 30 November 2021



Report Number **AuG/21/19**

To: Audit and Governance Committee
Date: 08 December 2021
Responsible Member: Cllr David Monk, Leader of the Council
Responsible Officer: Charlotte Spendley, Director of Corporate Services

SUBJECT: APPOINTMENT OF EXTERNAL AUDITOR

SUMMARY: This report sets out an update on the options available and a recommended course of action regarding the appointment of the External Auditor to the Council.

RECOMMENDATIONS:

1. To receive and note report AuG/21/19.
2. To recommend to Full Council the option (3) to enter into the procurement exercise led by the Public Sector Audit Appointments Ltd (PSAA) for the appointment of external auditors for a period of five financial years from 1 April 2023.

1. BACKGROUND

- 1.1 The Public Sector Audit Appointments Limited (PSAA) is a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014. Since 2018/19 the PSAA has been regulated to make audit appointments for local authorities.
- 1.2 Under the Local Government Audit & Accountability Act 2014 (“the Act”), the Council is required to appoint an auditor to audit its accounts for each financial year. The Council now has three options:
 - undertake an individual auditor procurement and appointment exercise.
 - undertake a joint audit procurement and appointing exercise with other bodies (e.g. other Kent Councils)
 - Join PSAA’s national scheme (known as ‘opt in’)
- 1.3 Folkestone & Hythe Full Council at its meeting on 22 February 2017 approved the ‘opt in’ arrangements for the appointment of external auditors for five years covering the accounts for 2018/19 to 2022/23.
- 1.4 Grant Thornton have been the appointed auditor since 2018/19 accounts.
- 1.5 PSAA published its scheme prospectus on 22 September 2021, alongside formally issuing invitations to all eligible bodies to opt into the national scheme for local auditor appointments for the next appointing period. This will span the audits of accounts for the five financial years 2023/2024 to 2027/2028.
- 1.6 The auditor appointed at the end of the procurement process will undertake the statutory audit of accounts and Best Value assessment of the Council in each financial year, in accordance with all relevant codes of practice and guidance. The appointed auditor is also responsible for investigating questions raised by electors and has powers and responsibilities in relation to Public Interest Reports and statutory recommendations.
- 1.7 The auditor must act independently of the Council and the main purpose of the procurement legislation is to ensure that the appointed auditor is sufficiently qualified and independent.
- 1.8 The auditor must be registered to undertake local audits by the Financial Reporting Council (FRC) and employ authorised Key Audit Partners to oversee the work. There is currently a shortage of registered firms and Key Audit Partners.
- 1.9 Auditors are regulated by the FRC, which will be replaced by a new body with wider powers, the Audit, Reporting and Governance Authority (ARGA) during the course of the next audit contract.
- 1.10 The council has very limited influence over the nature of the audit services it is procuring, the nature and quality of which are determined or overseen by third parties.

2. PSAA INVITATION

- 2.1 PSAA is now inviting the Council to opt in for the second appointing period, for 2023-24 to 2027-28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor. Details relating to PSAA's invitation are provided in Appendix 1 to this report.
- 2.2 The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
- seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
 - continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
 - continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members.
- 2.3 PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
- 2.4 The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office), the format of the financial statements (specified by CIPFA/LASAAC1) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.
- 2.5 There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation, however a majority of audits are currently undertaken by two firms. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

- 2.6 The national offer provides the appointment of an independent auditor with limited administrative cost to the Council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market that a national procurement provides.
- 2.7 In order to 'opt in' to the national scheme, the council must make a decision to do so at a meeting of its Full Council and return the Form of Acceptance Notice (issued with the opt-in invitation) by 11 March 2022.
- 2.8 If the Council does not accept the opt-in invitation but subsequently wishes to join the scheme it may apply to opt in at a later date, but only after the appointing period has commenced, that is on or after 1 April 2023. If the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the Council.

Context: changes in the audit market

- 2.9 The audit market was relatively stable when the Local Audit and Accountability Act received Royal Assent in 2014 and in 2017 PSAA benefitted from that continuing stability. Their initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, they were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies.
- 2.10 2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:
- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
 - the Competition and Markets Authority review of the audit market;
 - Sir Donald Brydon's review of the quality and effectiveness of audit; and
 - Sir Tony Redmond's review of local authority financial reporting and external audit.
- 2.11 In total the four reviews set out more than 170 recommendations which are at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. In some cases where new legislation is not required, significant change is already underway, for example the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.
- 2.12 In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) – a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies

explored innovative ways of developing new or enhanced income streams to help fund services for local people.

- 2.13 The risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions. Both the 2019/20 and 2020/21 audit periods have also presented significant challenges with many authorities and audit teams unable to meet even the delayed audit deadlines.
- 2.14 The timeliness problem creates disruption and potential reputational damage for all affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA have indicated that they are fully committed to do all they can to contribute to achieving that goal.
- 2.15 Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.
- 2.16 These problems are not unique to local government audit. Similar challenges have been seen throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.
- 2.17 The national scheme to be set up for 2023/24 onwards will build on the current scheme with PSAA having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

3. OPTIONS

3.1 Option1 – Stand Alone Appointment

- 3.1.1 The Council may elect to appoint its own external auditor under the Act, which would require the Council to:
 - Establish an independent auditor panel to make a stand-alone appointment. The auditor panel would need to be set up by the Council itself, and the members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
 - Manage the contract for its duration, overseen by the Auditor Panel.

3.1.2 Advantages

- Setting up an auditor panel allows the Council to have local input to the decision.
- Potentially having some control over the Council's auditors. The PSAA route has been promoted as guaranteeing auditor independence. But the independence that matters in this context is that auditors should not be under undue influence to be forgiving in their audit work. It does not have to mean that authorities give up all influence over how auditors work, in particular in relation to the timing and staffing of audits and the determination of fees. With self-appointment, the Council may be able to secure better commitment from the auditors than has been seen in recent years but potentially at a cost.

3.1.3 Disadvantages

- Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract could increase the Council's costs because they would be more resource-intensive processes to implement for the Council and potentially more expensive in fees.
- Without the bulk buying power of the sector-led procurement it could be likely to result in a more costly service.
- Potentially more difficult to manage quality and independence requirements through a local appointment process.
- Possible inability to secure competitive bids or any bids. Auditors can only be appointed from a list of nine maintained by the Institute of Chartered Accountants in England and Wales. As such the Council undertaking its own procurement may not get any more choice than the PSAA arrangement currently offers and there is a risk that no bids are secured. PSAA is promising to work to increase the pool of KAPs and Government is considering how barriers to entry could be reduced. This may mean that the choice of auditor available may be greater in the future.

3.2 Option 2 – Joint Auditor Panel

3.2.1 The Act enables the Council to join with other authorities to establish a joint auditor panel. This will need to be constituted of wholly or a majority of independent appointees. Legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.

3.2.2 Advantages

- The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities offering a more cost-effective route than Option 1.
- There will be greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

3.2.3 Disadvantages

- The decision-making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing

each council, depending on the constitution agreed with the other bodies involved.

- The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for a council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards.
- There is a risk that if the joint auditor panel chooses a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.
- Due to the lack of available auditors it is possible that even through this route, limited or no bids are secured for the audits.

3.2.4 The Kent Section 151 Officers have met and discussed the potential of a joint Kent wide audit panel. The discussion found that there is no local appetite to set up a Joint Auditor Panel/local joint procurement arrangements. The primary concerns being the lack of active auditors within the market and the risk of being unable to appoint an auditor.

3.3 Option 3 – Sector Led Body (PSAA) (Recommended Option)

3.3.1 PSAA is specified as the ‘appointing person’ for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015.

3.3.2 PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.

3.3.3 Advantages

- The procurement process is managed to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
- The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt in authorities.
- Consultation with the Council on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.
- Appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
- Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
- Suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
- Minimising the scheme management costs and returning any surpluses to scheme members.
- Consultation with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.

- Ongoing contract and performance management of the contracts once these have been let.

3.3.4 Disadvantages

- Individual elected Members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association and/or stakeholder representative groups.
- PSAA will need Councils to indicate their intention to opt in before final contract prices are known, to enable them to be viable and to be placed in the strongest possible negotiating position.

4. SUMMARY

4.1 A standalone appointment (Option 1) is felt to present financial risks as the Council may suffer higher audit fees as it would not benefit from the bulk purchasing discounts offered by Option 3. Option 1 would require significant investment in the recruitment, training, servicing and allowances to maintain an Auditor Panel, additionally given the current market conditions non-appointment is possible. Option 2 is viable as there is no appetite within Kent to proceed on this basis and it also presents many of the same risks as option 1.

4.2 Therefore the recommend route is that the Council's interests would be best served by opting in to a Sector Led Body, as set out in Option 3. If Audit & Governance Committee recommends this option to Council, Council would also formally be asked to agree, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, to accept Public Sector Audit Appointments' invitation to become an opted in authority for the purposes of the appointment of external auditors for five financial years commencing 1 April 2023.

4.3 Full Council have until December 2022 to make an appointment. In order to opt into the national scheme as set out in Option 3, the PSAA must receive formal acceptance of the invitation to join by Friday 11 March 2022.

5. RISK MANAGEMENT ISSUES

5.1 The Council is in a good position to manage the risks stated below.

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to appoint external auditor.	External audit is a statutory requirement for local authorities and the Secretary of State must appoint an auditor if the Council fails to make arrangements,	The process to appoint an external auditor has begun well in advance of the end of the current contract to reduce the likelihood.	Act upon the recommendation in the report.

Perceived risk	Seriousness	Likelihood	Preventative action
	risking higher cost and reputational damage.		
Increased costs of the external audit contract	The Council will have to accommodate any increased costs within its budget.	With increases in the scope and complexity of public sector audit and public scrutiny through the Redmond Review, it is highly likely that the next contract will be at higher cost, regardless of which option is chosen.	Collective procurement as recommended at Option 3, would enable the Council to benefit from economies of scale and avoid the costs associated with a single or joint procurement exercise. Prepare for a budget increase when setting the budget for 2023/24.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal Officer's Comments (AK)

The legal implications have been set out in the report. The Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. The Act also outlines the procedure for appointment including auditor panels and selection and appointment of a local auditor. The Act makes provision for the failure to appoint a local auditor and the action that must be taken in those circumstances.

Section 19 of the Local Audit (Appointing Person) Regulations 2015 specifies that the decision to accept an invitation to become an opted in authority is a matter for Full Council.

5.2 Finance Officer's Comments

There is a risk that current external audit fee levels could increase when the current contracts end. It is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.

Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.

5.3 Diversities and Equalities Implications

5.3.1 There are no equality and diversity implications associated with the decision in respect of this matter.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Patricia Phillipson

Email: Patricia.Phillipson@folkestone-hythe.gov.uk

Appendices:

Appendix 1: Invitation

22 September 2021

To: Dr Priest, Chief Executive
Folkestone and Hythe District Council

Copied to: Ms Spendley, S151 Officer
Mr Martin, Chair of Audit Committee or equivalent

Dear Dr Priest,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the [scheme prospectus](#) and our [procurement strategy](#). Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and
3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to [frequently asked questions](#) on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in [the scheme prospectus](#).

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on [our website](#) and in [the scheme prospectus](#).

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This Report will be made public on 30 November 2021



Report Number **AuG/21/16**

To: Audit and Governance Committee
Date: 8 December 2021
Status: Non-Executive Decision
Corporate Director: Charlotte Spendley – Director – Corporate Services (S151)

SUBJECT: QUARTERLTY INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the summary of the work of the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting together with details of the performance of the EKAP to the 30th September 2021.

REASONS FOR RECOMMENDATION:

The Committee is asked to agree the recommendations set out below because: In order to comply with best practice, the Audit and Governance Committee should independently contribute to the overall process for ensuring that an effective internal control environment is maintained.

RECOMMENDATIONS:

1. To receive and note Report AuG/21/16.
2. To note the results of the work carried out by the East Kent Audit Partnership.

1. INTRODUCTION

- 1.1 This report includes the summary of the work completed by the East Kent Audit Partnership (EKAP) since the last Audit and Governance Committee meeting.

2. AUDIT REPORTING

- 2.1 For each Audit review, management has agreed a report, and where appropriate, an Action Plan detailing proposed actions and implementation dates relating to each recommendation. Reports continue to be issued in full to the relevant Heads of Service, as well as an appropriate manager for the service reviewed.
- 2.2. Follow-up reviews are performed at an appropriate time, according to the status of the recommendation, timescales for implementation of any agreed actions and the risk to the Council.
- 2.3. An assurance statement is given to each area reviewed. The assurance statements are linked to the potential level of risk, as currently portrayed in the Council's risk assessment process. The assurance rating given may be substantial, reasonable, limited or no assurance.
- 2.4 Those services with either limited or no assurance are monitored and brought back to Committee until a subsequent review shows sufficient improvement has been made to raise the level of assurance to either reasonable or substantial. There are currently no reviews with such a level of assurance as shown in appendix 2 of the EKAP report.
- 2.5 The purpose of the Council's Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and to seek assurance that action is being taken to mitigate those risks identified.
- 2.6 To assist the Committee in meeting its terms of reference with regard to the internal control environment an update report is regularly produced on the work of internal audit. The purpose of this report is to detail the summary findings of completed audit reports and follow-up reviews since the report submitted to the last meeting of this Committee.

3. SUMMARY OF WORK

- 3.1. There have been six audit reports completed during the period. These have been allocated assurance levels as follows: two was providing substantial, three were reasonable and one was not applicable. Summaries of the report findings are detailed within Annex 1 to this report.
- 3.2 In addition, two follow up reviews have been completed during the period. The follow up reviews are detailed within section 3 of the update report.

3.3 For the period to 30th September 2021 172 chargeable days were delivered against the planned target of 350 days, which equates to achievement of 49% of the planned number of days.

4. RISK MANAGEMENT ISSUES

4.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Non completion of the audit plan	Medium	Low	Review of the audit plan on a regular basis
Non implementation of agreed audit recommendations	Medium	Low	Review of recommendations by Audit and Governance Committee and Audit escalation policy.
Non completion of the key financial system reviews	Medium	Medium	Review of the audit plan on a regular basis. A change in the external audit requirements reduces the impact of non-completion on the Authority.

5. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's comments (DK)

No legal officer comments are required for this report.

5.2 Finance Officer's Comments (TM)

Responsibility for the arrangements of the proper administration of the Council's financial affairs lies with the Director – Corporate Services (s.151). The internal audit service helps provide assurance as to the adequacy of the arrangements in place. It is important that the recommendations accepted by Heads of Service are implemented and that audit follow-up to report on progress.

5.3 **Head of the East Kent Audit Partnership comments (CP)**

This report has been produced by the Head of the East Kent Audit Partnership and the findings / comments detailed in the report are the service's own, except where shown as being management responses.

5.4 **Diversities and Equalities Implications (CP)**

This report does not directly have any specific diversity and equality implications however it does include reviews of services which may have implications. However none of the recommendations made have any specific relevance.

6. **CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

- 6.1 Councillors with any questions arising out of this report should contact either of the following officers prior to the meeting.

Christine Parker, Head of the Audit Partnership
Telephone: 01304 872160 Email: Christine.parker@folkestone-hythe.gov.uk

Charlotte Spendley Director – Corporate Services (S151)
Telephone: 01303 853420 Email: Charlotte.spendley@folkestone-hythe.gov.uk

- 6.2 The following background documents have been relied upon in the preparation of this report:

Internal Audit working papers - Held by the East Kent Audit Partnership.

Attachments

Annex 1 – Quarterly Update Report from the Head of the East Kent Audit Partnership.

INTERNAL AUDIT UPDATE REPORT FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

1. INTRODUCTION AND BACKGROUND

1.1 This report includes the summary of the work completed by the East Kent Audit Partnership since the last Audit and Governance Committee meeting, together with details of the performance of the EKAP to the 30th September 2021.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Housing Benefit Discretionary Housing Payments	Substantial	C H M L	0 0 0 0
2.2	Housing Benefit Overpayments	Substantial	C H M L	0 0 0 0
2.3	Safeguarding	Reasonable	C H M L	0 1 0 0
2.4	Councillors Grants	Reasonable	C H M L	0 2 2 0
2.5	Housing Garage Management	Reasonable	C H M L	0 3 7 1
2.6	Princes Parade Project Arrangements	Not applicable	C H M L	N/A

2.1 Housing Benefits Discretionary Housing Payments – Substantial Assurance

2.1.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established to provide additional financial assistance to claimants who are already receiving Housing Benefit, and who are experiencing particular financial hardship with regard to paying the shortfall of housing rent by the evaluation of, and then approval or rejection of applications.

2.1.2 Summary of Findings

Discretionary Housing Payments (DHPs) are an emergency fund to be used to alleviate hardship to allow Housing Benefit claimants time to find alternative solutions to their shortfall in income. Whilst the majority of DHP awards will provide short term support recent welfare reform changes mean that there are some exceptional cases where DHP will be required in the longer term. The main features of the scheme are:

- The scheme is purely discretionary and a claimant does not have a statutory right to a payment.
- Every year the Government allocate an amount that can be paid out by each local authority in any financial year. Folkestone & Hythe District Council is able to pay additional money but this must be funded from its own finances. Folkestone & Hythe District Council will endeavour to ensure this amount will not exceed the budget that has been agreed by the Council.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Established processes are in place for processing discretionary housing payments and any subsequent appeals within a reasonable timeframe.
- Budget monitoring routines are in place to ensure discretionary housing payments are accounted for correctly.
- The supporting Discretionary Housing Payment policy is reviewed on a regular basis to ensure that it complies with legislation and is readily available on the website.

2.2 Housing Benefits Overpayments – Substantial Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the controls established to ensure that the procedures in place are effective and efficient at keeping the number of overpayments to a minimum by making the necessary changes to benefits paid as soon as known and that all avenues of recovery are pursued to obtain any benefit overpaid.

2.2.2 Summary of Findings

Housing benefit overpayments are created when a change affecting housing benefit entitlement is not reported or actioned at the time of the change. The majority of overpayments are classified as claimant error and some as local authority error.

The primary findings giving rise to the Substantial Assurance opinion in this area are as follows:

- Established processes are in place for calculating, processing and recovering housing benefit overpayments.
- Policies, procedures and guidance are well documented and available to staff.
- Housing benefit overpayments are managed in accordance with regulations.
- The automated interaction between the housing benefit system and e-financials / debtors is working effectively.
- Write offs are actioned and authorised in accordance with the write off policy.

2.3 Safeguarding – Reasonable Assurance

2.3.1 Audit Scope

To review the approved Safeguarding policy to ensure that it fulfils the Council's responsibility to comply with legal requirements concerning children and vulnerable adults. Regarding children these are to make arrangements to safeguard and promote the welfare of children under section 11 of the Children Act 2004. This guidance came into force on 1 October 2005 and sets out what is expected of district councils.

2.3.2 Summary of Findings

Under section 11 of the Children Act 2004, local authorities together with partner organisations and agencies, have specific duties to safeguard and promote the welfare of all children in their area. Similar obligations apply to vulnerable adults under part 1 of the Care Act 2014. The Council has an overarching policy which covers the safeguarding of children, young people and vulnerable adults. This, and its associated procedures, are designed to comply with relevant legislation.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- The Council has an overarching safeguarding policy which is reviewed every two years.
- The policy accords with relevant legislation, which includes a statement on the Council's commitment to safeguarding as well as highlighting roles and responsibilities.
- Various safeguarding information is available on the staff intranet, including who to contact about a concern.
- Job posts are categorised according to the level of likely contact with children/vulnerable people and each is assigned the appropriate DBS level requirement.
- DBS checks are obtained and recorded centrally by HR and expiry dates are regularly monitored; staff are reminded to renew their DBS certifications.
- Working with multi-agencies as well as internal departments is fully integrated into the day-to-day roles of staff with safeguarding responsibilities.

Scope for improvement was however identified in the following area:

- Staff should be reminded to complete the online child safeguarding course as only 32% of staff are currently certified. This should also be recorded and monitored since child safeguarding is the responsibility of all (as per 5.3, 5.4 and 5.6 of the Council's safeguarding policy).

2.4 Councillors Grants – Reasonable Assurance

2.4.1 Audit Scope

To review the procedures in place to effectively administer the Ward Budgets (Councillors Grants) process and ensure that this is in compliance with approved policy.

2.4.2 Summary

Each Councillor has a ward budget for issuing grants to the community. There are 30 Councillors each with a budget of £3,000. The grants awarded to the community projects must meet a number of conditions which are set out in the grant application form and supporting guidance. Up to 200 grants are awarded annually.

In 2020/21 Councillor grant allocation was:

- Budget £90,000
- Expenditure £89,974

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- The Councillor grant scheme is set out in the terms and conditions of grant and funding is promoted using a variety of methods.
- All grant application forms reviewed for this audit were completed correctly.
- Applicants are notified of award of grant funding.
- Budgets are monitored and grant expenditure and availability is publicly available within each Councillors' webpage.

Scope for improvement was however identified in the following areas:

- A well-designed end-to-end online process is needed for efficient use of time, customer satisfaction and to enable evaluation/monitoring of project completion/progress.
- The terms and conditions should be reviewed to ensure they are fit for purpose and feasibly enforceable.
- Where invoices are accepted as indicative of future costs, this should be recorded.
- Councillors may benefit from some guidance to assist in the approval of complex projects or those which exceed one year to deliver (see again review of terms and conditions).

2.5 Housing Garage Management – Reasonable

2.5.1 Audit Scope

To provide assurance on the processes and procedures that are in place to effectively manage the Council's stock of garages and ensure that they are kept in a good state of repair and the rental payments are properly received and accounted for.

2.5.2 Summary of Findings

The Council has a stock of garages that can be rented out to both Council tenants and the public. If all of the garages were let this would bring in an income of approximately £500,000 a year to the Council. However currently 45% of the garages are currently void (empty) due to not being fit for purpose.

The primary findings giving rise to the Reasonable Assurance opinion in this area are as follows:

- A considerable amount of work has been carried out on the garages since responsibility has come back in house from East Kent Housing. This includes ensuring signed tenancy agreements are in place, garage keys are accounted for with a sign in sign out process put in place, a data cleansing exercise on the waiting list for garages (The waiting list now stands at 600) and utilising Neighbourhood Officers (within the Housing Team) as they have also been carrying out visual inspections on the garages including taking pictures.
- A consistent application process is carried out and now that staff are back in the offices and can access the garage keys the team responsible for the garages are now able to release 71 garages out for rent. Supporting procedure notes are in place to assist officers in processing both applications and returns.
- A project is about to commence to ensure that the garage housing stock is improved, maintained, and kept to a standard expected by tenants and relevant legislation. A consultant has undertaken a survey of all garage sites. Using their survey and information regarding occupancy and potential development the aim is to generate a programme of garage refurbishment.
- Insurance cover is in place for the garages.

Scope for improvement was however identified in the following areas:

- Consideration should be given to putting in place a strategy in respect of garages to support the current processes for garage management (i.e. insurance, repairs) and the garage licence agreement.
- Some garages (approximately 60) are being used as storage facilities for evicted tenant's possessions and some have been used in this way for up to 10 years. A different approach could make these available for letting again.
- A reconciliation between the Surveyor's database and the garage rent system would ensure all of the garages are accounted for correctly and the agreed number of garages should be reported to the Insurance Officer to support the Council's insurance policy.
- Processes should be put in place to ensure that when a right to buy has been completed that where the former council tenant rents a garage that the weekly rental figure is revised to reflect them no longer being a council tenant.

2.5 Princes Parade Project Arrangements – an assurance opinion is Not Applicable

2.5.1 Audit Scope

To review the arrangements in place to deliver the Princes Parade project and to make recommendations to ensure that there is appropriate governance and sufficient expertise in place to deliver the project successfully.

2.5.2 Summary of Findings

The Council identified one of its key priorities as replacing the Swimming Pool situated in South Road Hythe. The operational asset of the pool is rapidly reaching its 'end of useful life' and consequently the repairs required to keep it functioning and open to the public are becoming excessive.

The Princes Parade project first began in 2012 and over time has progressed through feasibility studies and project developments to currently having received planning permission for the new development on Princes Parade; which includes a new pool complex and new housing units, together with new play areas and enhanced public open space.

A business plan and masterplan have been produced and the project is starting to move forward towards a construction phase next year.

The Corporate Leadership Team requested a review to look at the project management controls and arrangements and to evaluate that the governance arrangements in place are sufficiently robust to ensure successful delivery.

The direction of travel for the management of the system of internal controls in operation is appropriate, this is with the caveat that the introduced governance controls need to become embedded and established.

The primary findings arising from this review are as follows:

- The Council acting in the capacity as the developer, has been progressing through the various planning requirements to seek planning approval for the scheme.
- The Council has employed a number of external experienced consultants to work on the development of the project.
- The Council has set up a Project Board to oversee the project after having received delegated permission from Cabinet.
- The Project Board is responsible for project management controls designed to deliver the scheme on time and to budget.
- A draft protocol separating the roles of officers and members working on either the Local Planning Authority or the developer side of the project is agreed.
- Governance processes are in place and have been recently strengthened.
- Regular updates are provided to the Leader and relevant portfolio holders.

No recommendations have been made within this report as the areas for improvement have been identified and are in the process of being embedded. In accordance with standard audit procedures, a short follow-up review will be undertaken later in the year to provide independent assurance that the controls have become embedded and are working effectively.

FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.0 FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work two follow up reviews have been completed of those areas previously reported upon to ensure that the recommendations previously made have been implemented, and the internal control weaknesses leading to those recommendations have been mitigated. Those completed during the period under review are shown in the following table.

3.2

Service / Topic	Original Assurance level	Revised Assurance level	Original recs	Outstanding recs
Whistleblowing & Anti Money Laundering	Reasonable	Reasonable	C 0 H 3 M 4 L 1	C 0 H 0 M 0 L 0
Officers' Code of Conduct	Reasonable	Reasonable	C 0 H 0 M 3 L 3	C 0 H 0 M 1 L 2

3.3 Details of any individual critical or high priority recommendations outstanding after follow-up are included at Annex 1 and on the grounds that these recommendations have not been implemented by the dates originally agreed with management, they are now being escalated for the attention of the s.151 Officer and Members of the Audit & Governance Committee (none this quarter).

The purpose of escalating outstanding high-priority recommendations which have not been implemented is to try to gain support for any additional resources (if required) to resolve the risk, or to ensure that risk acceptance or tolerance is approved at an appropriate level.

4.0 WORK IN PROGRESS

4.1 During the period under review, work has also been undertaken on the following topics, which will be reported to this Committee at future meetings: Covid Grants, Coast Protection / Engineers; Housing Rent Collection; Folkestone Community Works Programme, E-Procurement including corporate cards and Climate Change

5.0 CHANGES TO THE AGREED AUDIT PLAN

- 5.1 The 2021/22 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 4th March 2021.
- 5.2 The Head of the Audit Partnership meets on a regular basis with the Section 151 Officer or their deputy to discuss any amendments to the plan. Members of the Committee will be advised of any significant changes through these regular update reports. Minor amendments are made to the plan during the course of the year as some high profile projects or high-risk areas may be requested to be prioritised at the expense of putting back or deferring to a future year some lower risk planned reviews. The detailed position regarding when resources have been applied and or changed are shown as Appendix 3.

6.0 FRAUD AND CORRUPTION

There are currently no reported incidents of fraud or corruption being investigated by EKAP on behalf of Folkestone-Hythe District Council.

7.0 INTERNAL AUDIT PERFORMANCE

- 7.1 For the period ended 30th September 2021 172 chargeable days were delivered against the planned target of 350 which equates to achievement of 49% of the original planned number of days.
- 7.2 The financial performance of the EKAP for 2021/22 is on target.

Attachments

- Appendix 1 Summary of high priority recommendations outstanding or in progress after follow up
- Appendix 2 Summary of services with limited / no assurances yet to be followed up.
- Appendix 3 Progress to 30th September 2021 against the 2021/22 Audit plan.
- Appendix 4 Balanced Scorecard to 30th September 2021
- Appendix 5 Assurance Definitions.

SUMMARY OF CRITICAL /HIGH PRIORITY RECOMMENDATIONS OUTSTANDING AFTER FOLLOW-UP – APPENDIX 1		
Original Recommendation	Agreed Management Action, Responsibility and Target Date	Manager’s Comment on Progress Towards Implementation.
None		

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	Reported to Committee	Level of Assurance	Follow-up Action Due
Community Infrastructure Levy & S106s	September 2021	Limited	Quarter 4

PROGRESS AGAINST THE F&HDC AUDIT PLAN 2021/22

Review	Original Planned Days	Revised Planned Days	Actual To 30/09/2021	Status and Assurance level
FINANCIAL SYSTEMS				
Business Rates	10	0	-	Deferred
Housing Benefit Overpayments	10	11	11.25	Finalised - Substantial
Housing Benefit DHP	10	8	8.10	Finalised - Substantial
Housing Benefit Subsidy	10	10	-	Quarter 4
HOUSING SYSTEMS				
Homelessness	10	10	0.14	Quarter 4
Rent Setting, Accounting & Collection	10	10	2.22	Work in progress
Resident Engagement	10	8	8.14	Finalised - Reasonable
Voids Management	10	14	14.62	Finalised - Reasonable
Tenants' Health & Safety	10	10	0.03	Quarter 3
Contract Management	10	10	0.16	Quarter 4
Data Integrity	10	10	0.16	Quarter 3
Garage Deposits/ Management	10	12	11.72	Finalised - Reasonable
Housing Regulator	10	5	0.03	Quarter 3
Right to Buy	10	10	0.03	Quarter 4
ICT SYSTEMS				
ICT review	10	12	11.66	Finalised - Substantial
HUMAN RESOURCES SYSTEMS				
Flexi, Leave and Sickness	10	10	-	Quarter 4
GOVERNANCE RELATED				
Freedom of Information	10	10	-	Quarter 3
Fraud Resilience Arrangements	10	0	0.47	Replaced with Grants Review
Otterpool Park Governance	10	10	-	Quarter 4
SERVICE LEVEL				
Business Continuity / Emergency Planning	10	0	-	Quarter 4
Councillor Grants	10	13	13.22	Finalised - Reasonable
Climate Change	10	10	2.89	Work in progress
E-Procurement & Purchase Cards	10	10	-	Quarter 3
Engineers / Coast Management	10	10	3.79	Work in progress
Garden Waste / Recycling Management	10	10	0.27	Quarter 3
Lifeline	10	10	0.10	Quarter 4

Review	Original Planned Days	Revised Planned Days	Actual To 30/09/2021	Status and Assurance level
Folkestone Community Works Programme	10	10	-	Quarter 3
Planning Income	10	0	-	Deferred
Safeguarding	10	10	9.80	Finalised - Reasonable
OTHER				
Committee Reports & Meetings	10	10	6.29	Ongoing
S151 Meetings & Support	10	10	4.02	Ongoing
Corporate Advice / CMT	5	5	1.61	Ongoing
Liaison with External Audit	1	1	0.03	Ongoing
Audit plan prep & Meetings	10	10	2.81	Ongoing
Follow Up Reviews	14	14	12.26	Ongoing
FINALISATION OF 2020-21 AUDITS				
Scheme of Delegations	10	1	1.29	Finalised - Reasonable
Community Safety Partnership		3	3.19	Finalised - Reasonable
Planning CIL & S106		7	7.18	Finalised - Limited
Grounds Maintenance		1	0.68	Finalised - Reasonable
Housing Compliance		7	6.58	Finalised - Substantial
RESPONSIVE WORK				
Election Duties	0	2	1.74	Completed
Princes Parade Project Arrangements	0	12	12.85	Finalised – N/A
COVID Grants	0	10	9.16	Work in progress
Pay Policy	0	4	3.69	Finalised – N/A
Total	350	350	172.18	49.19% at 30/09/2021

BALANCED SCORECARD

Appendix 4

<u>INTERNAL PROCESSES PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>	<u>FINANCIAL PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Original Budget</u>
	Quarter 2		Reported Annually		
Chargeable as % of available days	90%	80%	<ul style="list-style-type: none"> • Cost per Audit Day 	£	£356.35
Chargeable days as % of planned days			<ul style="list-style-type: none"> • Direct Costs 	£	£459,443
CCC	45.00%	50%	<ul style="list-style-type: none"> • + Indirect Costs (Recharges from Host) 	£	£10,945
DDC	61.59%	50%	<ul style="list-style-type: none"> • - 'Unplanned Income' 	£	Zero
TDC	43.71%	50%			
F&HDC	49.20%	50%			
EKS	38.89%	50%			
Overall	48.97%	50%	<ul style="list-style-type: none"> • = Net EKAP cost (all Partners) 		£470,388
Follow up/ Progress Reviews;					
<ul style="list-style-type: none"> • Issued 	34	-			
<ul style="list-style-type: none"> • Not yet due 	22	-			
<ul style="list-style-type: none"> • Now due for Follow Up 	16	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Full			

<u>CUSTOMER PERSPECTIVE:</u>	<u>2021-22 Actual</u>	<u>Target</u>	<u>INNOVATION & LEARNING PERSPECTIVE:</u>	Actual	Target
	Quarter 2		Quarter 2		
Number of Satisfaction Questionnaires Issued;	32		Percentage of staff qualified to relevant technician level	75%	75%
Number of completed questionnaires received back;	14		Percentage of staff holding a relevant higher level qualification	39%	39%
	= 44%		Percentage of staff studying for a relevant professional qualification	15%	N/A
Percentage of Customers who felt that;			Number of days technical training per FTE	2.1	3.5
<ul style="list-style-type: none"> • Interviews were conducted in a professional manner • The audit report was 'Good' or better • That the audit was worthwhile. 	93%	100%	Percentage of staff meeting formal CPD requirements (post qualification)	39%	39%
	100%	90%			
	100%	100%			

Definition of Audit Assurance Statements & Recommendation Priorities

CiPFA Recommended Assurance Statement Definitions:

Substantial assurance - A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Reasonable assurance - There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Limited assurance - Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

No assurance - Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

EKAP Priority of Recommendations Definitions:

Critical – A finding which significantly impacts upon a corporate risk or seriously impairs the organisation’s ability to achieve a corporate priority. Critical recommendations also relate to non-compliance with significant pieces of legislation which the organisation is required to adhere to and which could result in a financial penalty or prosecution. Such recommendations are likely to require immediate remedial action and are actions the Council must take without delay.

High – A finding which significantly impacts upon the operational service objective of the area under review. This would also normally be the priority assigned to recommendations relating to the (actual or potential) breach of a less prominent legal responsibility or significant internal policies; unless the consequences of non-compliance are severe. High priority recommendations are likely to require remedial action at the next available opportunity or as soon as is practical and are recommendations that the Council must take.

Medium – A finding where the Council is in (actual or potential) breach of - or where there is a weakness within - its own policies, procedures or internal control measures, but which does not directly impact upon a strategic risk, key priority, or the operational service objective of the area under review. Medium priority recommendations are likely to require remedial action within three to six months and are actions which the Council should take.

Low – A finding where there is little if any risk to the Council or the recommendation is of a business efficiency nature and is therefore advisory in nature. Low priority recommendations are suggested for implementation within six to nine months and generally describe actions the Council could take.

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This Report will be made public on 30 November 2021



Report Number **AuG/21/17**

To: Audit and Governance Committee
Date: 8 December 2021
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

Subject: The Audit Findings for Folkestone & Hythe District Council 2020/21

Summary: Grant Thornton are required to issue a Report to those charged with governance, summarising the findings and conclusions of their audit work. They are also required by professional auditing standards to report certain matters before giving an opinion on the financial statements for the year ended 31 March 2021.

Reasons for recommendations:

The Committee is asked to agree the recommendations set out below because:

a) It is responsible for considering governance matters on behalf of the Council.

Recommendations:

1. To receive and note Report AuG/21/17.
2. To consider & note Grant Thornton's Audit Findings for Folkestone & Hythe District Council Year Ended 31 March 2021 report.
3. To approve the Letter of Representation and authorise the Chairman to sign the Letter on behalf of the Council.

1. INTRODUCTION

- 1.1 Grant Thornton are required to issue a Report to those charged with governance summarising the conclusion of their audit work and to report certain matters before giving an opinion on the financial statements for the year ended 31 March 2021.
- 1.2 Their draft report 'The Audit Findings for Folkestone & Hythe District Council' from Grant Thornton is attached as Appendix 1 to this covering report.
- 1.3 Following changes made to the Accounts and Audit Regulations on 9 March 2021, the Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) extend the statutory audit deadline for 2020/21 and 2021/22 for all local authorities and the audit must be completed by 30 September instead of 31 July.
- 1.4 The audit commenced on 5 July and was subject to delay due to workload pressures and staffing issues experienced by the external auditors. We were advised in September by Grant Thornton that an insufficient amount of audit work had been undertaken to provide an audit opinion by the statutory deadline of 30 September. This is an issue being experienced nationally across the audit sector and has resulted in a significant number of local government audit opinions not being issued by the statutory deadline. Failure to meet the deadline does not pose any implications to the Council in terms of financial penalties but does present a risk of reputational damage and there were resourcing implications for the Finance team resulting in operational issues. Grant Thornton have confirmed that no additional fees will be charged for this year's audit.
- 1.5 At the time of writing the report the audit is substantially complete subject to a review of the final set of financial statements. Therefore, for reasons of timing, the copy of the Audit Findings report at Appendix 1 is a draft report. If any changes are required they will be outlined by Grant Thornton at the meeting on 8 December. Based on discussions with Grant Thornton at the time of preparing this report no significant changes are anticipated in the final version.

2. KEY MESSAGES

- 2.1 The messages from of the Audit Findings Report are:
 - i. The 2020/21 audit is substantially complete and Grant Thornton plans to issue an unqualified opinion on the financial statements.
 - ii. The audit risks identified at the planning stage have all been reviewed, two material adjustments have been identified with all other work being concluded to their satisfaction.
 - iii. Grant Thornton confirm that the draft financial statements submitted for audit were of a good quality, supported by well-prepared working papers. A number of minor disclosure and classification changes were agreed and amendments made.

- iv. The value for money conclusion for 2020/21 is that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and Grant Thornton issued an unqualified value for money opinion which was reported to the Committee at its meeting on 28 September.

3. AUDIT FINDINGS 2020/21

3.1 Section 1 – Headlines

Sets out the approach to the audit and confirms that Grant Thornton anticipate providing an unqualified audit opinion in respect of the financial statements.

The full audit opinion can be found in Appendix D of the Audit Findings report.

3.2 Section 2 – Financial Statements

This section explores the key risks identified within the Audit Plan previously considered by Members and confirms the testing. A number of minor changes to improve presentation and disclosure have been agreed and made.

The audit adjustments are fully outlined within Appendix B of the Audit Findings report.

This section also considers the Councils going concern status and key judgements & estimates which were concluded to have been applied appropriately.

3.3 Section 3 – Value for Money

Confirms that Grant Thornton are satisfied that the Council had proper arrangements in place during 2020/21 and have issued their Value for Money conclusion.

3.4 Section 4 – Independence and ethics

This section outlines the independence of the external auditors, including outlining additional work undertaken by the auditors. Full details of all audit fees can be found in Appendix C of the Audit Findings report.

4. LETTER OF REPRESENTATION

- 4.1 Committee is asked to authorise the Chairman to sign the Letter of Representation on behalf of the Council. This is attached at Appendix 2.

5. CONCLUSION

- 5.1 Grant Thornton's work has led to the result that the Council is expecting to receive an unqualified opinion on the financial statements for 2020/21.

6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 6.1 **Legal Officer's Comments (NM)**
There are no legal issues arising from this report.
- 6.2 **Finance Officer's Comments (CI)**
This report has been prepared by Financial Services and all financial matters contained within the body of the report.
- 6.3 **Diversity and Equalities Implications (GE)**
There are none arising directly from this report.
- 6.4 **Climate Change Implications (OF)**
There are none arising directly from this report.

CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Cheryl Ireland, Chief Financial Services Officer
Telephone: 01303 853213
email: cheryl.ireland@folkestone-hythe.org.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:

Appendix 1: Grant Thornton report – The Audit Findings for Folkestone & Hythe District Council Year Ended 31 March 2021

Appendix 2: Letter of Representation 2021

The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2021

Folkestone & Hythe District Council

December 2021

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Your key Grant Thornton team members are:

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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit and Governance Committee.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 08 December 2021

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone & Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

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Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during June to November. Our findings are summarised on pages 5 to 17. We have identified two adjustments with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Receipt of management representation letter; and
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 23, and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance committee on the September 28, 2021. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we have finalised our consideration of issues raised by local authority electors.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the components and to determine the planned audit response. From this evaluation we determined that targeted audit procedures were required for asset balances of Oportunitas Ltd.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 08 December 2021. The outstanding items are detailed on page 3 of this report.

Acknowledgements

As highlighted in our audit plan presented to the Audit and Governance Committee, the impact of the pandemic has meant that our audit team faced audit challenges again this year, such as remote access working arrangements i.e. remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity have all contributed in part to a delay in our processes.

Throughout this process the Council's team have been facilitative and helpful. The draft accounts were good quality as were the accompanying working papers.

2. Financial Statements



Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,750,000	1,700,000
Performance materiality	1,312,500	1,275,000
Trivial matters	87,500	85,000
Materiality for Officers' Remuneration	50,000	50,000



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

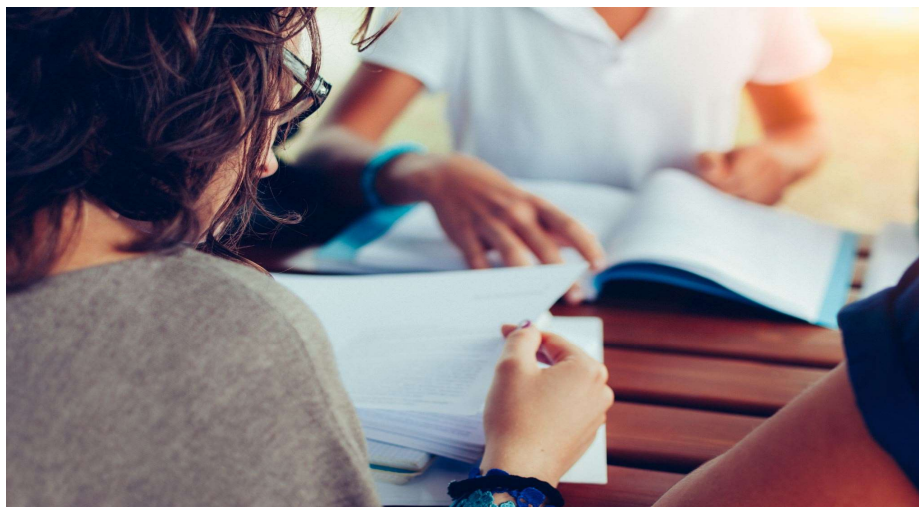
Commentary

Management override of controls

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any other issues in respect of management override of controls.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

Having considered the risk factors set out in ISA240 and nature of the revenue streams at Folkestone & Hythe District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Folkestone & Hythe District Council, mean that all forms of fraud are seen as unacceptable

There have been no changes to our assessment reported in the audit plan. Therefore, we do not consider this to be a significant risk to Folkestone & Hythe District Council

Valuation of land and buildings including Investment Properties

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into your asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our work has not identified material issues in respect of valuation of land buildings including investment properties.

Valuations of retails and specific trading related assets worth £7,573,200 are reported as being subject to 'material valuation uncertainty' by the management's expert, 'WHE'. Management have assessed the impact of the possible changes in valuation due to uncertainty using a sensitivity analysis and the impact of £+/-757,320 is to be expected if the valuations of such assets are revised upwards or downwards by 10%, respectively. We have evaluated the sensitivity analysis for consistency with valuer's report and our understanding of the entity and its environment and concluded that such expected changes are below materiality , therefore our audit report does not include an Emphasis of Matter paragraph in respect of uncertainty disclosed in the accounts.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£76.591m in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a .1% change in these two assumptions would have approximately 3% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work has not identified any issues in respect of valuation of the pension fund liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Fraud in expenditure recognition

We have:

- inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period;
- inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; compare size and nature of accruals at year to the prior year to help ensure completeness and
- investigated manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Our audit work has not identified any issues in respect of fraud in expenditure recognition.

Level 3 financial assets and liabilities

We have:

- gained an understanding of the council's process for valuing hard to value financial assets and liabilities evaluate the design of the associated controls;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the assets and liabilities;
- considered the competence, expertise and objectivity of any management experts used;
- challenged management about the disclosure of the level 3 financial assets.

Our audit work has not identified any issues in respect of level 3 financial assets and liabilities.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
-----------------------------------	----------------------------------	----------------	------------

Net pension liability – £76.591m

The Council's net pension liability at 31 March 2021 is £76.591m (PY £62.935m) comprising the Kent County Council Local Government. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. Net actuarial gain/loss amounted to nil during 2020/21.

- We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.
- We have performed additional tests in relation to the accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues identified.
- We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.00%	1.95% to 2.05%	●
Pension increase rate	2.80%	2.85% to 2.80%	●
Salary growth	3.80%	3.85% to 3.80%	●
Life expectancy – Males currently aged 45 / 65	Current Pensioners – 21.6 y/o Future Pensioners – 23.6 y/o	Current Pensioners – 20.5 to 23.1 y/o Future Pensioners – 21.9 to 24.4 y/o	●
Life expectancy – Females currently aged 45 / 65	Current Pensioners – 23.6 y/o Future Pensioners – 25.1 y/o	Current Pensioners – 23.3 to 25.0 y/o Future Pensioners – 24.8 to 26.4 y/o	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £76.591m - Continued		<ul style="list-style-type: none"> We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimates. We have confirmed that there were no significant changes in 2020/21 to the valuation method We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets Our work confirms that net pension liability disclosed in the financial statement are reasonable. 	

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – Other - £26.4m	<p>Other land and buildings comprise specialised assets such as swimming pools and other leisure facilities, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings assets that are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP (WHE), a new valuer, to complete the valuation of properties as at 31 March 2021 on a five yearly cyclical basis. 17% of total assets were revalued during 2020/21. The valuation other land and buildings by the valuer has resulted in a net decrease in value of £0.76m. Management have considered the year end value of non-valued properties, based on the market review provided by the valuer as at 31 March 2021, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p> <p>The total year end valuation of land and buildings was £26.4m, a net decrease of £0.3m from 2019/20 (£26.7m).</p>	<p>Through the substantive audit work performed we have arrived at the conclusion that the Council's estate as at 31 March 2021 is not material misstated based on the following outcomes:</p> <ul style="list-style-type: none"> • We reviewed the land and buildings valuation estimate in line with the revised ISA540 requirements and have no issues to raise; • We assessed management's valuation expert and found them to be competent, capable and independent; • We concluded that the underlying information used to determine the estimate is complete and accurate; • We assessed valuer assumptions to be reasonable; and • Revised ISA540 requires enhanced disclosure of accounting estimates in the financial statements and the Council could do more to improve the quality of its disclosures around estimation uncertainty of land and buildings valuations, along with consideration of alternative estimates that are available. 	

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Investment Property - £86.3m	<p>The Council has made significant investment property acquisitions (£7.9m) in 2020/21, first and foremost relating the development of the Otterpool assets. The Council acquired Former Debenhams Building for £2.3m.</p> <p>Investment property is required to be valued at fair value at year-end. The Council has engaged 'WHE' to complete the valuation of investment properties as at 31 March 2021. 100% of the assets were revalued during 2020/21, and the fair value adjustment on valuation resulted in an increase of £3.2m across the portfolio.</p>	<p>We have tested the existence and accuracy of material capital additions to investment property assets, including the purchase of Former Debenhams Building.</p> <p>We have also assessed management's estimate, considering:</p> <ul style="list-style-type: none"> •an assessment of management's expert; •the completeness and accuracy of the underlying information used to determine the estimate; •the reasonableness of the assumptions behind the valuations. 	
Land and Buildings – Surplus assets - £12.5m	<p>Surplus assets are not specialised in nature and have been valued at fair value under IFRS13, estimated at highest and best use from a market participant's perspective. The Council has engaged 'WHE' to complete the valuation of assets as at 31 March 2021. This class contains land at Princes Parade and Recreation Ground.</p> <p>The year end valuation of surplus assets was £12.5m, a net increase of £0.2m from 2019/20 (£12.3m).</p>	<p>We have assessed management's estimate, considering:</p> <ul style="list-style-type: none"> •An assessment of management's expert; •The completeness and accuracy of the underlying information used to determine the estimate; •The reasonableness of the assumptions behind the valuations; and •The reasonableness of the increase in the estimate <p>We consider management's process is appropriate.</p>	

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provisions for NNDR appeals - £2.277m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £74m in 2020/21.	<ul style="list-style-type: none"> The method used by the Council to calculate the estimate is agreed by all Kent Authorities. The disclosure of Provisions in the financial statements is adequate. Our review of the Provision calculation confirms that appropriate information has been used to determine the estimates and we deem the estimate to be reasonable. 	
Land and Buildings – Council Housing - £185.6m	The Council owns 3,390 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged 'WHE', a new valuer, to complete the valuation of these properties. The year end valuation of Council Housing was £185.6m, a net increase of £20.4m from 2019/20 (£165.2m).	<p>The Council's valuer Sibley Pares (Taylor Riley) Ltd last valued the entire housing stock in April 2015 using the Beacon methodology. For 2020/21 the valuer, 'WHE' has valued the entire stock as at 31 March 2021 to correctly state the value of the HRA stock held by the Council.</p> <ul style="list-style-type: none"> We have assessed the Council's valuer, WHE, to be competent, capable and objective. We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report. We have agreed the HRA valuation report to the Statement of Accounts. 	

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Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £40.3m	<p>Management's policy states that grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.</p> <p>For this purpose, the Council acts as the principal and credited such grants, contributions and donations to the Comprehensive Income and Expenditure Statement. These mainly comprise of:</p> <p>Local Authority Discretionary Grant Fund (LADGF) COVID-19 Emergency Funding COVID-19 LA Support Grant COVID Winter Grant Scheme Additional Restrictions Grant</p> <p>However, for some grants. The Council is also acting as an agent and does not recognise grant income. The Council has recognised the following grants as agency transactions:</p> <p>Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) Business Grants Fund Local Restrictions Support Grant (including Addendum)</p> <p>Work performed on grants confirm that the judgements exercised by the Council management in determining whether they are acting as principal or agent have been reviewed in detail and no material issues were noted.</p>	<ul style="list-style-type: none"> • Work performed during our audit covered the following: • Review of management's judgement of whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that would determine come whether the grant be recognised as a receipt in advance or income. • Impact for grants received, whether the grant is specific or non specific grant [or whether it is a capital grant]-which impacts on where the grant is presented in the CIES • Reviewed adequacy of disclosure of management's policy around recognition of grant income in the financial statements. 	

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £775k	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £775k, a net increase of £417k from 2019/20.</p>	<p>We have carried out the following work:</p> <ul style="list-style-type: none"> Assessed that the MRP has been calculated in line with the statutory guidance. Confirmed that the Council's policy on MRP complies with statutory guidance. Assessed there are no changes to the authority's policy on MRP in comparison with 2019/2020. Concluded that the change in MRP is reasonable. 	

Assessment

- Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Councils banking, investment and borrowing institutions. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided in a prompt manner. No significant difficulties have been experienced.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council’s financial reporting framework; and the Council’s system of internal control for identifying events or conditions relevant to going concern. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified; and management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters</p>

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2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	This is outstanding whilst we consider issues raised by local electors.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which was presented to the Audit and Governance committee on the September 28, 2021. We will present a final version of this report to Full Council in the New Year.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £84,705 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	12,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,000 in comparison to the total fee for the audit of £84,705 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance committee. None of the services provided are subject to contingent fees.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of Folkestone & Hythe Council's 2019/20 financial statements, which resulted in 1 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The valuation of other land and buildings was carried out as at 01 April 2019. The valuer provided the update report as at 31 March 2020 and ascertained that there was no material change in value to the balance sheet date. Management accepted this assertion. On review of indices, we have calculated that a potential uncertainty of circa £802k exists as a result of the assertion that the valuation would not have been materially different, based on a review of indices from our auditor's expert, Gerald Eve.	Management engaged Wilks Head & Eve to provide a full valuation as at 31 March 2021 of all Housing Revenue Account (HRA) property assets, investment and surplus property assets.

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
The reclassification of the land option in respect of Otterpool recognised within investment property. The Authority does not have the rights and obligation to the land, therefore does not meet criteria recognition to be classified as Investment Property.			
Debtors		905,165	
Investment Property		(905,165)	
The reclassification of the Small Business grant fund payment made on 31 March from creditors to bank. As to reflect the bank reconciling items between the Authority's ledger and the bank account.			
Creditor		2,508,000	
Bank		(2,508,000)	
Overall impact	NIL	NIL	NIL

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
<p>Related Parties</p> <p>The Code 3.9.4.1 requires the disclosure note include the following:</p> <p>1) Information in respect of transactions with related parties, not disclosed elsewhere, including:</p> <p>a) the description of the nature of the related party relationships</p> <p>b) the amount of transactions that have occurred, and</p> <p>c) the amount of outstanding balances.</p> <p>In respect of Central Government, the disclosure should cross reference both debtors and creditors for the amount of outstanding balances.</p>	<p>The note was updated in response to our query.</p> <p>Management response</p> <p>This was an agreed amendment to the accounts.</p>	✓
<p>Heritage assets</p> <p>The narrative included within disclosure note required amending to reflect the actual basis of the carrying amount of the assets.</p> <p>The asset is held at cost, which the Authority valuation expert, deemed to be it's "current" carrying amount as at 31 March 2021.</p>	<p>The note was updated in response to our query.</p> <p>Management response</p> <p>This was an agreed amendment to the accounts.</p>	✓

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
Financial Instrument Soft loan amounting to £2,019 and £2,275 at 2020-21 and 2019-20 respectively was not included under financial assets.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
Investment Property The disclose note in missing the 2019/20 comparative for the "Recurring fair value measurements" table. Which is not in line with the code 3,4,2,31 "Except when the Code permits or requires otherwise, a local authority shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements".	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Disclosure omission	Auditor recommendations	Adjusted?
<p>Investment Property</p> <p>The section on "Significant unobservable inputs - Level 3" paragraph 3 states the Authority's commercial units are categorised as level 3.</p> <p>This is not consistent with what has been noted within the valuer's working. The commercial units were categorised as level 2, which the auditors deemed to be appropriate.</p> <p>It should be noted that for 2020/21 there were not assets categorised as level 3, as per page 6 of the valuation report. Unless the Authority is able to provide alternative supporting documentation to demonstrate otherwise.</p> <p>The Investment Properties Categories with Level as 31 March 21 should be removed at the bottom of the disclosure.</p>	<p>The note was updated in response to our query.</p> <p>Management response</p> <p>This was an agreed amendment to the accounts.</p>	✓
<p>PPE Note</p> <p>The "Balance Sheet amount at 1 April 2020" in respect of 2020/21 disclosure is incorrect, this has not been updated.</p>	<p>The note was updated in response to our query.</p> <p>Management response</p> <p>This was an agreed amendment to the accounts.</p>	✓

B. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'	Balance Sheet £'	Impact on total net expenditure £'	Reason for not adjusting
The brought forward balance in the computation of the impairment of housing rent is incorrect. Resulted to overstatement of impairment debt		110,281		These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
Short term Debtors Impairment of Debt		(110,281)		
The error on incorrect split of land and building values on the FAR due to human error. Resulted to overstatement of buildings and understatement of land. HRA - Land HRA - Building		176,550 (176,550)		These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
Overall impact	£NIL	£NIL	£NIL	



C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	71,053	84,705
Total audit fees (excluding VAT)	£71,053	£84,705

The variation in the final fees from the proposed fee per the audit plan are in respect to PSAA approving the following fees:

- 2018/19 objection to accounts of £5,544
- 2019/20 Covid-19 overrun of £8,108

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit Subsidy claim	12,000	12,000
Certification of Housing Capital receipts grant	5,000	5,000
Total non-audit fees (excluding VAT)	£17,000	£17,000

D. Audit opinion - Draft

We anticipate we will provide the Group with an unmodified audit report:

Our audit opinion is included below.

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Folkestone & Hythe District

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Folkestone & Hythe District (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Corporate Services use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Corporate Services conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Corporate Services with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements' section of this report.

D. Audit opinion - Draft

Other information

The Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

D. Audit opinion - Draft

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Governance Committee, concerning the group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and assessment of the risk of fraud in expenditure recognition. We determined that the principal risks were in relation to journals:
 - Using data analytics, we considered all journal entries for fraud and set specific criteria to identify the entries we considered to be high risk. Such criteria included journals posted after the year end; journals with a material impact on the deficit for the year and journals posted by users with system admins or senior finance officers.
- Our audit procedures involved:
 - evaluating the design effectiveness of managements controls over journals;
 - analysing the journals listing to determine the criteria for selecting high risk unusual journals;
 - testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
 - gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
 - evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

D. Audit opinion - Draft

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- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, council dwelling, investment property, and defined benefit pensions liability valuations, credit loss and impairment allowances, provisions, expenditure accruals and fair value estimates.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

E. Audit opinion - Draft

Report on other legal and regulatory requirements –Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Folkestone & Hythe District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

{Signature}

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

09 December 2021

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

9 December 2021 – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Folkestone & Hythe District Council
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Folkestone & Hythe District Council and its subsidiary undertakings, Oportunitas Ltd and Otterpool Park LLP for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the group and Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments disclosed in the Statement of Accounts are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :
 - a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
 - b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
 - c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

- xvi. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xxiii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 8 December 2021.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

This Report will be made public on 30 November 2021



Report Number **AuG/21/18**

To: Audit and Governance Committee
Date: 8 December 2021
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councillor David Monk, Leader of the Council

Subject: Statement of Accounts 2020/21

Summary: In accordance with the Accounts and Audit (Amendment) Regulations 2021 the council must consider and approve its Statement of Accounts no later than 30 September 2021. The Accounts have been subjected to audit, the details of which are set out in Grant Thornton's Audit Findings report.

Reasons for recommendations:

The Committee is asked to agree the recommendations set out below because the Accounts and Audit (Amendment) Regulations 2021 require the council to consider and approve its Statement of Accounts no later than 30 September, to enable publication to be made by that date.

Recommendations:

1. To receive and note Report AuG/21/18.
2. To approve the Statement of Accounts 2020/21.

1. INTRODUCTION AND BACKGROUND

- 1.1 The 2020/21 Statement of Accounts is prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS).
- 1.2 The Ministry of Housing, Communities and Local Government (MHCLG) confirmed revised Accounts and Audit Regulations on 9 March 2021. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) extend the statutory audit deadline for 2020/21 and 2021/22 for all local authorities.

The council must comply with the provisions of the Accounts and Audit (Amendment) Regulations 2021. Concerning the signing, approval and publication of the Statement of Accounts:-

- i) The responsible financial officer must, no later than 31 July 2021, sign and date the statement of accounts and certify that it presents a true and fair view of the financial position of the council at the end of the financial year and of the council's income and expenditure for that year. The Director of Corporate Services in her role as Chief Finance Officer, signed and dated the accounts on 25th June 2021.
- ii) The council must, no later than 30 September 2021, consider and approve the statement of accounts by way of resolution. The accounts are submitted for consideration and approval under this Agenda.
- iii) Following approval by this Committee, the person presiding at the Committee must sign and date the statement of accounts.
- iv) No later than 30 September 2021, the council must publish its statement of accounts (including the annual governance statement and narrative statement) together with any certificate or opinion entered by the auditor.

2. STATEMENT OF ACCOUNTS 2020/21

- 2.1 The draft Statement of Accounts were presented to the Committee at its meeting on 29th July 2021, at which time external audit was underway. The external audit is substantially complete at the time of writing this report and there have been two material changes to the financial statements. These relate to misclassifications of items and are detailed in Grant Thornton's Audit Findings Report presented at this meeting. The changes have not impacted the overall financial position previously reported to Committee.
- 2.2 Details of minor changes to disclosure notes are also enclosed in Grant Thornton's Audit Findings Report.

3. AUDIT OF THE ACCOUNTS

- 3.1 The Accounts and Audit (Amendment) Regulations 2021 require the statement of accounts for 2020/21 to be prepared by 31 July and the audit completed by 30 September.
- 3.2 The Finance team have worked extremely hard since March and managed to publish the draft accounts on the 25th June, well ahead of the revised statutory deadline of 31st July.
- 3.3 Grant Thornton's audit team have been auditing the accounts since the 5th July and the audit is in its final stages at the time of preparing this report. Their Audit Findings Report will be presented for consideration at this meeting.
- 3.4 The audit has been subject to delay due to workload pressures and staffing issues experienced by the external auditors and as a result the audit opinion has not been issued by the statutory deadline of 30 September. There are no implications for the Council in terms of financial penalties for failing to meet the deadline but it does present a risk of reputational damage and there were resourcing implications for the Finance team resulting in operational issues.
- 3.4 The copy of the accounts at Appendix 1 has been updated to reflect known changes to the financial statements and disclosure notes arising from the audit findings and includes the draft audit opinion.

4. CONCLUSION

- 4.1 The Committee is asked to approve the Statement of Accounts for 2020/21 in accordance with the Accounts and Audit (Amendment) Regulations 2021.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (NM)

There are no legal implications arising directly out of this report that are not already referred to in the report.

5.2 Finance Officer's Comments (CI)

This report has been prepared by Financial Services and all financial matters contained within the body of the report.

Diversity and Equalities Implications (GE)

- 5.3 There are none arising directly from this report.

Climate Change Implications (OF)

- 5.4 There are none arising directly from this report.

6. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

Cheryl Ireland, Chief Financial Services Officer

Telephone: 01303 853213

email: cheryl.ireland@folkestone-hythe.org.uk

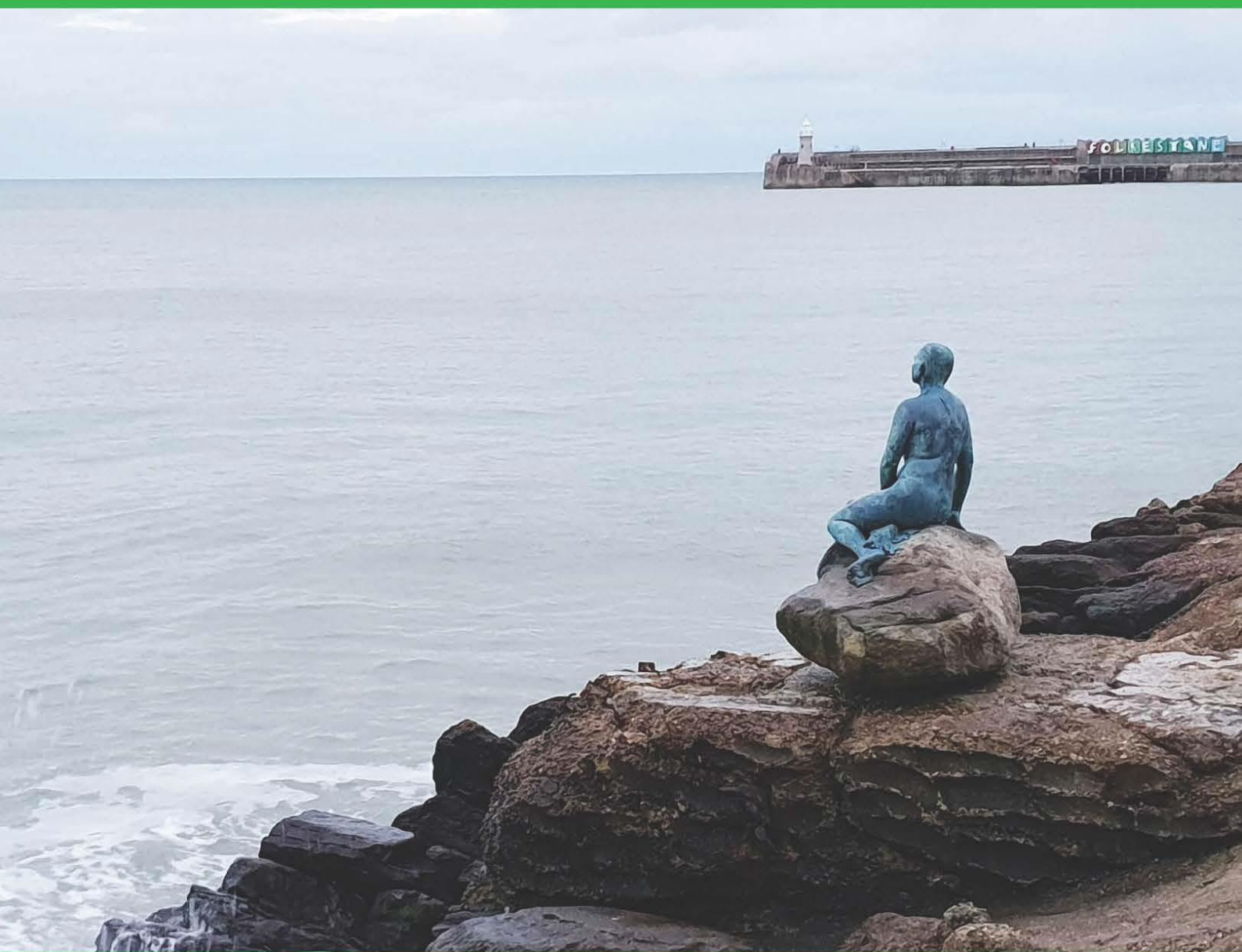
The following background documents have been relied upon in the preparation of this report:

Appendices:

Appendix 1: Draft Statement of Accounts 2020/21

STATEMENT OF ACCOUNTS

2020/21



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Narrative Report

ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Our District

Folkestone & Hythe District is a coastal district in south eastern England and home to a diverse collection of towns, villages and environments. Chiefly rural in nature, the district is large and covers approximately 363 sq. km (140 sq. miles). The district stretches from the East Sussex border (near Rye) in the south west, across the low-lying Romney Marsh and through to Folkestone and the escarpment and the hills of the Kent Downs in the north. The settlements and districts of Ashford, Dover and Canterbury adjoin Folkestone & Hythe in eastern Kent.

The district has distinctive contrasting rural landscapes and urban environments.

Our People

The majority of the district's 113,000¹ residents live in urban areas (63%), with the remaining 37% to be found living in rural areas.



Approximately 1 in 10 people in the district live in isolated dwellings, hamlets or small villages (below 1,000 people).

Economic and Environmental Factors

The district as a whole suffers from considerable deprivation relative to the national average and there is also significant inequality within the district with deprivation concentrated in the urbanised coastal areas and the rural south. Rural areas have poorer access to services and facilities. The district suffers from high levels of disability / long term illness, reflecting, in part, the relatively high proportion of older people living in the district.

The district has a number of economic strengths, including its good transport links (M20 motorway, High Speed rail links to London, and proximity to the Channel Tunnel), affordable land/building costs relative to the wider South East region, a large working age population and a high quality natural environment. Economic weaknesses include its relative remoteness, relatively low rates of entrepreneurship and few residents with higher skills².

There is a long history of flooding within the district. Over half of homes in the district are at risk of flooding from either coastal or fluvial sources. 55% of the district is at or below sea

¹ 2019 Mid-Year Population Estimates - ONS

² Shepway Economic Development Strategy 2015-2020

level and the majority of the district’s 41km coastline lies below the mean high water mark. Virtually all of the Romney Marsh area is within flood zone 3 due to its topography.

Purpose and Vision

The Councils vision for the district is:

Creating Tomorrow Together



Key Objectives

Our vision builds on previous plans and reinforces the importance to the Council of focusing our resources on what matters to our residents, investors and visitors. The Corporate Plan sets out our far-reaching and long-term ambitions for Folkestone & Hythe and is a plan both for recovery in the medium term and for our resilience and prosperity through the next decade. The plan recognises the excellent services, strength in partnerships and resilience in our communities that exists, to build on that strong platform in creating a welcoming, safe and distinctive district.

Our plan is focused on four service ambitions which are priority areas of action that relate to the key services that the council plans, delivers and commissions and six guiding principles that guide everything that we do:



- **Positive community leadership**
 - Improve physical and mental health and wellbeing
 - Safer communities
 - Supporting and empowering our communities
- **A thriving environment**
 - Ensure an excellent environment for everyone
 - Grow the circular economy and reduce waste
 - Increase our resilience to climate change
- **A vibrant economy**
 - Reinvigorate our high streets
 - Support a vibrant and diverse business community
 - Help people access jobs and opportunity
 - Grow the skills we need for the future
- **Quality homes and infrastructure**
 - Improve outcomes and support for homeless people
 - Deliver sustainable, affordable housing
 - Deliver a safe, accountable housing service
 - Digital inclusion and connectivity
 - Deliver a sustainable new development at Otterpool Park



External Environment

The external issues we face in line with many other local authorities across the country are:

- Challenging financial environment;
- Ageing population with associated demands on local services;
- Increasing demand for housing outstripping supply;
- Rising house costs, particularly in the private rental market;
- High demand for affordable housing and increasing levels of homelessness;
- Providing the necessary social infrastructure to keep pace with the scale of growth ambition; and
- Mitigating the concerns over growth with the positive impact they can have.

Covid-19

The coronavirus (Covid-19) outbreak was declared a global pandemic by the World Health Organisation on 11th March 2020. The Council mobilised quickly and council offices were closed to staff and public in line with the government guidance to “stay at home and stay safe”. 94% of our office staff were equipped to work fully remotely from home and key services continued to be provided through the use of alternative delivery models where necessary, with a full telephony and online service available to residents and businesses.

A community support model was quickly put in place in March 2020 as part of the Council’s emergency response in collaboration with key partners and volunteers. A hub and spoke model was created with a district Covid-19 ‘hub’ established with three ‘spokes’ based in Folkestone, Hythe and Romney Marsh to provide support to vulnerable residents ensuring food, medication and other essential items were delivered, as well as offering wider support where required. Council staff were redeployed, hundreds of volunteers were recruited and emergency funding was made available to support the operation of the Community Hubs which have met nearly 80,000 requests for help since March 2020. The Council has been

presented with a certificate of excellence in the iESE Public Sector Transformation awards in the Community Focus category which recognised an initiative that does most to reinvigorate the local community by creating greater resilience, better life chances and less dependency on public services. The hub approach will continue as a key part of council provision to improve health and wellbeing of the district's residents, by developing new programmes of activity working with key stakeholders in the district.

Business rates reliefs and grants for businesses predominantly in the retail, hospitality and leisure sectors were and continue to be administered in line with government guidelines with over £42m being paid out during 2020/21 helping over 2,000 businesses in the district. Additional council tax relief was given to vulnerable people and households through the government's hardship fund. The Council worked with local partners to house the district's known rough sleepers.

In line with legislative changes introduced as part of the Coronavirus Act 2020, Council meetings were held virtually using video conferencing technology and broadcast online to maintain open and transparent decision making.

The Council made available the Civic Centre to support the NHS rollout of the coronavirus vaccination programme and worked closely with the Kent Community Health NHS Foundation Trust to successfully establish one of the first large-scale vaccination centres in Kent using the FOLCA building (former Debenhams store in Folkestone town centre) to offer thousands of vaccinations per week.

Various national lockdowns have been imposed by government throughout the year restricting all non-essential travel and contact with people outside of the home and closing almost all businesses, venues and facilities. This has had a financial impact on the Council as many businesses in the district have been forced to close which has significantly impacted the local economy and in turn impacts the Council's income streams. The Council experienced losses in car parking and leisure income and additional cost pressures resulting from actions taken in response to the pandemic, however the overall impact on the Council's finances was not as significant as anticipated at the start of the year, largely due to the financial support package provided to local authorities by the government. The Council received £2.8m in Covid-19 non-ringfenced grants which helped support additional costs and loss of income, as well as £2.2m funding to support various initiatives as part of the government's response to the pandemic.

It is anticipated that there will be an ongoing financial impact in 2021/22 and the Council continues to review delivery methods and new operating models for services as we move forward into the recovery phase and the 'new normal'. The new Corporate Plan is also focussed on recovery and over the next three years the Council will have a key role in leading our recovery from the current crisis.

GOVERNANCE

Our Political Leadership

The political leadership of the Council during the financial year 2020/21 was through the Executive which consisted of the Leader, Deputy Leader and a further seven Portfolio Holders providing cross-party representation. The Cabinet is made up of 5 Conservative

party members, 2 Folkestone & Hythe Independent Party members, 1 Green party member and 1 Liberal Democrat member. The managerial leadership is made up of the Corporate Leadership Team (CLT: Head of Paid Service and five Corporate Directors). CLT is supported by 2 Assistant Directors and 4 Chief Officers.

There are 13 wards and 30 Councillors representing the District, the political make-up of the Council currently is:

- 13 Conservative group members;
- 6 Green group members;
- 5 Labour group members;
- 2 Liberal Democrat members;
- 2 UKIP group members; and
- 2 Folkestone & Hythe Independent Party members.

Governance Arrangements

Member / officer relations are underpinned by a protocol; which forms part of the Council's constitution. Regular briefings between senior officers and portfolio holders ensure that cabinet members are up to date with developments, discuss future reports and provide officers political direction. Members are also involved in outside meetings of particular importance e.g. the Collaboration Board for Otterpool Park. The Council is member-led allowing officers to focus on operational aspects.

Non-executive members sit on groups that consider key Council business. Following work with the Centre for Public Scrutiny and a review of the Council's scrutiny arrangements, a number of changes were implemented in 2020/21, mainly that the number of Overview & Scrutiny Committee meetings would reduce from 11 to 6 per year with a committee work plan to include clearly scoped topics and the creation of a Finance & Performance Sub-Committee (FPSC) to meet quarterly to consider budget and performance monitoring reports. The FPSC consider the majority of financial papers ahead of their debate at Cabinet and has an important and defined role in the budget making process and contribute to its formulation prior to consideration by Cabinet.

The Council has a dedicated Audit and Governance Committee which considers the Annual Governance Statement, the local code of corporate governance and the constitution. The Annual Governance Statement has an action plan attached to it which sets out proposals for the forthcoming year. The Monitoring Officer reports to the committee each year if they consider that the constitution needs updating.

Further detail regarding the Governance of the Council can be found within the Annual Governance Statement on pages 128-143.

OPERATIONAL MODEL AND FINANCIAL PERFORMANCE

Budget

The Budget Strategy is considered by the Cabinet annually during the Autumn and provides the Budget and Policy Framework as well as a timetable outlining key dates in setting a budget for the coming year.

The Strategy builds on the Medium Term Financial Strategy (MTFS) and seeks to work with Assistant Directors, Chief Officers and Budget Managers in determining appropriate levels of fees and charges as well as identify growth and savings proposals to be considered by Members in setting the balanced budget. This approach has enabled the Council to arrive at a sustainable budget position focused on its Corporate Plan objectives.

A balanced budget was set for both 2020/21 and 2021/22.

Achievements and Services delivered in year included

The Council faced an unprecedented year as a result of the Coronavirus pandemic, but has continued to pursue an ambitious agenda in 2020/21 and the achievements reflect the hard work and resilience of teams across the Council in contributing towards the Council's priorities.

- 78 long-term empty homes were brought back into use during 2020/21
- Over 200 private sector homes have been improved across the district as a result of interventions by our Private Sector Housing team
- Worked with local partners to assist 35 people with a history of rough sleeping to access support and long-term accommodation
- 17 homes previously sold under the Right to Buy scheme have been bought back by the Council so they can be made available for rent by people on the housing waiting list
- Launched our new housing service on 1st October 2020 after bringing it back in-house
- Otterpool Park Limited Liability Partnership (LLP) was set up to take the lead on driving forward proposals for Otterpool Park Garden Town
- Awarded £5.5m to support the ongoing development of the Mountfield Road industrial estate
- Successfully retained Green Flag status at the Royal Military Canal in Hythe, Folkestone Lower Leas Coastal Park and Radnor Park
- £25k investment into improvements at Radnor Park including the installation of football goal posts and a marked-out 400m running track
- Secured £2m funding from the Environment Agency to ensure continuing beach management works between Hythe and Folkestone for the next five years
- 154 individual ward grants were awarded totalling £89k to benefit local charities and community groups across the district
- The Council's insurance contract was successfully retendered for the next five years achieving a saving on the existing premium of £350k
- Retained Customer Service Excellence Accreditation, with 15 areas scored as 'Compliance Plus'

- In March 2021 we undertook the full Best Companies survey and have been formally accredited as a 2 star 'outstanding' organisation to work for
- Launched our online 'My Account' service which allows users to see all council information relevant to them in one place, with 11,500 users signed up since its launch in August 2020

RISKS AND OPPORTUNITIES

Future service provision

The current Corporate Plan outlines the clear commitment of the Council to achieve financial stability.

Transparent, stable, accountable and accessible – To make sure we deliver the right services, we will be accountable to our citizens – and that accountability comes from clear, straightforward access to relevant information.

To deliver this objective, our priorities over the next three years are to:

- Maintain our financial stability
- Communicate effectively with our communities
- Transform service delivery and improve customer access
- Drive a high-performance, accountable culture

The Council has a Strategic Risk Management Policy in place which is agreed by Cabinet. Risks are identified and assigned a Director lead officer as well as a lead Cabinet member. The risks are scored and actions noted, with the current Risk Register being considered at the Audit & Governance Committee. Additionally key risks are outlined within Committee reports.

Financial risks are highlighted separately within the Budget Strategy, Budget Setting, Budget Monitoring and MTFS reports.

What are we currently working on?

The following give some examples of our strategic projects which contribute towards a sustainable financial future for the Council:

Otterpool Park - In May 2020 Cabinet agreed the corporate structuring and initial activities of Otterpool Park LLP, the Council's delivery vehicle in relation to the development of the Otterpool Park garden town. The Business Plan for Otterpool Park LLP was approved by Cabinet in January 2021, which set out its vision to deliver a next generation garden town that will support sustainable living and a healthy economy; provide the best quality of life for existing and future residents; and respond to local landscape and character. It also set out the details of a proposed strategic land agreement and associated funding arrangements between the Council and the LLP which continue to be finalised.

Climate Change – The Climate and Ecological Emergency Working Group met for the first time in October 2019, following a declaration of a climate emergency at Full Council in July 2019. The Working Group has received a number of officer presentations since its inception and has discussed a range of topics including flood risk and climate change; cycling

infrastructure; and electric charging points. Alongside this, work progressed on a Carbon Action Plan to continue the Council on its journey to reduce its carbon emissions to zero by 2030. The action plan was approved by Cabinet in February 2021 and focusses on six key areas; energy; behaviour change; transport; water; contracts; and biodiversity/green space. The Council earmarked £5m through climate change reserve funding to support initiatives to reduce its carbon footprint. To date £40k has been approved for on-street electric vehicle charging points across the district. In addition the Council is considering moving out of the Civic Centre building to a purpose built, carbon-efficient facility.

Mountfield Road Industrial Estate, New Romney - The proposal to extend Mountfield Road Industrial Estate, New Romney, is seeking to diversify the local economy to mitigate the loss of over 1,000 jobs arising from the closure of Magnox A and proposed closure of Dungeness B Power Stations. The development is being delivered by means of a joint venture with East Kent Spatial Development Company (EKSDC). In summer 2020 the Council was successfully awarded a combined total of £5.5m funding to progress with the development. £2m was secured from EKSDC and Magnox to deliver a new business centre on five hectares of council owned land at the Mountfield Road industrial estate, which will provide co-working space designed to attract new companies to the area. Construction of this business hub is well underway and will be completed by the end of 2021. A further £3.5m funding was awarded from the Government's 'Get Building Fund' to support phase 2 of the development which will bring forward the remaining five acres of council owned land for employment purposes. The funding will deliver the necessary infrastructure to bring forward employment plots for new businesses which will in turn create 700 new jobs for the area. Work on phase 2 is due to be complete by March 2022. The existing land and expenditure incurred are held as assets and assets under construction within investment property on the balance sheet.

Housing Service – Following identification of failings in health and safety procedures, Folkestone & Hythe District Council, along with the other three Council owners (Canterbury City council, Dover District Council and Thanet District Council) proposed to close East Kent Housing (EKH) and deliver housing services themselves. Following tenant and leaseholder consultation, all four council owners took the decision in February 2020 to bring the management of housing stock back in-house. The management agreement with EKH was terminated in September and the Council launched its new housing service on 1st October 2020 with a vision to create 'a world class, digitally enabled service that is easy to do business with and where tenants are at the heart of everything we do'. Over the past six months the service has conducted a tenant and leaseholder satisfaction survey which has informed an action plan; consulted with tenants to create a Tenant Engagement Strategy due for launch in Spring 2021; agreed a stock condition survey of all council-managed properties to identify improvements needed and changes to help achieve the Council's target to be carbon neutral by 2030; and achieved substantial assurance for gas compliance following an internal audit by East Kent Audit Partnership (EKAP) in December 2020.

Town Centre Regeneration - In May 2020 the Council purchased FOLCA, the former Debenhams store, in Folkestone town centre which will become a centrepiece in the town's regeneration. Proposals for the site include a health centre, leisure facilities, flexible work space and residential properties. The building is currently being used as a mass vaccination centre to aid the rollout of the national vaccination programme in response to the current health crisis. Future use of the building is being explored and the Folkestone Town Centre

NARRATIVE REPORT

Place Plan is being developed which will give key consideration to the use of this site. It is currently being held as an investment property and is included within the values in Note 19.

Biggins Wood – The Council purchased a former brickworks site that has been vacant for over 20 years. Due to remediation costs, this site has not proved attractive to the private sector. Planning permission has been secured to build 77 homes with employment space. With a close proximity to Jct 13 (M20) this is an example of how we are bringing a redundant site back into use to provide much needed new homes and flexible modern commercial space with easy access to main transport routes.

Princes Parade Development - The Council has long-held ambitions to replace the popular, but old and failing swimming pool in Hythe. Since 2002 the Council has been working to secure a suitable site and financial commitment to build a new pool and recreation area. Feasibility studies were undertaken on the potential sites, and in April 2016 Cabinet decided the basis of a planning application would be for a new pool, recreation centre, up to 150 new homes and new public open space. Work had been on hold whilst a judicial review was concluded, and in December 2020 our previous planning decision for the development was upheld by the high court and permission to appeal the judicial review was refused. The Council has since appointed BAM Construction to deliver a new leisure centre, promenade and infrastructure works, as well as new homes. In March 2021 exploratory site investigations began to prepare the area for leisure facilities and accessible open spaces, with construction anticipated to begin in the first quarter of 2022.

Council Offices Relocation – Cabinet agreed in January 2021 that detailed work be carried out on proposals to provide a customer access point and to relocate the civic offices. The access point is part of the Council's long-term proposal to move out of the Civic Centre which has been prompted by the drive to reduce its carbon footprint and has been accelerated by the successful way in which staff have delivered services whilst working from home during the pandemic. The proposals include the creation of a smaller, purpose built, carbon-efficient facility with office space, meeting rooms and a civic chamber at Otterpool Park. Funding has been allocated by the Council to undertake development and feasibility works for the proposal during 2021/22.

Risks associated with the agenda

The following risks have been identified by the Council associated with a more ambitious agenda.

- 1 ~ Managing expectations and prioritising the wealth of opportunities
- 2 ~ Promoting excellence of the council
- 3 ~ Timescales for financial returns
- 4 ~ Not losing sight of the day job
- 5 ~ Staff Recruitment & Retention
- 6 ~ Appetite for risk

STRATEGY AND RESOURCE ALLOCATION

The Council has consistently planned its finances on a medium to long term basis ensuring reserves are maintained at a level which supports financial sustainability while protecting services from reductions. The current MTFS pushes the planning horizon to March 2025.

NARRATIVE REPORT

The MTFS was reported to Council on the 25th November 2020 and significantly shaped the annual budget setting cycle for 2021/22. Similarly the MTFS considered by Cabinet on 16th October 2019 and the Budget Strategy on 11th November 2019 shaped the framework for the setting of a balanced budget for 2020/21.

The MTFS is considered the council's key financial planning document. It defines the financial resources needed to deliver the council's corporate objectives and priorities and covers the financial implications of other key strategies. It also enables the council to carry out an early assessment of the financial implications of its approved policies and strategies as well as emerging external financial pressures.

The current MTFS forecasts a cumulative funding gap of £13.7 million over the lifetime of the MTFS (2021/22-2024/25). This position considered the 2020/21 Local Government Finance Settlement but not the 2021/22 final budget setting. Council approved a balanced budget for 2021/22 on 24th February 2021.

Financial planning for both revenue and capital expenditure is integrated with Treasury Management as part of the annual budget setting process. The Council has adopted a strategic and integrated approach to asset management with an Asset Management Board, which has included the Cabinet Member for Property Management and Environmental Health, a Corporate Director and the Council's Corporate Property Officer amongst other key players overseeing the delivery of the Asset Management Strategy.

Approach to Monitoring

The Council manages its spending within its resources. Budget Managers are responsible for submitting projections against the agreed budget in the Collaborative Planning Module (linked to the Financial System). This information is reviewed by Finance and three different reports are generated to ensure all levels of the organisation (Managers through to Members) have an understanding of the financial position in the year. The information is shared on a regular basis with CLT and onto FPSC and then Cabinet.

PERFORMANCE

The Council has a Performance Management Framework. Key Performance Indicators (KPIs) are reviewed annually to ensure we are focused on key priorities and those aspects that need to be monitored more closely, e.g. for improvement purposes.

The outturn performance for the council's KPIs was reported to the June Cabinet meeting.

The Coronavirus pandemic has had a direct impact on our operations and so it is inevitable that some areas of performance measured by KPIs have fallen short during the year, however Members acknowledged the broader achievements and work undertaken by staff during the year.



NARRATIVE REPORT

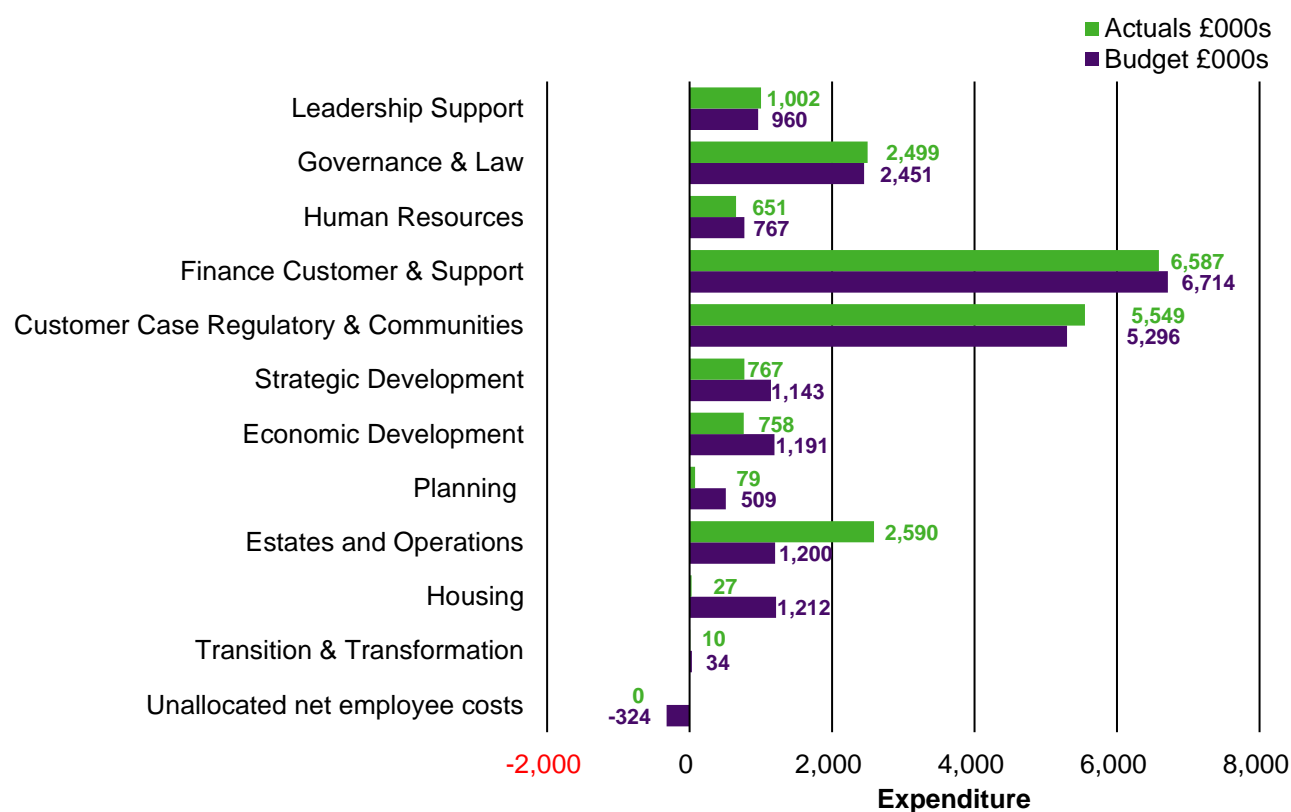
The Council's outturn performance includes:

Performance Indicator	Actual	Target	Status	2019/20 Comparison
Percentage of Council Tax due collected in year	96.13%	97.30%	✘	↓
Percentage of Non-Domestic Rates due collected in year	94.11%	97.50%	✘	↓
Average number of days taken to process new claims for Housing Benefit	14.1 days	21 days	✔	↑
Percentage of household waste recycled	47.00%	50.00%	✘	↑
Number of homes provided for low cost ownership in the district	4	32	✘	↓
Council Dwellings - Percentage of emergency repairs completed on time	99.70%	98.00%	✔	↑
Long-term empty homes brought into use	78	70	✔	↑
Percentage of major planning applications to be determined within statutory period	90.20%	60.00%	✔	↑
Percentage of calls received are answered	88.90%	80.00%	✔	↓

FINANCIAL PERFORMANCE

General Fund – Revenue

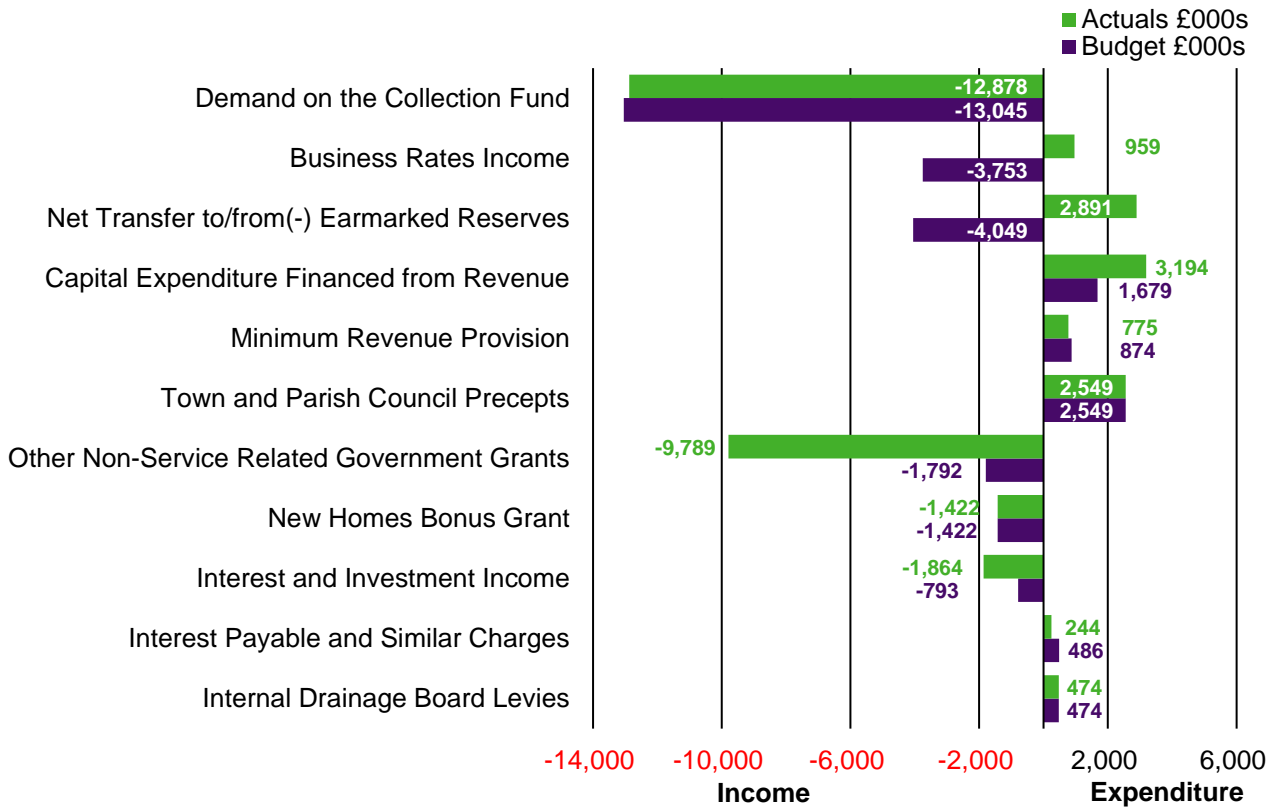
The latest approved budget for net cost of services to deliver the core services of the council and meet its strategic objectives was £21.2m. Delivering expenditure in line with agreed budgets is an important performance indicator and this was achieved in 2020/21 as outlined below:



NARRATIVE REPORT

The total net cost of services for 2020/21 of £20.5m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £27.3m before the debit adjustment in respect of the HRA of £6.8m, under the heading of “As reported for resource management”.

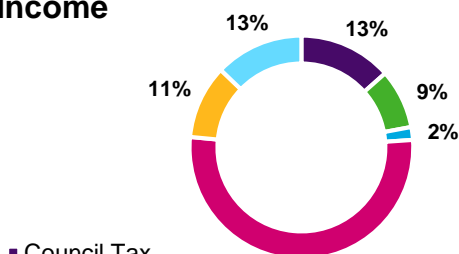
The following entries affect the Other Income and Expenditure within the EFA (in addition to entries from the HRA), and are reported to Members through the in-year monitoring and outturn reports.



The budget included a planned use of the General Reserve to fund schemes approved in the Medium Term Capital Programme.

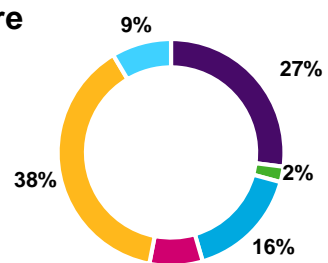
Sources of income and expenditure were as follows:

Income



- Council Tax
- Business Rates
- New Homes Bonus
- Specific Government Grants
- Fees & Charges
- Other Income

Expenditure



- Employee Costs
- Premises Related Expenditure
- Supplies & Services
- Third Party Payments
- Housing Benefit Payments & Rent Rebates
- Other Expenditure

NARRATIVE REPORT

The 2020/21 outturn position shows an overspend of £3.3m against the approved budget but this includes a transfer to earmarked reserves of £5.8m made at year-end in relation to the Collection Fund and the deficit anticipated to hit the General Fund in 2021/22 as a result of government funded Covid Business Rates Reliefs awarded in 2020/21. This can partly be seen in the increase in the Collection Fund Adjustment Account in Note 32 (page 79). Excluding this transfer the outturn position shows a surplus of £2.5m. The key movements from the agreed budget included:

- Net Covid grant funding received in year (£2.2m)
- Transfer to earmarked reserves of Section 31 grants received for Covid business rates reliefs to offset Collection Fund deficit in 2021/22 £5.8m

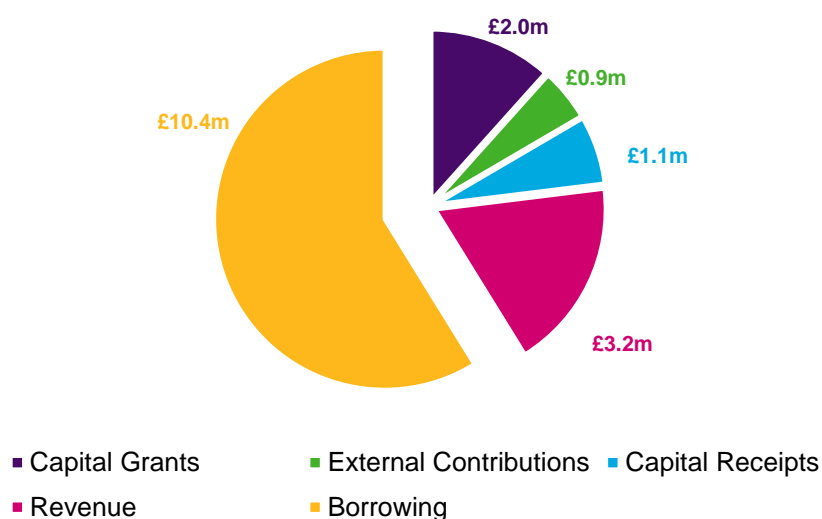
Further detail can be found in the Outturn report to Cabinet in June 2021.

General Fund Capital

The General Fund Capital summary position is outlined below:

	Latest Budget 2020/21	Final Outturn 2020/21	Variance Budget to Outturn
Service Units	£'000	£'000	£'000
Estates and Operations	1,781	1,408	(373)
Finance Customer & Support	2,106	2,179	73
Housing	1,010	810	(200)
Transformation & Transition	2,599	1,209	(1,390)
Economic Development	0	371	371
Customer Case Regulatory & Communities	13,377	11,638	(1,739)
Total Capital Expenditure	20,873	17,615	(3,258)

The capital programme was financed from the following funding sources:



The key movements relate to slippage in the capital programme particularly in relation to Otterpool Park Masterplanning, Mountfield Road Industrial Estate and Waste & Recycling schemes. Further details can be found in the June Cabinet report.

NARRATIVE REPORT

Housing Revenue Account

A summary of the outturn financial position of the Housing Revenue Account is outlined below:

	Latest Budget 2020/21 £'000	Final Outturn 2020/21 £'000	Variance Budget to Outturn £'000
Income	(16,359)	(16,324)	35
Expenditure	11,591	22,974	11,383
HRA Share of Corporate Costs	175	156	(19)
Net Cost of HRA Services	(4,593)	6,806	11,399
Interest Payable/Receivable	1,572	1,415	(157)
HRA Surplus/Deficit	(3,021)	8,221	11,242
Other items of Income & Expenditure	(295)	(10,749)	(10,454)
Revenue Contribution to Capital	6,805	2,966	(3,839)
Decrease/(Increase) to HRA Reserve	3,489	438	(3,051)

The main reason for the variance is a £3.9m reduction in the revenue contribution to capital expenditure required. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisitions programme.

A summary of the capital programme outturn is noted below:

	Latest Budget 2020/21 £'000	Final Outturn 2020/21 £'000	Variance Budget to Outturn £'000
HRA Capital programme	13,755	8,128	(5,627)

The largest variations in outturn position to the agreed budget relate to the deferral of the enhanced capital programme awaiting results from a stock condition survey to be conducted in 2021/22 and re-profiling of the new build/acquisitions programme.

OUTLOOK

The Council has an agreed Treasury Management Strategy that outlines our investment approach from a 'cash' investment perspective and is regularly monitored to maximise the opportunities arising from the available cash balances of the Council. This includes managing short term cash flow as well as longer term and higher risk investments such as the Churches and Charities and Local Authorities (CCLA) Property Fund and the new Multi-Asset Funds in order to maximise yield in a low interest environment whilst maintaining security and liquidity.

The Council also takes a robust view of capital investments and this is included as part of a medium term capital programme and is refreshed annually during the budget process. For the current programme agreed in February 2021, there is capital investment planned totalling £144.3 million. This sits alongside the planned revenue budget and use of reserves which are considered by the Council throughout its budget process to ensure a sustainable approach to its finances.



Transformation Programme

The Council agreed in February 2018 to embark on a transformation programme to deliver a new model of operational delivery aimed at enabling the council to be more resilient and efficient through streamlined processes and better use of ICT which will continue to be implemented over the coming year.

The Transformation Programme has three core drivers for change:

- **Improving service delivery;**
- **Improving resilience; and**
- **Improving efficiencies by, for example, adopting new technology and modern ways of working.**

The Transformation Programme is also a key element of the plan to address the shortfall within the MTFS. The Transformation Programme was concluded in 2020/21 with the final phases 3 and 4 successfully implemented. The programme was delivered under budget generating a saving of £416k and annual savings are expected to accumulate from the new ways of working.

AUDIT OF THE STATEMENT OF ACCOUNTS

The Public Sector Audit Appointments (PSAA) appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31st March 2021.

FURTHER INFORMATION

Further information about the statement of accounts is available from the Director of Corporate Services, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

Date: 8th December 2021

Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2020/21.

COUNCIL RESPONSIBILITIES:

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Corporate Services, Charlotte Spendley
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts by 31st July.

CHIEF FINANCE OFFICER RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of Folkestone & Hythe District Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy *2020/21 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice on Local Authority Accounting
- Kept proper accounting records which were up to date, and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATION OF ACCOUNTS

I certify that the Statement of Accounts gives a true and fair view of the financial position of Folkestone & Hythe District Council at 31st March 2021 and its income and expenditure for the year then ended.

Signed:

Charlotte Spendley, FCCA
Director of Corporate Services

Date: 8th December 2021

STATEMENT OF RESPONSIBILITIES

APPROVAL OF ACCOUNTS

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on XXXX 2021.

Signed:

Councillor Philip Martin
Chairman, Audit and Governance Committee

Date: 8th December 2021

Core Financial Statements



FINANCIAL STATEMENTS
MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement (MiRS), shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to amounts chargeable to council tax (or rents) for the year. The 'Net increase/decrease' line shows the statutory General Fund Balance and HRA Balance movements in the year following those adjustments.

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Unapplied Capital Grants Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2020/21								
Balance at 31 March 2020	(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)
Movement in reserves during 2020/21								
Total Comprehensive Income and Expenditure	(3,896)	8,221	-	-	-	4,325	(17,235)	(12,910)
Adjustments between accounting basis and funding basis under regulations (Note 5)	492	(7,783)	(305)	1,324	(843)	(7,115)	7,115	-
(Increase) or Decrease in 2020/21	(3,404)	438	(305)	1,324	(843)	(2,790)	(10,120)	(12,910)
Balance at 31st March 2021 carried forward	(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)
2019/20								
Balance at 31 March 2019	(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)
Movement in reserves during 2019/20								
Total Comprehensive Income and Expenditure	10,207	(521)	-	-	-	9,686	(21,404)	(11,718)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(11,492)	(1,790)	942	216	70	(12,054)	12,054	-
(Increase) or Decrease in 2019/20	(1,285)	(2,311)	942	216	70	(2,368)	(9,350)	(11,718)
Balance at 31st March 2020 carried forward	(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)

Note: Where appropriate the General Fund and HRA Fund Balances include Earmarked Reserves as shown in note 6.

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure Statement (CIES) 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. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the MiRS.

Restated 2019/20			2020/21		
Gross Expenditure £000s	Income £000s	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Continuing Operations					
840	(23)	817	1,198	(121)	1,077
3,324	(536)	2,788	2,922	(354)	2,568
835	(138)	697	900	(213)	687
36,829	(32,032)	4,797	44,490	(37,704)	6,786
1,648	(681)	967	851	(17)	834
826	(147)	679	1,784	(935)	849
1,669	(1,356)	313	1,621	(1,337)	284
10,331	(5,950)	4,381	9,035	(5,234)	3,801
3,416	(2,325)	1,091	4,235	(4,085)	150
8,376	(2,904)	5,472	8,709	(2,700)	6,009
1,096	-	1,096	31	-	31
14,894	(16,320)	(1,426)	23,323	(16,517)	6,806
84,084	(62,412)	21,672	99,099	(69,217)	29,882
Operations					
2,995	(711)	2,284	3,257	(852)	2,405
7,801	(2,342)	5,459	4,693	(7,889)	(3,196)
6,462	(26,191)	(19,729)	6,717	(31,483)	(24,766)
101,342	(91,656)	9,686	113,766	(109,441)	4,325
(Surplus) or Deficit on Provision of Services					
		(16,637)			(21,908)
		(4,767)			4,673
		(21,404)			(17,235)
		(11,718)			(12,910)

*2019/20 has been restated due to a change in reporting structure. Further detail is provided at Note 16 to the accounts.

FINANCIAL STATEMENTS
BALANCE SHEET

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. 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 Council is not able to use to provide services. This category 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-Mar-20 £000s	Note	31-Mar-21 £000s
165,183	Council dwellings 17	185,603
26,732	Other land and buildings 17	26,423
1,654	Vehicles, plant, furniture and equipment 17	3,766
11,272	Infrastructure assets 17	10,346
3,461	Community assets 17	3,461
12,377	Surplus assets 17	12,554
1,677	Assets under construction 17	2,034
2,998	Heritage assets 18	2,998
75,920	Investment property 19	86,342
61	Intangible assets -	179
15,425	Long term investments 20	19,922
7,103	Long term debtors 21	7,919
323,863	Long Term Assets	361,547
3,510	Short term investments -	-
15	Inventories -	8
10,285	Short term debtors 22	17,407
10,570	Cash and cash equivalents 23	2,320
24,380	Current Assets	19,735
(31,921)	Short term borrowing 24	(6,902)
(10,882)	Short term creditors 25	(27,381)
(80)	Capital grants received in advance -	(1,447)
(2,351)	Provisions 26	(2,277)
(45,234)	Current Liabilities	(38,007)
(58,455)	Long term borrowing 27	(72,155)
(62,935)	Net pensions liability 30	(76,591)
(67)	Provisions 26	(67)
(121,457)	Long Term Liabilities	(148,813)
181,552	Net Assets	194,462
(53,544)	Usable reserves 31	(56,334)
(128,008)	Unusable reserves 32	(138,128)
(181,552)	Total Reserves	(194,462)

I certify that the accounts present a true and fair view of the financial position of the Council and of its income and expenditure for the year ended 31 March 2021.

Charlotte Spendley, FCCA

Director of Corporate Services Date: 8th December 2021

FINANCIAL STATEMENTS
CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2019/20		2020/21
£000s	Note	£000s
(9,686)		(4,325)
18,972	36	19,328
(3,350)	36	(5,965)
5,936		9,038
(43,618)	37	(10,755)
34,760	38	(6,533)
(2,922)		(8,250)
13,492		10,570
10,570	23	2,320

Notes to the Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

The notes present information about the basis of preparation of the financial statements and the specific accounting policies used, e.g. the method of depreciation used, policies in respect of provisions and reserves and accounting for pension costs. The notes disclose information required by the Code that is not presented elsewhere in the financial statements but is relevant to understanding them.

1. Accounting Policies

1.1 General Principles

This Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require preparation in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts has been prepared on a 'going concern' basis. The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Accruals of Income and Expenditure

Activity is accounted for at the point at which services are delivered to service recipients (not simply when cash payments are made or received) and with due regard to material levels of adjustment. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for income that might not be collected.
- Accruals are recognised where the value exceeds £5,000.

1.3 Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contributions have been satisfied. The grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the CIES.

1.4 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

1.5 Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MiRS.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

1.6 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts, depending on how significant the items are to the understanding of the Council's financial performance.

1.7 Overheads and Support Services

The costs of the Council's overheads and support services are fully charged, where relevant, to those that benefit from the supply or service.

1.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against (Surplus) or Deficit on the Provision of Services in the CIES. An amount is then transferred from the earmarked reserve to the General Fund via an entry in the MiRS so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, retirement and employee benefits, council tax and business rates income and financial instruments. They do not represent usable resources for the Council. These reserves are explained in the relevant policies.

1.9 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council has set a de minimis level in respect of the recognition of capital expenditure of £10,000.

Measurement

Items of PPE are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

NOTES TO THE FINANCIAL STATEMENTS

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where relevant.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the exchange transaction has no commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction - depreciated historical cost
- dwellings – current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH)
- surplus assets – current value measurement basis is fair value, estimated at highest and best use from a market participant’s perspective
- all other assets - current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market based evidence of fair value, because of the specialist nature of the asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non property assets have short useful lives or low values (or both) depreciated historical cost is used as a proxy for fair value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluations gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

NOTES TO THE FINANCIAL STATEMENTS

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all PPE assets, by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets), assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation usually over 5-7 years
- infrastructure – straight line allocation usually over 20 years

Where a PPE asset has a major component whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposal

When an asset is disposed of or decommissioned, the net book value of the asset and the receipt from the sale are both charged to the CIES which could result in a net gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

All sale proceeds in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts below £10,000 are considered de minimis and treated as revenue.

The net gain or loss on disposals has no impact on taxation requirements as the financing of non-current assets is provided for under separate arrangements.

1.10 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and will be capitalised when it is probable that they will result in future economic benefits or service potential to the authority and the costs can be measured reliably. All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Borrowing costs are interest and other costs that an authority incurs in connection with the borrowing of funds and may include:

- interest expense calculated using the effective rate of interest method, and
- finance charges in respect of finance leases.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

The commencement date for capitalisation of borrowing costs is the date when the authority first meets all of the following conditions:

- it incurs expenditure for the asset
- it incurs borrowing costs, and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs shall be suspended during extended periods in which active development of a qualifying asset is suspended.

Capitalisation of borrowing costs will cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete; this may require capitalisation to be carried out in relation to specific parts of a project if the parts are capable of being used while preparation continues on other parts.

1.11 Heritage Assets

Heritage assets are defined as assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for its contribution to knowledge and culture.

Heritage assets are initially recognised at cost or value in accordance with the Council's accounting policy on recognising Property, Plant and Equipment. Where information on the cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, that asset is not recognised on the Balance Sheet and an appropriate disclosure is made instead.

Heritage assets are then carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant, including replacement cost, purchase cost

and insurance valuation. There is no requirement for valuations to be carried out or verified by an external valuer, nor is there any prescribed minimum period between valuations, but the carrying amounts of heritage assets carried at valuation must be reviewed with sufficient regularity to ensure they remain current. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available.

Depreciation or amortisation is not required on heritage assets which have indefinite lives.

1.12 Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or both. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment property is initially measured at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date.

As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Any gain or loss arising from a change in the fair value of investment property is recognised in the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received are credited to the Financing and Investment Income and Expenditure line in the CIES.

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.13 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the Council has determined to meet the cost of such expenditure from existing capital resources or borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on council tax.

1.14 Employee Benefits

Benefits Payable during Employment

Short term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and reflected as expenditure in the relevant service line in the CIES.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the relevant service line in the CIES.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Kent County Council (KCC). The Scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pensions liability is analysed into the following components:
 - i) Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs
 - net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.
 - ii) Re-measurements comprising:
 - the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.
 - iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated in accordance with the relevant standards. This means that in the MiRS there are appropriations to or from the Pensions Reserve to

remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The debit balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.15 Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the authorisation for issue are not reflected in the Statement of Accounts.

1.16 Financial Assets

Dividends are credited to the CIES when they become receivable by the Council.

Financial assets are classified into one of three categories:

- Financial assets held at amortised cost. These represent loans and loan-type arrangements where repayments or interest and principal take place on set dates and at specified amounts. The amount presented in the Balance Sheet represents the outstanding principal received plus accrued interest. Interest credited to the CIES is the amount receivable as per the loan agreement. Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.
- Fair Value Through Other Comprehensive Income (FVOCI) – These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are accounted for through a reserve account, with the balance debited or credited to the CIES when the asset is disposed of.
- Fair Value through Profit and Loss (FVPL). These assets are measured and carried at fair value. All gains and losses due to changes in fair value (both realised and unrealised) are recognised in the CIES as they occur.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances

outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

1.17 Financial Liabilities

Financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable, plus any accrued interest, and interest charged to the CIES is the amount payable for the year in the loan agreement. Annual charges to the Financing and Investment Income and Expenditure line in the CIES 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 the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

1.18 Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made about the amount of the obligation.

Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

1.19 Value Added Tax

Value added tax is included in income and expenditure accounts only to the extent that it is irrecoverable.

1.20 Interests in Companies and Other Entities

Where the Council has a material interest in companies and other entities that have the nature of subsidiaries, associates and joint ventures, group accounts will be prepared. In the Council's own single entity accounts, the value of shares in subsidiary companies are recorded as long-term investments, long-term loans provided to the subsidiaries are held as long-term loans and any debtor and creditor balances between the Council and the subsidiaries are also included within the relevant balance. In the group account, the single entity Council accounts are combined with the accounts of the subsidiary companies and any intra-group transactions and balances are excluded as part of the consolidation process to give the overall group position. The investment properties held by subsidiaries are held at fair value. The Council's investment in the subsidiaries are recorded as financial assets at Fair Value through Profit and Loss.

2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant year. Standards that have been issued but not yet adopted are:

- Definitions of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

It is anticipated that these amendments will not have a material impact on the information provided in the financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Valuation of Assets

The Council carries out a rolling programme of valuations to ensure that all PPE required to be measured at current value is revalued at least every five years. Properties with a higher valuation are valued annually to ensure a materially correct carrying value. The value of council dwellings is reviewed at the end of each financial year to reflect the experience of property price changes in the local area. In 2020/21 a full revaluation of council dwellings was undertaken resulting in a balance sheet value of £185.6m (2019/20 £165.1m).

Folkestone Parks and Pleasure Grounds Charity

The Council is the sole trustee of the Folkestone Parks and Pleasure Grounds Charity, a charitable trust that owns and operates certain parks and pleasure grounds previously managed by the Council. It has been determined that on the grounds that the Council neither controls, jointly controls, nor has significant influence over the Trust, the inclusion of the Charity in the group accounts is not required. Councillors who sit on the Board of Trustees act on behalf of the Trust in their decision making, rather than in the interests of the Council. Further information is disclosed in note 40 on page 92.

Joint waste and recycling contract

The Council entered into a new joint working arrangement with Dover District Council in January 2021 to deliver the Waste, Recycling and Street Cleansing contract for an eight year period until 2029. As part of the new contract the Councils committed to jointly fund the purchase of the new vehicle fleet and other service equipment. These assets have been recognised on the balance sheet and the annual contract payments have been accounted for as supplies and services within the appropriate service lines in the CIES.

East Kent Housing – Arms-Length Management Organisation

The Council held a 25% interest in East Kent Housing Limited (EKH) which was classified as a joint venture with three other local authorities. With due regard to both the quantitative

NOTES TO THE FINANCIAL STATEMENTS

and qualitative aspects of materiality the Council has concluded that the inclusion of EKH in the group accounts is not required.

EKH ceased trading on 30th September 2020 and staff transferred across to the four councils. Membership to the Kent Local Government Pension Fund was terminated and the associated pension liability was transferred to the four owner councils. This is now included in the Council's pension liability which is disclosed in note 30 on page 71.

Oportunitas Limited

The Council has set up a wholly owned subsidiary entity to generate additional income streams for the Council and to provide residential housing in the district. It is deemed that the relationship between the Council and Oportunitas is material enough to warrant the preparation of group accounts.

Otterpool Park LLP

In 2019/20 the Council set up a delivery vehicle to deliver its objectives for the Otterpool Park Garden Town. FHDC and Otterpool Park Development Company Ltd were appointed members in February 2020, with FHDC owning 99.9% of the company. While in 2020/21 the transactions are not material it is deemed that by its nature and context in the Council's operations the company is material and so its results have been consolidated into the group accounts.

Mountfield Road Industrial Estate Joint Venture

In 2020/21 the Council entered into a joint venture agreement with East Kent Spatial Development Company relating to the development of a business hub at Mountfield Road Industrial Estate, New Romney. With due regard to both the quantitative and qualitative aspects of materiality the economic activity of this joint venture is not deemed material and therefore has not been included within the group accounts.

Heritage Assets

The Council owns a stretch of the Royal Military Canal, a designated ancient monument. However, it is held and maintained principally as an amenity and for its ecological significance. In addition, it has land drainage functions. Due to its operational nature it has continued to be recognised within Plant, Property and Equipment as a community asset rather than a heritage asset.

4. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if actual results differ from assumptions
Valuations (Property, Plant and Equipment, Investment Property and Heritage Assets)	The outbreak of Covid-19 has and continues to impact the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. The pandemic and the measures taken to tackle Covid-19 continue to affect economies and real estate markets	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES. The material valuation uncertainty applies to retail and

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.</p> <p>Valuations are therefore not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards except in respect of Retail and specific trading related assets/sectors such as car parks, as at the valuation date there continue to be an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements. Consequently, less certainty and a higher degree of caution should be attached to the valuations of these assets. This does not apply to PPE or Heritage Assets.</p>	<p>specific trading related assets such as car parks which have a balance sheet value of £7.6m. A 10% reduction or increase would result in a change of £0.7m to the revaluation reserve and/or CIES which would not have a material impact.</p> <p>The effects on the valuation change on the overall asset valuations of a 10% reduction or increase would result in a change of £30/1m on the revaluation reserve and/or CIES.</p>
Pension liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.7m.</p> <p>Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 30.</p>
Provisions	<p>The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors. Due to delays in the assessment of appeals by the Valuation Office since the implementation of 'Check, Challenge, Appeal' it is difficult to assess the impact of successful appeals.</p>	<p>The business rates rateable value at 31/3/2021 was £77m. For every 1% successful reduction in the rateable value, it is equal to a cost of £154k to the Council (for a single year).</p>

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Fair value measurements	<p>When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk.</p> <p>Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in notes 19 and 28.</p>	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments.

Notes Supporting the Movement in Reserves Statement



5. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2020/21	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments to Revenue Resources						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(4,089)	(4,894)	-	-	-	8,983
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	1,105	-	-	-	-	(1,105)
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	(3,713)	-	-	-	-	3,713
Holiday pay (transferred to the Accumulated Absences Reserve)	(317)	(55)	-	-	-	372
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(1,427)	(6,443)	-	-	-	7,870
Total Adjustments to Revenue Resources	(8,441)	(11,392)	-	-	-	19,833
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,426	646	-	(2,861)	-	789
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,641)	-	-	2,641
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	775	-	-	-	-	(775)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	3,193	2,966	-	-	-	(6,159)
Total Adjustments to between Capital and Revenue Resources	5,175	3,612	(2,641)	(2,642)	-	(3,504)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	2,337	-	(2,337)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	3,965	-	-	(3,965)
Application of capital grants to finance capital expenditure	3,763	-	-	-	(843)	(2,920)
Cash payments in relation to deferred capital receipts	(5)	(3)	-	-	-	8
Total Adjustments to Capital Resources	3,758	(3)	3,965	2,337	(843)	(9,214)
Total Adjustments	492	(7,783)	1,324	(305)	(843)	7,115

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

**Adjustments Between Accounting Basis and Funding Basis Under Regulations
2019/20**

Adjustments to Revenue Resources

Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Pension costs (transferred to or from the Pensions Reserve)	(2,765)	(56)	-	-	-	2,821
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	(1,354)	-	-	-	-	1,354
Council Tax and NDR (transferred to or from the Collection Fund Adjustment Account)	(824)	-	-	-	-	824
Holiday pay (transferred to the Accumulated Absences Reserve)	21	1	-	-	-	(22)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(8,991)	(4,512)	-	-	-	13,503
Total Adjustments to Revenue Resources	(13,913)	(4,567)	-	-	-	18,480

Adjustments between Revenue and Capital Resources

Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	25	1,393	-	(2,108)	-	690
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,591)	-	-	2,591
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	358	-	-	-	-	(358)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	503	1,387	-	-	-	(1,890)
Total Adjustments to between Capital and Revenue Resources	667	2,780	(2,591)	(1,889)	-	1,033

Adjustments to Capital Resources

Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	2,831	-	(2,831)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	2,807	-	-	(2,807)
Application of capital grants to finance capital expenditure	1,758	-	-	-	70	(1,828)
Cash payments in relation to deferred capital receipts	(4)	(3)	-	-	-	7
Total Adjustments to Capital Resources	1,754	(3)	2,807	2,831	70	(7,459)
Total Adjustments	(11,492)	(1,790)	216	942	70	12,054

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2020/21. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

<u>Earmarked Reserves</u>	Balance 01-Apr-19 £000s	Transfers In £000s	Out £000s	Balance 31-Mar-20 £000s	Transfers In £000s	Out £000s	Balance 31-Mar-21 £000s
<u>General Fund</u>							
Business Rates	(5,496)	(209)	6	(5,699)	(589)	3,565	(2,723)
Leisure Reserve	(197)	(511)	211	(497)	(50)	-	(547)
Carry Forwards	(723)	(388)	430	(681)	(393)	383	(691)
Vehicles, Equipment and Technology	(637)	(294)	674	(257)	(166)	140	(283)
Invest to Save	(366)	-	-	(366)	-	366	-
Maintenance of Graves	(12)	-	-	(12)	-	-	(12)
New Homes Bonus	(2,524)	(1,543)	1,707	(2,360)	(1,422)	1,441	(2,341)
Corporate Initiatives	(404)	(1,034)	440	(998)	-	400	(598)
IFRS Reserve	(38)	-	7	(31)	-	23	(8)
Otterpool Park Garden Town	(2,129)	(100)	659	(1,570)	-	1,570	-
Economic Development	(2,901)	(1,777)	294	(4,384)	(428)	2,821	(1,991)
Community Led Housing	(437)	-	20	(417)	-	52	(365)
Lydd Airport	(9)	-	-	(9)	-	-	(9)
Homelessness Prevention	(319)	(544)	462	(401)	(444)	357	(488)
High Street Regeneration	-	(3,000)	-	(3,000)	-	930	(2,070)
Climate Change	-	-	-	-	(5,000)	54	(4,946)
COVID	-	-	-	-	(6,501)	-	(6,501)
	(16,192)	(9,400)	4,910	(20,682)	(14,993)	12,102	(23,573)

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Business Rates Reserve	To support business development and to manage the statutory accounting requirements of the Rates Retention Scheme.
Leisure Reserve	To meet future leisure improvements.
Carry Forwards Reserve	For items of expenditure not incurred or income not applied in the previous financial year but required in the new financial year to meet spending commitments.
Vehicles, Equipment and Technology Reserve	To meet vehicle, equipment and technology replacement needs or improvements.
Invest to Save Reserve	To finance initiatives and projects that will in the medium term result in budget savings for the General Fund.
Maintenance of Graves Reserve	Amounts held in perpetuity to meet the cost of maintaining certain grave sites.
New Homes Bonus Reserve	To fund the anticipated additional cost of services over the next five years.
Corporate Initiatives Reserve	To support Corporate Plan objectives and goals.
IFRS Reserve	To manage the impact of the introduction of International Financial Reporting Standards particularly affecting immediate recognition of grants and contributions.
Otterpool Park Garden Town Reserve	To fund the planned share of the Promoter and Local Planning Authority costs
Economic Development	To support the regeneration of the district and to support the generation of new income.
Community Led Housing	To support community-led housing developments and to deliver more affordable housing units of mixed tenure.
Lydd Airport	To fund the anticipated ongoing costs of monitoring the conditions at Lydd Airport.
Homelessness Prevention	To flexibly fund ways to reduce the homelessness expenditure by taking preventative action.
High Street Regeneration	To support the delivery of regeneration projects within the district's high street areas.
Climate Change Reserve	To fund initiatives to help the Council achieve net-zero carbon emissions by 2030.
Covid Reserve	To support the additional costs and loss of income incurred in response to the Covid-19 pandemic.

Notes Supporting the Comprehensive Income and Expenditure Statement



7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2020/21 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide the services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes across the Council's management structure. Income and expenditure accounted for under GAAP is presented more fully in the CIES.

	As reported for resource management	2020/21 Adjustment to arrive at the net amount chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	1,002	191	1,193	(116)	1,077
Governance & Law	2,499	194	2,693	(125)	2,568
Human Resources	651	92	743	(56)	687
Finance Customer & Support	6,587	432	7,019	(233)	6,786
Strategic Development	767	123	890	(56)	834
Economic Development	758	90	848	1	849
Planning	79	343	422	(138)	284
Estates & Operations	2,590	(81)	2,509	1,292	3,801
Housing	27	257	284	(134)	150
Customer Case Regulatory & Communities Transition & Transformation	5,549	848	6,397	(388)	6,009
Local Authority Housing (HRA)	10	35	45	(14)	31
	6,806	(5,846)	960	5,846	6,806
(Surplus)/Deficit on Continuing Operations	27,325	(3,322)	24,003	5,879	29,882
Other Income and Expenditure	(21,235)	(5,734)	(26,969)	1,412	(25,557)
(Surplus) or Deficit on Provision of Services	6,090	(9,056)	(2,966)	7,291	4,325
Opening General Fund and HRA Balance			(36,466)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(2,966)		
Closing General Fund and HRA Balance at 31 March*			(39,432)		

*For a split of this balance between the General Fund and the HRA see the Movement in Reserves Statement

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2019/20 Restated				
	As reported for resource management	Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	713	182	895	(78)	817
Governance & Law	2,777	110	2,887	(99)	2,788
Human Resources	625	119	744	(47)	697
Finance Customer & Support	5,182	(258)	4,924	(127)	4,797
Strategic Development	1,057	(49)	1,008	(41)	967
Economic Development	597	74	671	8	679
Planning	160	251	411	(98)	313
Estates & Operations	1,555	(282)	1,273	3,108	4,381
Housing	789	70	859	232	1,091
Customer Case Regulatory & Communities	4,475	682	5,157	315	5,472
Transition & Transformation	1,083	21	1,104	(8)	1,096
Local Authority Housing (HRA)	(1,426)	(3,711)	(5,137)	3,711	(1,426)
(Surplus)/Deficit on Continuing Operations	17,587	(2,791)	14,796	6,876	21,672
Other Income and Expenditure	(14,029)	(4,363)	(18,392)	6,406	(11,986)
(Surplus) or Deficit on Provision of Services	3,558	(7,154)	(3,596)	13,282	9,686
Opening General Fund and HRA Balance			(32,870)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(3,596)		
Closing General Fund and HRA Balance at 31 March*			(36,466)		

*For a split of this balance between the General Fund and the HRA see the Movement in Reserves Statement

2019/20 has been restated due to a change in the reporting structure. Further detail is provided at Note 16 to the accounts.

Expenditure and Income Analysed by Nature

	2019/20 £000s	2020/21 £000s
Expenditure		
Employee Benefits Expense	16,886	25,952
Other Services Expense	56,364	62,835
Depreciation, Amortisation & Impairment	10,833	10,278
Interest Payments	3,722	3,180
Precepts & Levies	2,994	3,242
Gain / (Loss) on Disposal of Assets	(710)	(837)
Total Expenditure	90,089	104,650
Income		
Fees, Charges & Other Service Income	(24,830)	(30,020)
Interest & Investment Income	(958)	(5,208)
Income from Council Tax & NDR	(15,767)	(11,919)
Government Grants & Contributions	(38,848)	(53,178)
Total Income	(80,403)	(100,325)
(Surplus) or Deficit on Provision of Services	9,686	4,325

8. Material Items of Income and Expense

The Council incurs a significant proportion of spend on benefit payments, which is funded predominantly by government grant. The following amounts were incurred within the CIES on benefit payments (including administration).

2019/20			2020/21			
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
			Other Housing Services			
22,779	(22,449)	330	Housing Benefit	21,772	(21,068)	704
8,953	(8,622)	331	Housing Rebates	8,521	(8,267)	254

9. Other Operating Expenditure

Other Operating Expenditure	2019/20	2020/21
	£000s	£000s
Parish precepts	2,313	2,549
Internal Drainage Board levies	462	474
Payments to the Government Housing Capital Receipts Pool	219	219
Gains or losses on the disposal of non-current assets	(710)	(837)
	<u>2,284</u>	<u>2,405</u>

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2019/20	2020/21
	£000s	£000s
Interest payable and similar charges	2,201	1,708
Net interest on net defined liability	1,521	1,472
Investment property rental income	(1,394)	(1,005)
Interest receivable and similar income	(1,059)	(912)
Financial Instruments fair valuation adjustments	2,695	(1,168)
Income and expenditure in relation to investment properties and changes in their fair value (see Note 20)	1,495	(3,291)
	<u>5,459</u>	<u>(3,196)</u>

11. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2019/20	2020/21
	£000s	£000s
Council tax income	(12,593)	(12,878)
Non domestic rates	(3,174)	959
Non-ring fenced government grants	(3,673)	(11,211)
Capital grants and contributions	(289)	(1,636)
	<u>(19,729)</u>	<u>(24,766)</u>

12. Members' Allowances

The following amounts were paid to Members of the Council during the year.

Members Allowances	2019/20	2020/21
	£000s	£000s
Allowances	299	318
Expenses	16	10
Total	<u>315</u>	<u>328</u>

13. Officers' Remuneration

The remuneration paid to the authority's senior employees is as follows:

		Salary, including fees and allowances	Compensation for loss of office	Total Remuneration, excluding pension contributions	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£	£	£
Chief Executive	2020/21	136,714	-	136,714	23,334	160,048
	2019/20	149,279	-	149,279	16,690	165,969
Director of Place++	2020/21	94,260	-	94,260	15,860	110,120
	2019/20	-	-	-	-	-
Director of Corporate Services*+	2020/21	105,936	-	105,936	17,824	123,760
	2019/20	26,484	-	26,484	3,510	29,994
Director - Housing & Operations+	2020/21	105,936	-	105,936	17,824	123,760
	2019/20	26,909	-	26,909	3,510	30,419
Director of Transition and Transformation**	2020/21	113,398	-	113,398	19,160	132,558
	2019/20	108,835	-	108,835	14,347	123,182
Director of Development	2020/21	113,398	-	113,398	19,160	132,558
	2019/20	108,110	-	108,110	14,347	122,457
Assistant Director Governance, Law & Regulatory Services ***	2020/21	95,007	-	95,007	16,248	111,255
	2019/20	89,016	-	89,016	11,441	100,457

* Section 151 Officer from 2nd January 2020

** Section 151 Officer until 2nd January 2020

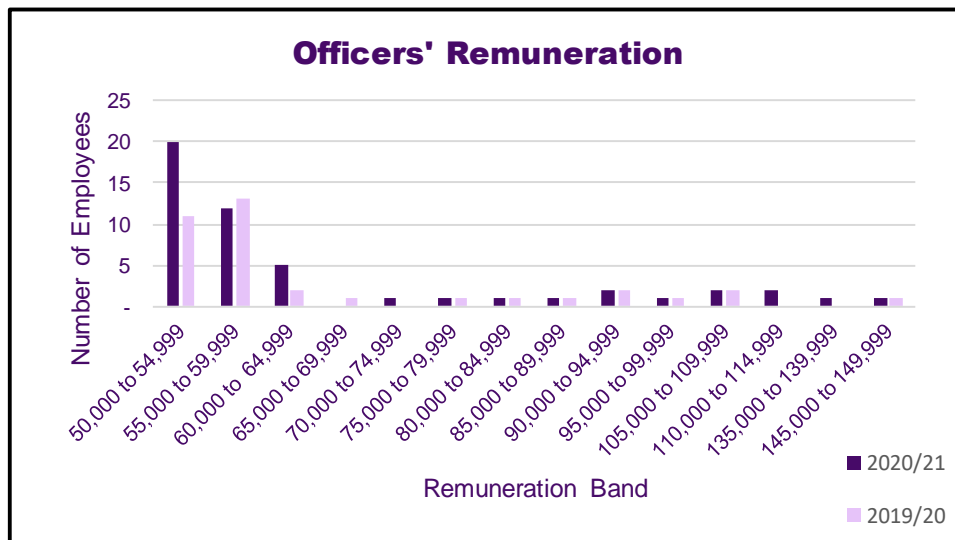
*** Monitoring Officer

+ New role from 2nd January 2020

++ New role May 2020

As part of the Council's Transformation Programme there was a restructure of senior management roles which took effect from January 2020 and the new structure was fully established in May 2020.

The authority's employees receiving remuneration in excess of £50,000 for the year (excluding employer's pension contributions) were paid the following amounts:



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 (a)		Number of other departures agreed (b)		Total number of exit packages by cost band (a+b)		Total cost of exit packages in each band		
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	
£								£000s	£000s
0-20,000	-	2	1	2	1	4	9	36	
20,001-40,000	-	1	1	1	1	2	29	50	
40,001-60,000	-	-	-	-	-	-	-	-	
60,001-100,000	-	-	-	1	-	1	-	79	
100,001-150,000	-	-	-	1	-	1	-	109	
Total	-	3	2	5	2	8	38	274	

The cost of exit packages is calculated in accordance with accounting standards and does not necessarily equal the actual payment to or on behalf of an individual.

14. External Audit Costs

The Council has agreed the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

External Audit Fees	2019/20 £000s	2020/21 £000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	59	71
Rebate of PSAA fees	(6)	-
Fees payable for the certification of grant claims and returns for the year	20	17
	73	88

In addition to the above costs, PSAA have approved fees for additional work relating to the 2018/19 objection to the accounts and as a result of Covid-19 for 2019/20 of £6k and £8k respectively.

15. Grant Income

The Council credited the following grants, contributions and donations to the CIES:

Grant Income	2019/20 £000s	2020/21 £000s
Credited to Taxation and Non Specific Grant Income		
Business rates reliefs	1,730	7,557
Covid related grants	-	2,082
Non-service related grants	400	150
New Homes Bonus Grant	1,543	1,422
Capital Grants and Contributions	289	1,636
	3,962	12,847
Credited to Services		
REFCUS related Grants	1,149	1,303
KCC sundry grants	1,516	1,497
Council Tax Reduction Scheme grants	141	150
DWP – benefits subsidy	21,298	20,145
- rent rebate Subsidy	8,528	8,174
- benefits administration	347	342
Covid related grants	66	7,335
Other grants and contributions	1,841	1,385
	34,886	40,331

16. Restatement of Accounts – Working Papers

Note to restated Consolidated Income and Expenditure Statement 2019/20

Continuing Operations	Reported 2019/20	Change in Reporting Structure	Restated 2019/20
Leadership Support	924	(107)	817
Governance & Law	7,174	(4,386)	2,788
Human Resources	697	-	697
Finance, Strategy & Corporate Services	5,348	(551)	4,797
Strategic Development	1,119	(152)	967
Economic Development	526	153	679
Planning	282	31	313
Estates & Operations	4,597	(216)	4,381
Housing	987	104	1,091
Customer, Case, Regulation & Communities		5,472	5,472
Transition & Transformation	1,444	(348)	1,096
Local Authority Housing (HRA)	(2,254)	828	(1,426)
Local Authority Housing (HRA) - exceptional item (Note 6)	828	(828)	-
(Surplus)/Deficit on Continuing Operations	21,672	-	21,672
Other Operating Expenditure (Note 10)	2,284	-	2,284
Financing and Investment Income and Expenditure (Note 11)	5,459	-	5,459
Taxation and Non-specific Grant Income (Note 12)	(19,729)	-	(19,729)
(Surplus) or Deficit on Provision of Services	9,686	-	9,686
(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 29)	(16,637)	-	(16,637)
Re-measurement of net defined liability (Note 27)	(4,767)	-	(4,767)
Other Comprehensive Income and Expenditure	(21,404)	-	(21,404)
TOTAL Comprehensive Income and Expenditure	(11,718)	-	(11,718)

Note to restated Expenditure and Funding Analysis 2019/20

Continuing Operations	Reported Outturn 2019/20	Changes in Reporting Structure	Restated Outturn 2019/20
Leadership Support	924	(107)	817
Governance & Law	7,174	(4,386)	2,788
Human Resources	697	-	697
Finance Customer & Support	5,348	(551)	4,797
Strategic Development	1,119	(152)	967
Economic Development	526	153	679
Planning	282	31	313
Estates & Operations	4,597	(216)	4,381
Housing	987	104	1,091
Customer Case Regulatory & Communities	-	5,472	5,472
Transition & Transformation	1,444	(348)	1,096
Local Authority Housing (HRA)	(1,426)	-	(1,426)
(Surplus)/Deficit on Continuing Operations	21,672	-	21,672

Notes Supporting the Balance Sheet



17. Property, Plant and Equipment

Measurement

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued as at 31st March 2021 by an external independent valuer – Wilks Head & Eve Chartered Surveyors, and increased in value by £519k.

The external valuer also reviewed the value of the Council's surplus assets as at 31 March 2021, resulting in an increase of £1.1m. The majority of this is attributable to an increase in the value of the land at Princes Parade, Hythe which has secured planning permission to be used for the proposed leisure, housing and commercial development.

The Council's housing assets were also re-valued as at 31st March 2021 by Wilks Head & Eve Chartered Surveyors. Council dwellings were valued at £185m at 33% of the open market value based on their existing use value for social housing. This valuation adjustment is in accordance with Ministry of Housing, Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents.

The external valuer has also advised that, based on rental income values, the value of the various housing non-dwelling assets categories (garages, parking spaces and stores) have been valued at £3.8m.

Contractual Commitments

The Council has entered into the following long-term contracts on HRA properties:

- Heating servicing and repair 2019-2022 – approximately £2.8m
- Kitchen and bathroom replacement - approximately £0.54m per annum
- Window/door servicing and maintenance 2015-2022 approximately £0.2m per annum.

The Kitchen and Bathroom contract was due for renewal in April 2020 and continued while the contract was reviewed for extension. Both parties have agreed to an extension and the contract is being finalised.

The Council has also entered into the following long-term contracts:

- Waste and Recycling 2021-2029 – revenue cost approximately £5m per annum with a capital cost of approximately £4m for the purchase of fleet vehicles

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra- structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2020/21	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2020	165,183	28,713	9,941	35,720	3,461	1,677	12,377	257,072
Additions	7,676	420	2,559	436	-	357	-	11,448
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,923	(78)	-	-	-	-	1,063	21,908
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,517)	(960)	-	-	-	-	34	(4,443)
De-recognition - Disposals	-	-	-	-	-	-	(920)	(920)
Assets reclassified (to)/from Held for Sale	(403)	35	-	-	-	-	-	(368)
Other reclassifications	-	-	-	-	-	-	-	-
Other movements in cost or valuation #	(4,259)	(20)	-	-	-	-	-	(4,279)
At 31 March 2021	185,603	28,110	12,500	36,156	3,461	2,034	12,554	280,418
Depreciation and Impairment								
At 1 April 2020	-	(1,981)	(8,287)	(24,448)	-	-	-	(34,716)
Depreciation charge for the year	(2,401)	(632)	(447)	(1,362)	-	-	-	(4,842)
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,397	926	-	-	-	-	-	3,323
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(4,255)	(20)	-	-	-	-	-	(4,275)
Other movements in depreciation and impairment #	4,259	20	-	-	-	-	-	4,279
At 31 March 2021	-	(1,687)	(8,734)	(25,810)	-	-	-	(36,231)
Balance Sheet amount at 31 March 2021	185,603	26,423	3,766	10,346	3,461	2,034	12,554	244,187
Balance Sheet amount at 1 April 2020	165,183	26,732	1,654	11,272	3,461	1,677	12,377	222,356

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year.

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra- structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2019/20	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2019	164,931	18,680	9,374	35,431	3,461	969	10,076	242,922
Additions	4,386	168	567	289	-	767	-	6,177
Revaluation increases/(decreases) recognised in the Revaluation Reserve	2,651	11,620	-	-	-	-	2,366	16,637
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(828)	(1,572)	-	-	-	-	(65)	(2,465)
De-recognition - Disposals	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(764)	-	-	-	-	-	-	(764)
Other reclassifications	59	-	-	-	-	(59)	-	-
Other movements in cost or valuation #	(5,252)	(183)	-	-	-	-	-	(5,435)
At 31 March 2020	165,183	28,713	9,941	35,720	3,461	1,677	12,377	257,072
Depreciation and Impairment								
At 1 April 2019	-	(1,352)	(7,902)	(23,061)	-	-	-	(32,315)
Depreciation charge for the year	(2,356)	(629)	(385)	(1,387)	-	-	-	(4,757)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,896)	(183)	-	-	-	-	-	(3,079)
Other movements in depreciation and impairment #	5,252	183	-	-	-	-	-	5,435
At 31 March 2020	-	(1,981)	(8,287)	(24,448)	-	-	-	(34,716)
Balance Sheet amount at 31 March 2020	165,183	26,732	1,654	11,272	3,461	1,677	12,377	222,356
Balance Sheet amount at 1 April 2019	164,931	17,328	1,472	12,370	3,461	969	10,076	210,607

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year.

18. Heritage Assets

The Council's heritage assets were last valued as at 31st March 2020 by an external independent valuer – BPS Chartered Surveyors. The Council deem this value to remain current as the asset was purchased in 2019/20 and so the asset is held at cost.

Cost or Valuation	Buildings £000s	Other Items £000s	Total Assets £000s
At 1 April 2020	2,900	98	2,998
At 31 March 2021	2,900	98	2,998

19. Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the CIES:

Investment Property	2019/20 £000s	2020/21 £000s
Rental income from investment property	(1,524)	(1,190)
Direct operating expenses arising from investment property	130	185
Net (gain)/loss	<u>(1,394)</u>	<u>(1,005)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no material contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

Fair Value Movement	2019/20 £000s	2020/21 £000s
Cost or Valuation		
At 1 April	31,841	75,920
Additions – acquisitions	45,260	7,959
Additions – construction	453	26
Net gain/(loss) from fair value adjustments	(1,431)	3,257
Impairment losses/(reversals) recognised in the CIES	(203)	(15)
Reclassification to Capital Debtor	-	(805)
At 31 March	<u>75,920</u>	<u>86,342</u>

NOTES SUPPORTING THE BALANCE SHEET

Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2021 are as follows:

2020/21 Recurring fair value measurements using:	Other significant observable inputs (Level 2) 31-Mar-20 £000s	Significant unobservable inputs (Level 3) 31-Mar-20 £000s	Fair value at 31-Mar-20 £000s	Other significant observable inputs (Level 2) 31-Mar-21 £000s	Fair value at 31-Mar-21 £000s
Otterpool Park - Residential Properties	5,325	-	5,325	7,516	7,516
Otterpool Park - Land	50,605	-	50,605	56,509	56,509
Agricultural Land	10	-	10	32	32
Offices	17,000	-	17,000	17,401	17,401
Commercial Units	-	1,617	1,617	4,070	4,070
Commercial Land	767	-	767	660	660
Total at Fair Value	73,707	1,617	75,324	86,188	86,188
Assets Under Construction	596	-	596	154	154
Total Investment Properties	74,303	1,617	75,920	86,342	86,342

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant observable inputs – Level 2

The fair value for the residential properties, agricultural land and commercial units and land has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Significant unobservable inputs - Level 3

There were no assets categorised as Level 3 in 2020/21.

Valuation Techniques

There has been no change in the valuation techniques used during the year for Investment Properties.

Valuation Process for Investment Properties

The fair value of the authority's investment property is measured annually at each reporting date. All valuations are carried out by an externally appointed valuer and the work is undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

20. Long Term Investments

Long Term Investments	2019/20	2020/21
	£000s	£000s
Bond, equity & property funds	14,125	15,204
Shares in unlisted companies	1,300	4,718
	<u>15,425</u>	<u>19,922</u>

21. Long Term Debtors

Long Term Debtors	2019/20	2020/21
	£000s	£000s
Loan to Oportunitas Limited	4,112	4,164
Soft Loans (see Note 28)	2,275	2,019
Other Loans	588	944
Capital Prepayment (Otterpool Land Options)	-	673
Lease Receivables	128	119
	<u>7,103</u>	<u>7,919</u>

22. Short Term Debtors

Short Term Debtors	2019/20	2020/21
	£000s	£000s
Trade Receivables	3,593	4,029
Receivables from Related Parties	3,380	9,224
Prepayments	706	1,371
Other Receivables	4,477	4,670
	<u>12,156</u>	<u>19,294</u>

Impairment of debt

Trade Receivables	(1,130)	(938)
Other Receivables	(741)	(949)
Total	<u>(1,871)</u>	<u>(1,887)</u>

Balance as at 31 March

	<u>10,285</u>	<u>17,407</u>
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The increase in receivables from Related Parties is largely due to amounts owed from Central Government under the Business Rates Retention Scheme in respect of Covid-19 related financial support provided to businesses.

An analysis of the age profile of trade debtors is given in the table below which form part of the debtors figures:

NOTES SUPPORTING THE BALANCE SHEET

Age of Debt	2019/20	2020/21
	£000s	£000s
0 to 30 days	280	24
31 to 60 days	9	5
61 to 90 days	7	6
over 90 days	227	548
Total	523	583

23. Cash and Cash Equivalents

Cash and Cash Equivalents	2019/20	2020/21
	£000s	£000s
Bank Accounts	(1,289)	(1,300)
Money Market Funds	11,859	3,620
Total	10,570	2,320

24. Short Term Borrowing

Short Term Borrowing	2019/20	2020/21
	£000s	£000s
PWLB Loans	1,300	1,300
Loans from other authorities	30,500	5,500
Accrued loan interest	121	102
	31,921	6,902

25. Short Term Creditors

Short Term Creditors	2019/20	2020/21
	£000s	£000s
Trade Payables	834	1,300
Payables to Related Parties	3,852	16,109
Receipts in Advance	2,615	3,499
Accrued Creditors	1,149	2,593
Other payables	2,432	3,880
	10,882	27,381

The increase in payables to Related Parties is largely due to amounts owed to Central Government under the Business Rates Retention Scheme in respect of Section 31 grants received on behalf of major preceptors and balances from the Covid-19 Business Rates Grant Schemes.

26. Provisions

Provisions	Balance 31-Mar-20 £000s	Provisions made £000s	Amounts used £000s	Balance 31-Mar-21 £000s	Short term £000s	Long term £000s
Business rate appeals	(2,351)	(538)	612	(2,277)	(2,277)	-
Other	(67)	-	-	(67)	-	(67)
	(2,418)	(538)	612	(2,344)	(2,277)	(67)

Business rates appeals – with the introduction of the Retained Business Rates system from 1 April 2013, local authorities are required to allow for the cost of outstanding valuation appeals that remain unsettled as at the end of the financial year. The estimate is based on previous years' appeals success experience.

27. Long Term Borrowing

Long Term Borrowing	2019/20 £000s	2020/21 £000s
PWLB Loans	53,455	52,155
Loans from other authorities	5,000	20,000
	58,455	72,155

28. Financial Instruments

Financial Instruments - Classifications

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost and comprised:

- long-term loans from the Public Works Loan Board and lenders
- short-term loans from other local authorities
- trade payables for goods and services received

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during the year are held under the following classifications.

NOTES SUPPORTING THE BALANCE SHEET

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:

- cash in hand
- bank current and deposit accounts with NatWest Bank
- fixed term deposits with banks and building societies
- certificates of deposit and covered bonds issued by banks and building societies
- loans to other local authorities
- loans to Kent County Council and Oportunitas Limited, the Council's wholly owned regeneration and housing company, made for service purposes
- trade receivables for goods and services delivered

Fair value through profit and loss (all other financial assets) comprising:

- money market funds managed by external fund managers
- pooled bond, equity and property funds managed by external fund managers
- an unquoted equity investment in Oportunitas Limited and Otterpool Park LLP

Financial assets held at amortised cost are shown net of a loss allowance reflecting the statistical likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

Financial Instruments - Balances

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities	Long Term		Short Term	
	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21
	£000s	£000s	£000s	£000s
Loans amortised cost:				
- Principal sum borrowed	(58,455)	(72,155)	(31,800)	(6,800)
- Accrued interest	-	-	(121)	(102)
Total Borrowing	(58,455)	(72,155)	(31,921)	(6,902)
Liabilities at amortised cost:				
- Trade payables	-	-	(2,389)	(4,703)
Included in Creditors	-	-	(2,389)	(4,703)
Total Financial Liabilities	(58,455)	(72,155)	(34,310)	(11,605)

The total short-term borrowing includes £102k (£121k 2019/20) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £22.678m (£8.493m 2019/20) short-term creditors that do not meet the definition of a financial liability.

The financial assets disclosed in the Balance Sheet are analysed across the following categories:

NOTES SUPPORTING THE BALANCE SHEET

Financial Assets	Long Term		Short Term	
	31-Mar-20 £000s	31-Mar-21 £000s	31-Mar-20 £000s	31-Mar-21 £000s
At amortised cost:				
- Principal	-	-	3,505	-
- Accrued interest	-	-	5	-
At fair value through profit & loss:				
- Fair value	15,425	19,922	-	-
Total investments	15,425	19,922	3,510	-
At amortised cost:				
- Principal	-	-	(1,289)	1,208
At fair value through profit & loss:				
- Fair value	-	-	11,859	3,620
Total Cash & Cash Equivalents	-	-	10,570	4,828
At amortised cost:				
- Trade receivables*	-	-	2,094	2,787
- Lease receivables*	128	119	8	9
- Loans made for service purposes*	7,148	7,215	1,041	569
- Loss allowance Expected Credit Loss*	(173)	(88)	(172)	(193)
Included in Debtors	7,103	7,246	2,972	3,172
Total Financial Assets	22,528	27,169	17,052	8,000

*2019/20 comparatives have been restated due to incorrect classifications of trade and lease receivables and loans made for service purposes.

The debtors line on the Balance Sheet includes £14.235m (£7.313m 2019/20*) short-term debtors that do not meet the definition of a financial asset.

Material Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. Between 2004 and 2013 the Council provided interest free property improvement loans to owner occupiers and landlords of residential properties in the district to meet the national Decent Homes standard. Loans to landlords are required to be repaid within 10 years and loans to owner occupiers are repaid when the property is sold.

The movements on material soft loan balances are:

	2019/20 £000s	2020/21 £000s
Opening carrying amount of soft loans on 1st April	2,935	2,275
Cash value of new loans made in year	-	-
Fair value adjustment on initial recognition	-	-
Amounts repaid to the Council	(498)	(152)
Amounts written off	(192)	(130)
Change in impairment loss allowance	-	-
Increase in discounted amount due to passage of time	30	26
Closing Carrying Amount of Soft Loans on 31st March	2,275	2,019

Soft loans have been valued by discounting the contractual payments at the estimated market rate of interest for a similar loan. The market rate has been arrived at by taking the Council's marginal cost of borrowing and adding a credit risk premium to cover the risk that the borrower is unable to repay the Council.

Financial Instruments - Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price. Shares in Oportunitas Limited have been valued from the company's balance sheet net assets and by discounting expected future profits at a suitable market rate for similar equity investments.

Financial assets classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for "Lender's Option Borrower's Option" (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

Fair values are shown in the tables below, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

NOTES SUPPORTING THE BALANCE SHEET

	Fair Value Level	Balance Sheet		Balance Sheet	
		31-Mar-20	Fair Value 31-Mar-20	31-Mar-21	Fair Value 31-Mar-21
		£000s	£000s	£000s	£000s
Financial Liabilities					
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	53,455	64,409	52,155	63,743
Other long-term loans	2	5,000	5,180	20,000	20,102
Short-term loans from PWLB	2	1,300	1,317	1,300	1,331
Short-term loans	2	30,500	30,654	5,500	5,572
Total		90,255	101,560	78,955	90,748
Liabilities for which fair value is not disclosed *		2,510		4,805	
Total Financial Liabilities		92,765		83,760	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		2,389		4,703	
Short-term borrowing		31,921		6,902	
Long-term borrowing		58,455		72,155	
Total Financial Liabilities		92,765		83,760	

*The fair value of short-term financial liabilities including trade payables is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair Value Level	Balance Sheet		Balance Sheet	
		31-Mar-20	Fair Value 31-Mar-20	31-Mar-21	Fair Value 31-Mar-21
		£'000	£'000	£'000	£'000
Financial Assets					
Financial assets held at fair value					
Money market funds	1	11,859	11,855	3,620	3,620
Bond, equity and property funds*	1	14,125	14,125	15,204	15,204
Shares in unlisted companies	3	1,300	1,300	4,718	4,718
Financial assets held at amortised cost					
Corporate, covered and government bonds	1	3,510	3,505	-	-
Long-term loans to companies	3	4,699	6,188	5,107	6,121
Soft Loans	3	2,275	2,275	2,019	2,019
Lease receivables	3	128	128	119	119
Total		37,896	39,376	30,787	31,801
Assets for which fair value is not disclosed**		1,855		5,246	
Total Financial Assets		39,751		36,033	
Recorded on balance sheet as:					
Long-term investments		15,425		19,922	
Long-term debtors		7,103		7,919	
Short-term investments		3,510		-	
Short-term debtors***		3,143		3,364	
Cash and cash equivalents		10,570		4,828	
Total Financial Assets		39,751		36,033	

NOTES SUPPORTING THE BALANCE SHEET

*Property funds totalling £5.282m have been moved from level 2 to level 1 of the hierarchy for 2020/21 reflecting the resumption of an active market in these instruments.

**2019/20 comparatives have been restated due to incorrect classifications of short-term debtors

***The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Quantitative information about Fair Value Measurement of Financial Assets using Significant Unobservable Inputs – Level 3

Financial Asset - Equity Investment in Oportunitas Limited

Valuation method – Undertaken by Arlingclose Limited and estimated from projected future cash flows of the company using information from the published accounts, the business plan and other information held by the council.

Key quantitative assumptions used for valuation:

- Time period - 3 year period of business plan, plus an in perpetuity calculation
- Discount Rate – the return on capital of similar companies traded on the London Stock Exchange, plus a 1% risk premium
- Corporation Tax – 19%, rising to 25% on realised profits excluding that due to upward revaluations. No negative corporation tax.
- Property price inflation – 5.9% based on average increase in Folkestone local area
- General price inflation 2%
- Rental yield - 5% based on company business plan

Sensitivity Analysis

Change in Assumption	Impact on Fair Value
Discount rate falls by 1%	Increases by £11m
Corporation Tax Rate does not increase as expected	Increases by £800k
Inflation falls/rises by 1%	Falls by £2.1m / rises by £2.5m
Property price inflation falls/rises by 1%	Falls to £2.6m / rises by £4.6m
Rental yield in 2024/25 is 1% lower/higher than expected	Falls by £3.2m / increases by £3.3m

NOTES SUPPORTING THE BALANCE SHEET

Reconciliation of Movement for Level 3 Financial Assets Held at Fair Value

	£'000
Balance 1 April	1,300
Equity purchase in Oportunitas 2020/21	2,080
Equity purchase in Otterpool Park LLP 2020/21	1,250
Unrealised valuation gain on Oportunitas equity holding taken to CIES in 2020/21	88
Balance 31 March	4,718

Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following:

	Financial Liabilities measured at amortised cost	Financial Assets at Amortised Cost	Financial Assets at Fair Value Profit & Loss	20/21 Total	19/20 Total
	£000s	£000s	£000s	£000s	£000s
Financial Instruments Income, Expense, Gains and Losses 2020/21					
Interest expense	1,962	-	-	1,962	1,921
Losses from changes in fair value	-	-	-	-	2,695
(Gains)/Losses on derecognition impairment losses	-	-	(83)	(83)	119
Total Expense in Surplus or Deficit on the Provision of Services	1,962	-	(83)	1,879	4,735
Interest and dividend income	-	(223)	(664)	(887)	(1,028)
Gains from changes in fair value	-	-	(1,168)	(1,168)	-
Total Income in Surplus or Deficit on the Provision of Services	-	(223)	(1,832)	(2,055)	(1,028)
Net (gain)/loss for the year	1,962	(223)	(1,915)	(176)	3,707

29. Borrowing Costs

The Council has capitalised borrowing costs incurred in relation to the Otterpool Park development. Capital expenditure has been incurred to acquire land and property to bring together the site for the proposed new garden town. The scheme is met entirely from borrowing and the site is not yet ready for development to be able to generate a revenue to meet the capital financing costs.

In 2020/21 £226k of borrowing costs were capitalised using a capitalisation rate of 1.09%.

30. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment, the Council offers retirement benefits. Although these benefits will not be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The Council participates in the Local Government Pension Scheme, administered locally by Kent County Council (KCC). This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The KCC Superannuation Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Superannuation Committee of KCC. Policy is determined in accordance with the Public Service Pensions Act 2013. Day to day fund administration is undertaken by a team within KCC and where appropriate some functions are delegated to the Fund's professional advisers.

KCC, in consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Fund Strategy Statement and the Statement of Investment Principles.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. In addition, there is an "orphan liability risk" where employers leave the Fund but with insufficient assets to cover their pension obligations. These are mitigated to an extent by the statutory requirements to charge to the General Fund and HRA the amounts required as described in the accounting policies note.

Pension Transition Arrangements Age Discrimination – In 2015, the Government introduced reforms to public sector pensions, with most public sector workers moving into new pension schemes. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial and fire fighter's schemes as part of the reforms breached age discrimination rules and in June 2019 the Supreme Court denied the Government's request for an appeal. In July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. An allowance for this was included in the previous year's accounting results as at 31st March 2020. These results, including the allowance, have been rolled forward and re-measured to provide accounting results as at 31st March 2021.

Transactions Relating to Retirement Benefits

During 2020/21 there were two significant events relating to the transfer into the Council from Sopra Steria Limited and East Kent Housing where the ICT and Housing services were brought back in-house. This has had a material impact on the defined benefit obligation and has been included in the accounting results provided as at 31st March 2021.

NOTES SUPPORTING THE BALANCE SHEET

The Council recognises the cost of retirement benefits in the (Surplus) or Deficit on the Provision of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the amount payable in the year, so the real cost of retirement benefits is reversed out in the MiRS. The following transactions have been made in the CIES and MiRS during the year.

Balance Sheet

Net Pension assets as at	31-Mar-20	31-Mar-21
	£000s	£000s
Present Value of the defined obligation	147,708	196,941
Fair Value of the Fund Assets	(84,773)	(120,350)
Net defined benefit liability / (asset)	62,935	76,591

Comprehensive Income and Expenditure for the year

The amounts recognised in the profit and loss statement are:	Year to	Year to
	31-Mar-20	31-Mar-21
	£000s	£000s
Service Cost	4,230	11,031
Net interest on the defined liability (asset)	1,521	1,472
Administration expenses	54	70
Total Loss / (profit)	5,805	12,573

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

	Year to	Year to
	31-Mar-20	31-Mar-21
	£000s	£000s
Opening defined benefit obligation	158,486	147,708
Current service cost	3,408	5,485
Interest cost	3,748	2,966
Change in financial assumptions	(11,150)	33,952
Change in demographic assumptions	(1,828)	(1,869)
Experience loss / (gain) on defined benefit obligation	(1,152)	(2,419)
Liabilities assumed / (extinguished) on settlements	-	14,969
Estimated benefits paid net of transfers in	(5,268)	(4,975)
Past service costs, including curtailment	822	332
Contribution by scheme participants and other employers	642	792
	147,708	196,941

NOTES SUPPORTING THE BALANCE SHEET

Reconciliation of the opening and closing balances of the fair values of Fund Assets

	Year to 31-Mar-20	Year to 31-Mar-21
	£000s	£000s
Opening fair value of scheme assets	93,605	84,773
Interest on assets	2,227	1,494
Return on assets, less interest	(9,128)	24,991
Actuarial gains / (losses)	(235)	-
Administration Expenses	(54)	(70)
Contributions from employer including unfunded	2,984	3,590
Contributions by scheme participants	642	792
Estimated benefits paid plus unfunded net of transfers	(5,268)	(4,975)
Settlement prices received / (paid)	-	9,755
	84,773	120,350

Re-measurement of net assets (defined liability)

	Year to 31-Mar-20	Year to 31-Mar-21
	£000s	£000s
Return on fund assets in excess of interest	(9,128)	24,991
Other actuarial gains / (losses) on assets	(235)	-
Change in financial assumptions	11,150	(33,952)
Change in demographic assumptions	1,828	1,869
Experience loss (gain) on defined benefit obligation	1,152	2,419
	4,767	(4,673)

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc. The County Council pension scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Fund are based on the latest full valuation of the scheme as at 31st March 2019.

NOTES SUPPORTING THE BALANCE SHEET

The significant assumptions used by the actuary have been:

Statistical assumptions	2019/20	2020/21
Mortality assumption		
Longevity at 65 for current pensioners		
-men	21.8 yrs	21.6 yrs
-women	23.7 yrs	23.6 yrs
Longevity at 65 for future pensioners		
-men	23.2 yrs	22.9 yrs
-women	25.2 yrs	25.1 yrs
Rate of inflation - CPI	2.00%	2.80%
Rate of inflation - RPI	2.80%	3.20%
Rate of increase in salaries	3.00%	3.80%
Rate of increase in pensions	2.00%	2.80%
Rate for discounting scheme liabilities	2.35%	2.00%
Take up of option to convert annual pension into retirement Lump Sum	50%	50%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be inter-related. The assumptions in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

Sensitivity Analysis	£000s	£000s	£000s
Adjustment to Discounted rate	0.10%	0.00%	-0.10%
Present value of total obligation	193,290	196,941	200,665
Projected Service Cost	5,563	5,729	5,929
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	197,299	196,941	196,587
Projected Service Cost	5,733	5,729	5,726
Adjustment to Pension increases and deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	200,274	196,941	193,669
Projected Service Cost	5,926	5,729	5,538
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	206,306	196,941	188,028
Projected Service Cost	5,969	5,729	5,499

Asset and Liability Matching Strategy

Kent Pension fund has agreed to a Fund Strategy Statement that matches the type of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the obligations by investing in equities, corporate bonds and fixed interest Government securities/gilts. This is balanced with a need to maintain the liquidity of the Fund to ensure that it is able to make current payments. As it is required by the pensions and where relevant investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (64% of scheme assets) and bonds (12%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 10% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at a constant rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 14 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31st March 2022.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31st March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Projection for the year to 31 March 2022	Year to 31-Mar-22 £000s
Service cost	5,729
Net Interest and defined liability / (asset)	1,497
Administration Expenses	99
Total loss / (profit)	<u>7,325</u>
Employer Contributions	<u>3,464</u>

The weighted average duration of the defined benefit obligation for scheme members is 19 years 2020/21 (19 years 2019/20).

31. Usable Reserves

Movements in the Council's usable reserves are detailed in the MiRS, page 22 and Notes 5 and 6 on pages 42-45.

32. Unusable Reserves

Unusable Reserves	2019/20	2020/21
	£000s	£000s
Revaluation Reserve	(55,508)	(75,585)
Pooled Investment Funds Adjustment Account	876	(204)
Capital Adjustment Account	(137,821)	(144,507)
Financial Instruments Adjustment Account	39	13
Deferred Capital Receipts reserve	(137)	(129)
Collection Fund Adjustment Account	1,387	5,100
Pensions Reserve	62,935	76,591
Accumulated Absences Account	221	593
	<u>(128,008)</u>	<u>(138,128)</u>

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost.
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains are realised

Revaluation Reserve	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		(39,852)		(55,508)
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(16,637)		(21,908)
Difference between fair value depreciation and historic cost depreciation	857		908	
Revaluation balances on assets sold or scrapped	124		923	
Amount written off to the Capital Adjustment Account		981		1,831
Balance as at 31 March		<u>(55,508)</u>		<u>(75,585)</u>

The Revaluation Reserve contains only revaluation gains accumulated since 1st April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Pooled Investment Funds Adjustment Account

The Pooled Investment Funds Adjustment Account contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through profit and loss. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

NOTES SUPPORTING THE BALANCE SHEET

Pooled Investment Funds Adjutsment Account	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		(509)		876
Transfer from Available for Sale Reserve		-		-
Upward revaluation of investments	-		(1,080)	
Downward revaluation of investments	1,385		-	
		<u>1,385</u>		<u>(1,080)</u>
Balance as at 31 March		<u>876</u>		<u>(204)</u>

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 enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

NOTES SUPPORTING THE BALANCE SHEET

Capital Adjustment Account	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		(143,937)		(137,821)
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	8,143		8,973	
Revaluation (gains)/losses on Property, Plant and Equipment	2,840		1,120	
Amortisation of intangible assets	35		27	
Revenue expenditure funded from capital under statute	1,572		2,094	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	764		1,364	
Capital debtors written down	715		1,068	
Equity Valuation (gains)/losses	<u>1,310</u>		<u>(88)</u>	
		15,379		14,558
Adjusting amounts written out of the Revaluation Reserve		(981)		(1,832)
Net written out amount of the cost of non-current assets consumed in the year		14,398		12,726
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,831)		(2,336)	
Use of the Major Repairs Reserve to finance new capital expenditure	(2,807)		(3,965)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(319)		(1,802)	
Application of grants to capital financing from the capital Grants Unapplied Account	(1,508)		(1,118)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(358)		(775)	
Capital expenditure charged against the General Fund and HRA balances	<u>(1,890)</u>		<u>(6,159)</u>	
		(9,713)		(16,155)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		1,431		(3,257)
Balance as at 31 March		<u>(137,821)</u>		<u>(144,507)</u>

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expense relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

Financial Instruments Adjustment Account	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		96		39
Repaid renovation advances	(26)		-	
Amortised interest on renovation advances	(31)		(26)	
Net write down deferred discounts to revenue	-	(57)	-	(26)
Balance as at 31 March		<u>39</u>		<u>13</u>

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Deferred Capital Receipts Reserve	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		(144)		(137)
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	7		8	
Gain on sale of assets	-	7	-	8
Balance as at 31 March		<u>(137)</u>		<u>(129)</u>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the CIES as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Collection Fund Adjustment Account	2019/20	2020/21
	£000s	£000s
Balance at 1 April	564	1,387
Amount by which Council Tax and Non-Domestic Rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	823	3,713
Balance as at 31 March	<u>1,387</u>	<u>5,100</u>

NOTES SUPPORTING THE BALANCE SHEET

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

Pensions Reserve	2019/20	2020/21
	£000s	£000s
Balance at 1 April	64,881	62,935
Remeasurement of Net defined Liability	(4,767)	4,673
Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,805	12,573
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,984)	(3,590)
Balance as at 31 March	62,935	76,591

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

Accumulated Absences Account	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		243		221
Settlement or cancellation of accrual made at the end of the preceding year	(243)		(221)	
Amounts accrued at the end of the current year	221		593	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(22)		372
Balance as at 31 March		221		593

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it.

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase to the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

Capital Expenditure and Financing	2019/20	2020/21
	£000s	£000s
Opening Capital Financing Requirement	67,794	117,358
Capital Investment		
Property, Plant and Equipment	6,177	11,448
Heritage assets	3,359	-
Investment Properties	45,713	7,985
Intangible assets	38	145
Loans to and equity in subsidiary	1,310	2,080
Loans to and equity in LLP	-	1,250
Other loans	1,132	640
Capital Debtors - prepayments	-	100
Revenue expenditure funded from capital under statute	1,548	2,094
Sources of Finance		
Capital Receipts	(2,831)	(2,336)
Government grants and other contributions	(1,827)	(2,920)
Sums set aside from revenue:		
Direct Revenue Contributions	(4,697)	(10,125)
Revenue provision for debt repayment	(358)	(775)
Closing Capital Financing Requirement	117,358	126,944
Increase in underlying need to borrow (unsupported by Government financial assistance)	49,922	10,362
Revenue provision for debt repayment	(358)	(775)
Increase / (decrease) in Capital Financing Requirement	49,564	9,587

34. Nature and Extent of Risks arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

NOTES SUPPORTING THE BALANCE SHEET

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost. The main risks covered are:

- *Credit Risk*: The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- *Liquidity Risk*: The possibility that the Council might not have the cash available to make contracted payments on time.
- *Market Risk*: The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Treasury Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government, other local authorities, and organisations without credit ratings upon which the Council has received independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial entities for investment.

A limit of £5m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £3m. The Council also sets limits on investments in certain sectors. No more than £15m in total can be invested for a period longer than one year.

The Chief Finance Officer can also apply additional selection criteria to further restrict the investment counterparties available to the Council and/or the maximum duration of investments.

The table below summarises the credit risk exposure of the Council's investment portfolio by credit rating:

Credit Rating	31-Mar-20		31-Mar-21	
	Long-term £000s	Short-term £000s	Long-term £000s	Short-term £000s
AAA	-	15,360	-	3,620
Unrated pooled funds	14,125	-	15,204	-
Total Investments	14,125	15,360	15,204	3,620

The Council uses a number of un-rated pooled funds managed by external fund managers that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. This allows the Council to diversify into different asset class other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their

NOTES SUPPORTING THE BALANCE SHEET

performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

No breaches of the Council's counterparty criteria occurred during the reporting period and no losses are expected from non-performance by any of its' counterparties in relation to treasury management investments.

The Council generally does not allow credit for customers.

Credit Risk: Loans and Loan Commitments

In furtherance of the Council's service objectives, it has lent money to:

- i. Oportunitas Limited
- ii. Folkestone Parks & Pleasure Grounds Charity
- iii. Kent County Council
- iv. Local residential property owners

The Council manages the credit risk inherent in its loans for service purposes and loan commitments in line with its published Investment Strategy.

Loss allowances on loans and loan commitments to Oportunitas Limited have been calculated by reference to published historical default rates for the construction and building sector, the recovery rate for secured and unsecured loans, current market conditions and examination of the latest financial statements and business plan for Oportunitas Limited. Only 12 month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £90k. This sum has been taken to the Surplus or Deficit on the Provision of Services. A reconciliation of the opening to closing 12 month expected credit loss allowances is as follows:

	12 month expected credit losses £'000
New loans made	0
Loans repaid	(27)
Opening Allowance 01/04/2020	173
Change in risk	(83)
Closing Allowance 31/03/2021	<u>90</u>

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds.

NOTES SUPPORTING THE BALANCE SHEET

The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows, shown both as discounted (principal plus accrued interest to date) and undiscounted (principal plus future interest payments) figures:

Time to maturity	Discounted (Principal)		Undiscounted (Principal plus interest)	
	31-Mar-20 * £000s	31-Mar-21 £000s	31-Mar-20 * £000s	31-Mar-21 £000s
Less than 1 year	28,800	6,800	31,127	8,844
1 to 2 years	9,300	25,000	11,297	26,920
2 to 5 years	13,000	12,001	22,033	16,642
5 to 10 years	20,000	20,012	21,336	25,375
10 to 20 years	6,014	2,001	12,509	8,278
20 to 40 years	13,141	13,141	18,906	18,357
Total	90,255	78,955	117,208	104,416

*2019/20 comparatives restated in new note format

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed rates move across differing financial instrument periods. For example, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise.
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income will rise.
- Investments at fixed rates – the fair value of the assets will fall

Investments classed at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value have no impact on the Comprehensive Income and Expenditure Statement (CIES). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed at fair value will be reflected in the CIES.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its

NOTES SUPPORTING THE BALANCE SHEET

expected treasury operations, including an expectation of interest rate movements. An upper limit of £290,000 on the 12 month revenue impact of a 1% rise and £310,000 of a 1% fall in interest rates was set for 2020/21.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2021 would be:

	<u>£000s</u>
Increase in interest payable on variable rate borrowings	13
Increase in interest receivable on variable rate investments	(38)
Impact on Comprehensive Income and Expenditure	(25)
Decrease in fair value of loans and receivables and bonds	(166)
Decrease in fair value of fixed rate borrowings	(6,095)

The most significant effect of a 1% increase in interest rates on the financial instruments carried at amortised cost would be on the fair value of PWLB debt. However, this will have no impact on either the Balance Sheet or the CIES.

Price Risk

The Council's investment in pooled funds is subject to the price risk associated with the instruments contained within them and is managed alongside interest rate risk.

The Council's investment in the pooled property fund is subject to the risk of falling commercial property prices. The Council's investment in the diversified income funds it holds are subject to the risk of falling interest rates, equity prices and commercial property prices.

The estimated impact of these price risks are summarised below:

Impact on Fair Value of Fund

Pooled Fund Category	1% interest rate rise	5% equity price fall	5% property price fall
	£'000	£'000	£'000
Property Fund	-	-	(258)
Diversified Income Funds	(161)	(130)	(25)
Total	(161)	(130)	(283)

The reduction in fair value would be a charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve with no impact to the local tax payer.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

35. Section 106 Receipts and Planning Condition Contributions

Section 106 receipts and planning condition contributions are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities are provided as a result of that permission.

In summary, the movement during the year is shown below:

Opening Balance 01-Apr-20 £000s	New Contributions £000s	Amounts Applied £000s	Closing Balance 31-Mar-21 £000s
(2,430)	(254)	320	(2,364)

The balances at 31 March 2021 are held within the following areas of the balance sheet:

	2019/20 £000s	2020/21 £000s
Current liabilities:		
Short term creditors – Depositors	(1,155)	(1,249)
Capital grants received in advance – current	(85)	(65)
Reserves:		
Capital grants unapplied reserve	(1,190)	(1,050)
	<u>(2,430)</u>	<u>(2,364)</u>

Notes Supporting the Cash Flow Statement



36. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2019/20	2020/21
£000s	£000s
549 Interest received	(18)
(1,887) Interest paid	(19)
718 Dividends received	(2)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019/20	2020/21
£000s	£000s
4,758 Depreciation and impairment	4,842
6,105 Impairment and downward revaluations	5,613
35 Amortisation	27
119 Change in impairment for bad debts	(81)
(2,431) Increase/(decrease) in creditors	3,790
1,833 (Increase)/decrease in debtors	(689)
(7) (Increase)/decrease in inventories	7
2,821 Movement in pension liability	8,983
1,431 Movement in investment property values	(3,257)
764 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,364
3,544 Other non-cash items charged to the net surplus or deficit on the provision of services	(1,271)
18,972	19,328

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20	2020/21
£000s	£000s
(1,758) Capital grants credited to the surplus or deficit on the provision of services	(3,763)
(1,475) Proceeds from the sale of property, plant and equipment	(2,126)
(117) Any other items for which the cash effects are investing or financing cash flows	(76)
(3,350)	(5,965)

37. Cash Flow Statement – Investing Activities

2019/20		2020/21
£000s		£000s
(55,049)	Purchase of property, plant & equipment, investment property and intangible assets	(17,902)
(1,310)	Purchase of short-term and long-term investments	(3,330)
(1,133)	Other payments for investing activities	(740)
1,483	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2,134
10,000	Proceeds from investments	3,505
2,391	Other receipts from investing activities	5,578
<u>(43,618)</u>	Net cash flows from investing activities	<u>(10,755)</u>

38. Cash Flow Statement – Financing Activities

2019/20		2020/21
£000s		£000s
40,000	Cash receipts of short- and long-term borrowing	20,000
(6,100)	Repayments of short- and long-term borrowing	(31,300)
860	Other payments for financing activities	4,767
<u>34,760</u>	Net cash flows from financing activities	<u>(6,533)</u>

Other Notes



39. Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or to have secured the ability to limit another party's ability to bargain freely with the Council.

The UK Government exerts significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits).

Details of transactions with government departments are set out in note 15 on page 53.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2020/21 is set out in note 12 (page 50). Members are required to observe the Code of Conduct for councillors, register financial interests in the Council's Register maintained under section 81(1) of the Local Government Act 2000 and register the receipt of any gifts/hospitality over £25.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2020/21, other than those disclosed in note 13 (pages 51-52).

The Council is Corporate Trustee of the Folkestone Parks and Pleasure Grounds Charity. It is responsible for providing the majority of the Charity's funding by financing its net cost. The Corporate Trustee duties of the Council are carried out by its executive councillors. The Charity's management support and grounds maintenance is carried out by the Council officers. Further details of the Trust and the Council's contribution are set out in note 40 (page 92).

The Council was joint owner of East Kent Housing Limited, an arms-length management organisation, owning 25% of the company, until it ceased trading on 30th September 2020. 2011/12 was the first year of operation. Payment of £1.4m was made in 2020/21 to East Kent Housing Limited in respect of management fees and the Council received £76k from East Kent Housing Limited in respect of services supplied to it. There were no balances due to/from East Kent Housing Limited at 31st March 2021.

The Council has three subsidiaries; wholly owned Oportunitas Limited, a company that commenced trading in 2014/15; wholly owned Otterpool Park Development Company; and Otterpool Park LLP of which the Council owns 99.9%. Otterpool Park LLP, set up by the Council to deliver its objectives for the Otterpool Park Garden Town, was incorporated on 15th August 2019 and FHDC and Otterpool Park Development Company Ltd were appointed members on 4th February 2020. Group financial statements, consolidating the results of the companies with those of the Council, have been prepared and are set out on pages 109-119.

NOTES TO THE FINANCIAL STATEMENTS

Payment of £2.1m was made in 2020/21 to Oportunitas Limited in respect of share purchases and £2k in respect of Council Tax refunds. The Council received £250k from Oportunitas in respect of loan repayments, £40k in respect of services supplied to it and £3k in respect of Council Tax payments. A balance of £41k is due from Oportunitas Limited at 31st March 2021.

The Council also has charges over all properties owned by Oportunitas Limited which in aggregate amount to £1.65m.

Payment of £1.3m was made in 2020/21 to Otterpool Park LLP in respect of equity investment and £68k in respect of rents and commission. The Council received £102k from Otterpool Park LLP in respect of property lease costs and £85k in respect of services supplied to it. A balance of £7k is due from Otterpool Park LLP at 31st March 2021.

The Council is in a joint venture with East Kent Spatial Development Company (EKSDC) to deliver a business hub at Mountfield Road Industrial Estate, New Romney. There were no payments made to or from EKSDC during 2020/21. A balance of £438k is due to EKSDC at 31st March 2021.

Amounts due to or from those other parties able to control or influence the Council or to be controlled/ influenced by the Council are as follows:

Related Parties	2019/20	2020/21
	£000s	£000s
Amounts due to Central Government	3,589	15,454
Amounts due to East Kent Spatial Development Company	-	438
Amount due to Kent County Council	79	-
Amount due to Oportunitas Limited	3	1
Amount due to Folkestone Parks Charity	181	215
Amounts due from Central Government	1,518	5,924
Amounts due from Kent County Council	1,862	3,299
Amount due from Oportunitas Limited*	4,139	4,193
Amount due from Folkestone Parks Charity	3	524

*2019/20 comparatives restated to include long term loan to Oportunitas

40. Trust Funds

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone area. The funds do not represent assets of the Council and have not been included in the balance sheet; however the Council does hold £181k of investments and a £4k overdraft on behalf of the charity.

NOTES TO THE FINANCIAL STATEMENTS

Funds for which the Executive of the Council act as sole trustee:

2019/20				2020/21			
Income	Expenditure	Assets	Liabilities	Income	Expenditure	Assets	Liabilities
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
(715)	(715)	4,845	(2,842)	(707)	707	5,140	(3,349)

The Council has used Section 35 of the Local Government Finance Act 1992 to apply a Special Expenses Rate, to recover the cost of its contribution to the charity, thus only residents of the former Borough of Folkestone are asked to contribute via their council tax bill.

The special expenses of £509k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£544k 2019/20).

Income to the Charity therefore includes a contribution of £509k from the Council (£544k in 2019/20). The remainder of the charity's income is derived from charges for services, grants and investment income.

The Charity is required to produce an Annual Report and Account that sets out in detail its activities for that year. Copies of these can be obtained by contacting the Head of Paid Service, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

41. Interests in Companies and Other Entities

East Kent Housing Limited

The Council, together with Canterbury City Council, Dover District Council and Thanet District Council jointly owned East Kent Housing Limited, an Arms-Length Management Organisation (ALMO), whose principal activity was to manage each of the four council's council housing stock. For financial accounting purposes, East Kent Housing (the Company) is regarded as being a joint venture under joint control and each authority holds an equal 25% share in the Company.

Under the Code, authorities with interests in joint ventures shall prepare Group Accounts, in addition to their single entity accounts, unless their interest is considered not material. This Council considers that its interest in the company is not material therefore the Group Financial Statements do not include the results of East Kent Housing.

In February 2020, after consultation with tenants and leaseholders about their view on the future of East Kent Housing, all four council owners agreed that the management of council housing stock should be brought back in-house and that a termination of the management agreement with EKH should be negotiated and concluded as soon as practicable. East Kent Housing ceased trading on 30th September 2020 with staff transferring to the Councils and the company was dissolved on 13th April 2021.

NOTES TO THE FINANCIAL STATEMENTS

The financial results of the Company for 2020/21 and the Council's share are as follows:

	2019/20* £000s East Kent Housing Limited	2019/20* £000s Council share (25%)	2020/21** £000s East Kent Housing Limited	2020/21** £000s Council share (25%)
Turnover	(10,092)	(2,523)	(5,835)	(1,459)
Expenses	11,441	2,860	5,742	1,436
Operational loss	1,349	337	(93)	(23)

	2019/20* £000s East Kent Housing Limited	2019/20* £000s Council share (25%)	2020/21** £000s East Kent Housing Limited	2020/21** £000s Council share (25%)
Loss after taxation	3,361	840	(30)	(8)
Other comprehensive (income) and expenditure	(1,161)	(290)	-	-
Total comprehensive (income) and expenditure	2,200	550	(30)	(8)

Balance Sheet	2019/20* £000s East Kent Housing Limited	2019/20* £000s Council share (25%)	2020/21** £000s East Kent Housing Limited	2020/21** £000s Council share (25%)
Non-current assets	283	71	-	-
Current assets	1,075	269	-	-
Current liabilities	(2,280)	(570)	-	-
Non-current liabilities	(9,897)	(2,474)	-	-
Profit and loss reserve	922	230	-	-
Pensions reserve	9,897	2,474	-	-

*2019/20 comparative figures adjusted to reflect final reported figures for East Kent Housing
The Council's investment in the company is nominal.

**2020/21 figures up to 30th September 2020 when the company ceased trading

Note 39 Related Party Transactions sets out the transactions that took place between the Council and East Kent Housing Limited over 2020/21.

Oportunitas Limited

The Council wholly owns Oportunitas Limited, a company set up for housing and regeneration purposes. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 109.

The Council holds 1,955 shares in the company at a cost of £3.9m and has loans outstanding of £4.3m from it.

NOTES TO THE FINANCIAL STATEMENTS

Company turnover was £270k in 2020/21 (£285k 2019/20). Oportunitas made a loss on ordinary activities of £91k in 2020/21 (loss of £98k in 2019/20*). Its holdings in investment property was £5.2m at 31st March 2021 (£4.9m 31/3/2020).

*The 2019/20 comparatives have been restated following a post-audit adjustment to Oportunitas accounts.

Otterpool Park LLP

The Council owns 99.9% of Otterpool Park LLP, a company set up to deliver its objectives for the Otterpool Park Garden Town. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 109.

The Council's member capital in the company is £1.3m.

Company turnover was £119k in 2020/21 (£7k 2019/20). Otterpool Park LLP made an operating loss of £61k in 2020/21 (£NIL in 2019/20). It held tangible assets of £28k at 31st March 2021 (£NIL 31/3/2020).

42. The Council Acting as Agent

In 2020/21 the Council acted as an intermediary in its role as agent to administer grants to businesses as part of the Government's financial support package provided in response to Covid-19. Where the Council acts as agent year-end balances only are reflected in the accounts as either a debtor or creditor.

The Council acted as agent for the following grant schemes:

Grant	Purpose of Grant	Grant Amount £000s	Expended 2020/21 £000s	Balance Sheet £000s	Balance Sheet Analysis
Test & Trace Support Payment (Self-Isolation)	Payments to those on low incomes whilst self-isolating in line with Government guidelines	165	(40)	125	Creditor
Business Rates Grant Schemes	Payments to business ratepayers for periods of enforced closure by Government regulations	42,328	(36,464)	5,864	Creditor
		<u>42,493</u>	<u>(36,504)</u>	<u>5,989</u>	

43. Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

NOTES TO THE FINANCIAL STATEMENTS

Contingent assets are not recognised on the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

The Council is part of a Group Litigation Order (GLO) seeking to recover embedded VAT paid in respect of Royal Mail services backdated from 1974 to 2012. The claim will be heard by the High Court in June and is expected to go to the Court of Appeal in October. If successful the Council could be entitled to recover VAT which is estimated to be between £38k and £500k depending on how far the claim can be backdated.

44. Events after the Balance Sheet Date

The date that the accounts were authorised for issue was the date that the Director of Corporate Services signed the Balance Sheet on page 24. That date was 8th December 2021. Events after the balance sheet date (31st March 2021) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31st March 2021, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

There have been no such events since 31st March 2021.

Housing Revenue Account



HOUSING REVENUE ACCOUNT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account (HRA) Income and Expenditure Statement

2019/20 £000s		2020/21 £000s
	Income	
(14,854)	Dwelling Rents (Gross)	(14,944)
(318)	Non dwelling rents (Gross)	(279)
(979)	Charges for services and facilities	(1,049)
(52)	Contributions towards expenditure	(52)
(16,203)		(16,324)
	Expenditure	
3,487	Repairs and maintenance	3,826
4,610	Supervision and management	10,292
19	Rents, rates, taxes and other charges	21
5,511	Depreciation and impairment of non-current assets (HRA Note 6)	6,887
828	Valuation change	1,828
22	Debt management costs	25
140	Increase in bad debt provision (HRA Note 7)	95
14,617		22,974
(1,586)	Net (surplus)/deficit of HRA Services as included in the whole authority CIES	6,650
160	HRA services share of Corporate and Democratic Core	156
(1,426)	Net (surplus)/deficit of HRA services	6,806
(629)	(Gain)/loss on sale of HRA non-current assets	(277)
1,569	Interest payable and similar charges	1,546
(78)	Interest and investment income	(18)
43	Net interest on the net defined liability (HRA Note 9)	164
(521)	(Surplus)/Deficit for the year on HRA Services	8,221

HOUSING REVENUE ACCOUNT

Movement on the Housing Revenue Account Statement

2019/20 £000s	2020/21 £000s
(521) Deficit on the HRA Income and Expenditure Statement	8,221
Difference between interest payable and similar charges including	
- amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	-
Difference between any other items of income and expenditure	
(3,750) determined in accordance with the Code and determined in accordance with statutory HRA requirements (HRA Note 8)	(6,132)
629 Gain or (loss) on sale of HRA non-current assets	277
1,387 Capital expenditure funded by the HRA	2,966
(56) HRA share of contributions to or from the Pensions Reserve (Note 5)	(4,894)
(2,311) Net (increase) or decrease before transfers to or from Reserves	438
- Transfer from the Major Repairs Reserve	-
(2,311) (Increase) or Decrease in year on the HRA	438
(10,164) Balance on the HRA at the end of the previous reporting period	(12,475)
(2,311) (Increase) or Decrease in year on the HRA (as shown above)	438
(12,475) Balance on the HRA at the end of the current reporting period	(12,037)

1. Housing Assets

At 31st March 2021, the Council was responsible for managing 3,388 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows:	1,882
Flats and Bedsits:	1,506

The change in the stock can be summarised as follows:

Stock	2019/20	2020/21
Stock at 1 April	3,381	3,377
Acquisitions	10	17
Sales	(14)	(6)
Stock at 31 March	3,377	3,388

HOUSING REVENUE ACCOUNT

The Balance Sheet value was as follows:

	2019/20 £000s	2020/21 £000s
<i>Dwellings</i>	165,183	185,603
Other Land and Buildings	5,924	5,281
Infrastructure	1,047	981
Vehicles, Plant, Furniture and Equipment	156	142
Total Operational Assets	172,310	192,007
<i>Assets under construction</i>	509	676
Total Non Operational Assets	509	676
Total Assets	172,819	192,683

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1st April 2019 was £500,553,397. The Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

3. Major Repairs Reserve

	2019/20 £000s	2020/21 £000s
Balance on Major Repairs Reserve as at 1 April	(4,811)	(4,595)
Depreciation and impairment of non-current assets	(2,591)	(2,641)
Capital expenditure on land, houses and other property within the HRA	2,807	3,965
Balance on the Major Repairs Reserve as at 31 March	(4,595)	(3,271)

4. Capital Expenditure on Land, Houses and Other Property within the HRA

	2019/20 £000s	2020/21 £000s
Houses	4,721	7,953
Other Property	48	174
	4,769	8,127

HOUSING REVENUE ACCOUNT

5. Capital Financing

The capital expenditure detailed in Note 4 above was financed as follows:

	2019/20 £000s	2020/21 £000s
Capital receipts	575	1,196
Revenue	1,387	2,966
Major Repairs Reserve	2,807	3,965
	4,769	8,127

A summary of HRA capital receipts during the year is given below:

	2019/20 £000s	2020/21 £000s
Land	7	-
Houses and Flats	1,386	568
	1,393	568

6. Depreciation, Impairment and Valuation on Non-Current Assets

2019/20				2020/21		
Revaluation	Depreciation	Impairment		Revaluation	Depreciation	Impairment
£000s	£000s	£000s		£000s	£000s	£000s
-	-	-	Land			
(828)	2,356	2,896	Dwellings	(1,120)	2,401	4,255
-	125	24	Other Land and Buildings	-	132	(9)
-	78	-	Infrastructure	-	80	-
-	32	-	Vehicles, Plant, Furniture and Equipment	-	28	-
(828)	2,591	2,920		(1,120)	2,641	4,246

Impairment is in respect of capital expenditure not adding value to the asset base. The revaluation gain is a reversal of previous revaluation losses recognised through the net cost of HRA services.

Additionally in 2020/21 £20.923m was posted to the Revaluation Reserve (£2.651m 2019/20) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

HOUSING REVENUE ACCOUNT

7. Rent Arrears

	31-Mar-20	31-Mar-21
	£000s	£000s
Gross rent arrears	546	575
Current tenant arrears (excluding former tenants)	339	314
Provision for doubtful debts	140	216

Gross rent arrears include income related to properties leased by the Council to assist with providing services to prevent homelessness. Income relating to this service is credited to the General Fund. In respect of these leased properties the sums outstanding at 31st March 2021 are £1k for former tenants.

8. Difference between any other items of Income and Expenditure

	2019/20	2020/21
	£000s	£000s
HRA impairment-capital expenditure not adding value	(2,920)	(4,171)
Net valuation changes	(828)	(1,550)
Other movements	-	(352)
Other changes	(2)	(59)
	<u>(3,750)</u>	<u>(6,132)</u>

9. Housing Revenue Account Pension Costs

The following transactions have been made in the HRA Income and Expenditure Statement and Movement on the HRA Statement during the year in respect of pensions.

2019/20		2020/21
£000s		£000s
96	Current Service Cost	619
43	Net interest on net defined liability	164
139	Net charge to the HRA Income and Expenditure Statement	783
(56)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(4,894)
83		(4,111)
83	Employer Contributions	(4,111)
83	Actual amounts charged against the HRA balance for pensions	(4,111)

10. Item 8 Credit and Item 8 Debit (General) Determination

The capital asset charges accounting adjustments calculated in accordance with the Regulations were as follows.

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.547m (£1.569m 2019/20).

The Item 8 credit was calculated by multiplying the average HRA balances for the year by the consolidated rate of interest on the Council's investments and amounted to £11k (£71k 2019/20).

Collection Fund



COLLECTION FUND

The Collection Fund Statement reflects the statutory obligations for billing authorities to maintain a separate Collection Fund. It shows the transactions in relation to collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates. It shows the impact of the Council retaining a proportion of the collected non-domestic rates.

2019/20			2020/21		
Council Tax £000s	Business Rates (Restated) £000s	Total £000s	Council Tax £000s	Business Rates £000s	Total £000s
Amounts required by statute to be credited to the Collection					
(74,013)		(74,013)	(75,539)		(75,539)
22		22	16		16
			(1,158)		(1,158)
	(26,534)	(26,534)		(15,276)	(15,276)
	370	370		550	550
(73,991)	(26,164)	(100,155)	(76,681)	(14,726)	(91,407)
Amounts required by statute to be debited to the Collection					
Council tax precepts and demands:					
50,752		50,752	52,846		52,846
7,544		7,544	7,945		7,945
3,037		3,037	3,101		3,101
12,598		12,598	13,045		13,045
683		683	(447)		(447)
322		322	357		357
(228)		(228)	264		264
Payment of Business Rates					
	146	146		143	143
	13,783	13,783		13,709	13,709
	2,481	2,481		2,467	2,467
	276	276		274	274
	11,027	11,027		10,967	10,967
	(1,736)	(1,736)		(3,966)	(3,966)
	170	170		153	153
	28	28		219	219
	1,731	1,731		(185)	(185)
74,708	27,906	102,614	77,111	23,781	100,892
717	1,742	2,459	430	9,055	9,485
(267)	1,533	1,266	450	3,275	3,725
450	3,275	3,725	880	12,330	13,210

1. Council Tax

The average council tax at Band D set by the preceptors was as follows:

2019/20		2020/21
£		£
1,299.42	Kent County Council	1,351.26
193.15	Kent Police Commissioner	203.15
77.76	Kent Fire and Rescue Service	79.29
263.34	Folkestone & Hythe District Council (including Special Expenses charged on Folkestone)	268.38
59.22	Town and Parish Councils	65.17
1,892.89		1,967.25

The amount of income generated in 2020/21 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,145	2,763	(5,436)
B	8,934	6,949	(13,670)
C	11,485	10,209	(20,084)
D	7,156	7,156	(14,078)
E	4,601	5,624	(11,064)
F	2,499	3,610	(7,102)
G	1,763	2,939	(5,782)
H	68	136	(268)
	40,651	39,386	(77,484)
	Contributions from the Ministry of Defence in lieu of council tax		(611)
	In year adjustments		2,556
	Income collectable from council tax payers		(75,539)

The 2020/21 tax base approved by Council was 39,109. This figure was arrived at after allowing for contributions in lieu of council tax and provision for bad debts.

2. Income Collectable from Business Rate Payers

The Council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. Since April 2015 Folkestone & Hythe District Council have been a member of the Kent Business Rates Pool with Kent County Council, Kent Fire and Rescue and nine other Kent local authorities in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates. In 2020/21 the total amount, less certain reliefs and other deductions, was shared between Central Government (50%), Folkestone & Hythe District Council (40%), Kent County Council (9%) and Kent and Medway Fire and Rescue (1%).

COLLECTION FUND

2019/20		2020/21
£000s		£000s
76,982	Non domestic rateable value as at 31 March	77,358
49.1p	Non-domestic rate multiplier	49.9p
(37,798)	NNDR income before allowances and other	(38,602)
11,264	Allowances, reduced assessments and other adjustments, including small business rate relief supplement & Covid reliefs	23,326
(26,534)	Income collectable from business rate payers	(15,276)

The non-domestic rate multiplier for 2020/21 was 49.9p for qualifying properties of less than £51,000 rateable value and 51.2p for all others (2019/20 49.1p and 50.4p respectively).

Group Accounts



GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2020/21**											
Balance at 31 March 2020		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(163)	(181,715)
Movement in reserves during 2020/21											
Total Comprehensive Income and Expenditure		(3,524)	8,221	-	-	-	4,697	(17,235)	(12,538)	(563)	(13,101)
Adjustments between group accounts and authority accounts		(372)	-	-	-	-	(372)	-	(372)	372	-
Net increase or decrease before transfers		(3,896)	8,221	-	-	-	4,325	(17,235)	(12,910)	(191)	(13,101)
Adjustments between accounting basis and funding basis under regulations	5	492	(7,783)	(305)	1,324	(843)	(7,115)	7,115	-	-	-
Increase or Decrease in 2020/21		(3,404)	438	(305)	1,324	(843)	(2,790)	(10,120)	(12,910)	(191)	(13,101)
Balance at 31st March 2021 carried forward		(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)	(354)	(194,816)
2019/20 (Restated)											
Balance at 31 March 2019		(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)	(51)	(169,885)
Movement in reserves during 2019/20											
Total Comprehensive Income and Expenditure*		10,434	(521)	-	-	-	9,913	(21,404)	(11,491)	(339)	(11,830)
Adjustments between group accounts and authority accounts		(227)	-	-	-	-	(227)	-	(227)	227	-
Net increase or decrease before transfers		10,207	(521)	-	-	-	9,686	(21,404)	(11,718)	(112)	(11,830)
Adjustments between accounting basis and funding basis under regulations	5	(11,492)	(1,790)	942	216	70	(12,054)	12,054	-	-	-
Increase or Decrease in 2019/20		(1,285)	(2,311)	942	216	70	(2,368)	(9,350)	(11,718)	(112)	(11,830)
Balance at 31st March 2020 carried forward		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(163)	(181,715)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2019/20*			2020/21**			
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
Continuing Operations						
840	(23)	817	Leadership Support	1,198	(121)	1,077
3,324	(536)	2,788	Governance & Law	2,922	(354)	2,568
835	(138)	697	Human Resources	900	(213)	687
36,829	(32,148)	4,681	Finance Customer & Support	44,490	(37,774)	6,716
1,648	(681)	967	Strategic Development	851	(17)	834
826	(147)	679	Economic Development	1,784	(935)	849
1,669	(1,356)	313	Planning	1,621	(1,337)	284
10,331	(5,950)	4,381	Estates & Operations	9,035	(5,234)	3,801
3,416	(2,325)	1,091	Housing	4,235	(4,085)	150
8,376	(2,904)	5,472	Customer Case Regulatory & Communitie	8,709	(2,700)	6,009
1,096	-	1,096	Transition & Transformation	31	-	31
14,894	(16,320)	(1,426)	Local Authority Housing (HRA)	23,323	(16,517)	6,806
84,084	(62,528)	21,556	(Surplus)/Deficit on Continuing	99,099	(69,287)	29,812
Operations						
2,995	(711)	2,284	Other operating expenditure (Council Note 9)	3,257	(852)	2,405
7,975	(2,342)	5,633	Financing and investment income and expenditure (Council Note 10)	4,915	(7,889)	(2,974)
6,502	(26,191)	(19,689)	Taxation and non-specific grant income (Council Note 11)	6,717	(31,483)	(24,766)
101,556	(91,772)	9,784	(Surplus) or Deficit on Provision of Services	113,988	(109,512)	4,477
-	-	(16,847)	(Surplus) or deficit on revaluation of non-current assets (Council Note 32)	-	-	(22,251)
-	-	(4,767)	Re-measurement of net defined liability (Council Note 31)	-	-	4,673
-	-	(21,614)	Other Comprehensive Income and Expenditure	-	-	(17,578)
-	-	(11,830)	TOTAL Comprehensive Income and Expenditure	-	-	(13,101)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP BALANCE SHEET

Restated 2019/20*		Group Note 2020/21**	£000s
			£000s
	Non current assets		
165,183	Property, plant and equipment		185,603
60,171	Council dwellings		61,610
80,773	Investment property	2	91,538
61	Intangible assets		179
13,636	Long term investments	3	14,803
2,794	Long term debtors	4	3,666
322,618	Long term assets		357,399
3,510	Short term investments		-
15	Inventories		359
11,579	Short term debtors	5	19,938
10,776	Cash and cash equivalents	6	6,640
25,880	Current assets		24,429
(31,921)	Short term borrowing		(6,902)
(10,931)	Short term creditors		(27,503)
(80)	Grants receipts in advance - capital		(1,447)
(2,351)	Current Provisions		(2,277)
(45,283)	Current liabilities		(38,129)
(58,455)	Long term borrowing		(72,155)
(62,935)	Other long term liabilities		(76,591)
(110)	Non-current provisions		(137)
(121,500)	Long term liabilities		(148,883)
181,715	Net assets		194,816
(53,707)	Usable reserves		(56,688)
(128,008)	Unusable reserves		(138,128)
(181,715)	Total Reserves		(194,816)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP CASH FLOW STATEMENT

Restated 2019/20*	Group Note	2020/21**
£000s		£000s
(9,784) Net surplus or (deficit) on the provision of services		(4,477)
17,918 Adjustments to net surplus or (deficit) on the provision of services for non-cash movements		17,787
(3,270) Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities		(5,965)
4,864 Net cash flow from operating activities		7,345
(41,609) Net cash flow from investing activities	7	(7,456)
33,982 Net cash flow from financing activities		(6,533)
(2,763) Net increase or decrease in cash and cash equivalents		(6,644)
13,539 Cash and cash equivalents at the beginning of the reporting period		10,776
10,776 Cash and cash equivalents at the end of the reporting period		4,132

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

Explanation of Group Financial Statements

Group MiRS

This statement shows the movement in the year on the different reserves held by the Council and its subsidiaries Oportunitas Limited and Otterpool Park LLP, analysed into usable reserves i.e. those that can be applied to fund expenditure or reduce local taxation and other reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Group CIES. This is different from the statutory amounts required to be charged to the General Fund balance for council tax setting. The 'Net Increase/Decrease' line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves.

Group CIES

This 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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Group MiRS. The statement shows the consolidated position of the Council and incorporates its subsidiaries, Oportunitas Limited and Otterpool Park LLP.

Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council 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 Council 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 were sold); and reserves that hold timing differences shown in the Group MiRS line 'Adjustments between accounting basis and funding basis under Regulations'. The Group Balance Sheet shows the consolidated position incorporating the Council's subsidiaries Oportunitas Limited and Otterpool Park LLP.

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Council and its subsidiaries, Oportunitas Limited and Otterpool Park LLP, during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Group Financial Statements

The Group Accounts should be read in conjunction with the Council's single entity accounts. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

Note 1 – Accounting Policies

In preparing the Group Accounts the Council has aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the Council on a line by line basis; and has eliminated full balances, transactions, income and expenses between the Council and its subsidiaries.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, Notes to the Council's accounts provide then required disclosures.

Note 2 – Investment Properties

The following table summarises the movement in the fair value of investment properties over the year:

	Restated 2019/20*	2020/21
	£000s	£000s
Cost or Valuation		
At 1 April	36,404	80,773
Additions – acquisitions	45,792	7,985
Disposals	-	-
Reclassification to Capital Debtor	-	(805)
Net gain from fair value adjustments	(1,221)	6,626
Impairment	(202)	(3,041)
At 31 March	<u>80,773</u>	<u>91,538</u>

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2021 are as follows:

GROUP ACCOUNTS

2020/21 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Fair value at 31-Mar-21 £000s
Residential Units	12,712	12,712
Agricultural Land	57,201	57,201
Commercial Units	21,471	21,471
Total at Fair Value	91,384	91,384
Assets Under Construction	-	154
Total Investment Properties	91,384	91,538

Valuation Techniques used to Determine Level 2 Fair Values for Investment Properties

Significant observable inputs – Level 2

The fair value for the residential units, agricultural land and commercial units has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

Note 3 – Long Term Investments

Long Term Investments	2019/20 £000s	2020/21 £000s
Bond, equity & property funds	14,125	15,204
Changes in FV of equity investments in companies	(489)	(401)
	13,636	14,803

Note 4 – Long Term Debtors

Long Term Debtors	2019/20 £000s	2020/21 £000s
Soft Loans	2,275	2,019
Other Loans	391	855
Capital Prepayment (Otterpool Land Options)	-	673
Lease Receivables	128	119
	2,794	3,666

GROUP ACCOUNTS

Note 5 – Short Term Debtors

Short Term Debtors	2019/20	2020/21
	£000s	£000s
Trade Receivables	3,593	4,029
Receivables from Related Parties	4,674	11,755
Prepayments	706	1,371
Other Receiveables	4,477	4,670
	<u>13,450</u>	<u>21,825</u>
Impairment of debt		
Trade Receivables	(1,130)	(938)
Other Receiveables	(741)	(949)
Total	<u>(1,871)</u>	<u>(1,887)</u>
Balance as at 31 March	<u>11,579</u>	<u>19,938</u>

Note 6 – Cash and Cash Equivalents

Cash and Cash Equivalents	2019/20	2020/21
	£000s	£000s
Bank Accounts	(1,083)	512
Money Market Funds	11,859	3,620
Total	<u>10,776</u>	<u>4,132</u>

Note 7 – Cash Flow Statement – Investing Activities

2019/20		2020/21
£000s		£000s
(55,128)	Purchase of property, plant & equipment, investment property and intangible assets	(17,933)
-	- Purchase of short-term and long-term investments	-
(355)	Other payments for investing activities	(740)
1,483	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2,134
10,000	Proceeds from investments	3,505
2,391	Other receipts from investing activities	5,578
<u>(41,609)</u>	Net cash flows from investing activities	<u>(7,456)</u>

GROUP ACCOUNTS

Note 8 – Restatement of Accounts – Working Papers

Note to restated Consolidated Income and Expenditure Statement 2019/20

Continuing Operations	Reported 2019/20	Change in Reporting Structure	Post Audit Change in Oportunitas Accounts	Restated 2019/20
Leadership Support	924	(107)	-	817
Governance & Law	7,174	(4,386)	-	2,788
Human Resources	697	-	-	697
Finance, Strategy & Corporate Services	5,198	(551)	34	4,681
Strategic Development	1,119	(152)	-	967
Economic Development	526	153	-	679
Planning	282	31	-	313
Estates & Operations	4,615	(216)	(18)	4,381
Housing	987	104	-	1,091
Customer, Case, Regulation & Communities	-	5,472	-	5,472
Transition & Transformation	1,444	(348)	-	1,096
Local Authority Housing (HRA)	(2,254)	828	-	(1,426)
Local Authority Housing (HRA) - exceptional item	828	(828)	-	
(Surplus)/Deficit on Continuing Operations	21,540	-	16	21,556
Other Operating Expenditure (Note 10)	2,284	-	-	2,284
Financing and Investment Income and Expenditure (Note 11)	5,633	-	-	5,633
Taxation and Non-specific Grant Income (Note 12)	(19,729)	-	40	(19,689)
(Surplus) or Deficit on Provision of Services	9,728	-	56	9,784
(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 29)	(16,847)	-	-	(16,847)
Re-measurement of net defined liability (Note 27)	(4,767)	-	-	(4,767)
Other Comprehensive Income and Expenditure	(21,614)	-	-	(21,614)
TOTAL Comprehensive Income and Expenditure	(11,886)	-	56	(11,830)

GROUP ACCOUNTS

Note to restated Balance Sheet 2019/20

	Reported 2019/20	Post Audit Change in Oportunitas Accounts	Restated 2019/20
Non current assets			
Property, plant and equipment	60,171	-	60,171
Council dwellings	165,183	-	165,183
Investment property	82,048	(1,275)	80,773
Intangible assets	61	-	61
Long term investments	13,636	-	13,636
Long term debtors	2,794	-	2,794
Long term assets	323,893	(1,275)	322,618
Short term investments	3,510	-	3,510
Inventories	15	-	15
Short term debtors	10,314	1,265	11,579
Cash and cash equivalents	10,776	-	10,776
Current assets	24,615	1,265	25,880
Short term borrowing	(31,921)	-	(31,921)
Short term creditors	(10,928)	(3)	(10,931)
Grants receipts in advance - capital	(80)	-	(80)
Current Provisions	(2,351)	-	(2,351)
Current liabilities	(45,280)	(3)	(45,283)
Long term borrowing	(58,455)	-	(58,455)
Other long term liabilities	(62,935)	-	(62,935)
Non-current provisions	(67)	(43)	(110)
Long term liabilities	(121,457)	(43)	(121,500)
Net assets	181,771		181,715
Usable reserves	(53,763)	56	(53,707)
Unusable reserves	(128,008)	-	(128,008)
Total Reserves	(181,771)	56	(181,715)

GROUP ACCOUNTS

Note to restated Cash Flow Statement 2019/20

	Reported 2019/20	Post Audit Change in Opportunitas Accounts	Restated 2019/20
Net surplus or (deficit) on the provision of services	(9,728)	(56)	(9,784)
Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	19,137	(1,219)	17,918
Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(3,270)	-	(3,270)
Net cash flow from operating activities	6,139	(1,275)	4,864
Net cash flow from investing activities	(42,884)	1,275	(41,609)
Net cash flow from financing activities	33,982	-	33,982
Net increase or decrease in cash and cash equivalents	(2,763)	-	(2,763)
Cash and cash equivalents at the beginning of the reporting period	13,539	-	13,539
Cash and cash equivalents at the end of the reporting period	10,776	-	10,776

Independent auditor's report to the members of Folkestone and Hythe District Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Folkestone & Hythe District (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Corporate Services use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

In our evaluation of the Director of Corporate Services conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Corporate Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Corporate Services with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 19, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from

INDEPENDENT AUDITOR'S REPORT

fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Group and Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and Group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and assessment of the risk of fraud in expenditure recognition. We determined that the principal risks were in relation to journals:
 - Using data analytics, we considered all journal entries for fraud and set specific criteria to identify the entries we considered to be high risk. Such criteria included journals posted after the year end; journals with a material impact on the deficit for the year and journals posted by users with system admins or senior finance officers.
- Our audit procedures involved:

INDEPENDENT AUDITOR'S REPORT

- evaluating the design effectiveness of managements controls over journals;
 - analysing the journals listing to determine the criteria for selecting high risk unusual journals;
 - testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
 - gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
 - evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
 - The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, council dwelling, investment property, and defined benefit pensions liability valuations, credit loss and impairment allowances, provisions, expenditure accruals and fair value estimates.
 - Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority and group including:
 - the provisions of the applicable legislation n
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
 - In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority and Group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority and Group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

INDEPENDENT AUDITOR'S REPORT

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Folkestone & Hythe District Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the

INDEPENDENT AUDITOR'S REPORT

Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

{Signature}

Paul Dossett, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

09 December 2021

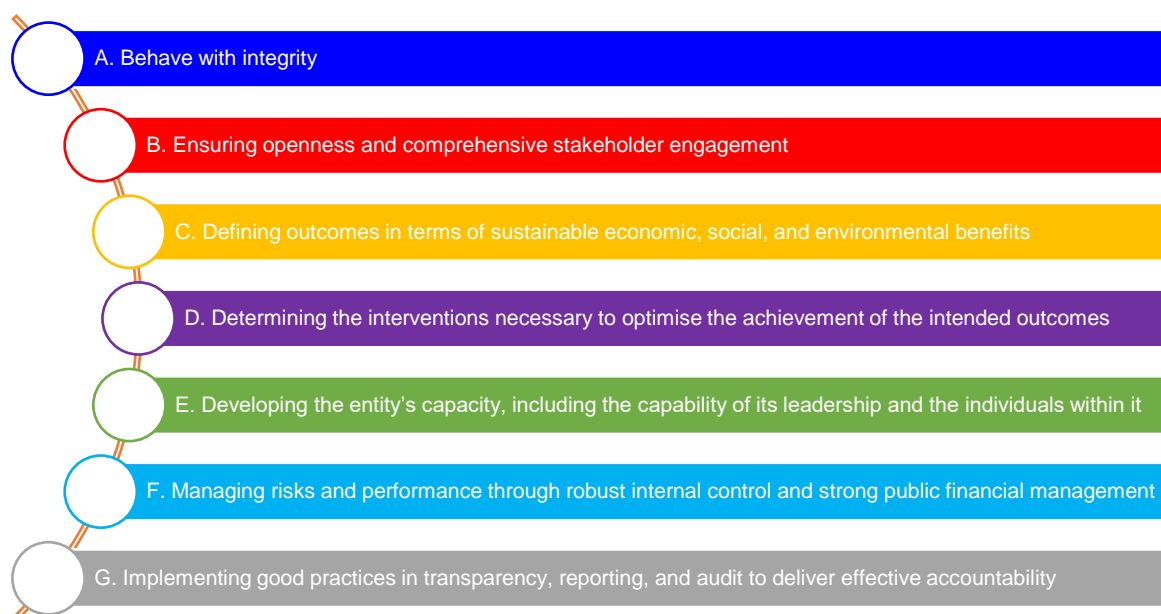
Annual Governance Statement 2020/21

1. SCOPE OF RESPONSIBILITY

- 1.1 Folkestone and Hythe District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
- 1.3 The Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework “Delivering Good Governance in Local Government.” A copy of the code is on our website or a copy can be obtained from the Council offices. This statement explains how the Council has complied with the code and also meets the requirements under the Accounts and Audit Regulations 2015 (SI 2015/184).

2. THE PRINCIPLES OF GOOD GOVERNANCE

- 2.1 The CIPFA/SOLACE Delivering Good Governance publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out below:



3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- Identify and prioritise risks to the achievement of the Council's aims and objectives.
 - Evaluate the likelihood and impact of those risks.
 - Manage those risks efficiently, effectively and economically.
- 3.3 The information provided in the governance framework includes matters to the year ending 31 March 2021, and up to the date of approval of the annual report and statement of accounts.

Table 1: Overview of the Council's governance framework

<p align="center"><u>Cabinet</u></p>		
<p>Responsible for:</p> <ul style="list-style-type: none"> • Discharging executive functions in accordance with the policy framework and budget • Approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management • Approving the Anti-Fraud and Corruption Framework • Receiving regular performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget. 		
<p align="center"><u>Overview & Scrutiny</u></p>	<p align="center"><u>Council</u></p>	<p align="center"><u>Audit and Governance</u></p>
<p>Responsible for:</p> <ul style="list-style-type: none"> • Reviewing the work and decisions of the Cabinet, and all areas of the Council's work. • Carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. • Exercise the power to call in a decision of the cabinet or a cabinet member. 	<p>Responsible for:</p> <ul style="list-style-type: none"> • Adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework. • Setting the budget and determining the level of Council Tax • All the authority's non-executive functions. Functions which have not been delegated, remain the sole responsibility of the whole or full Council. 	<p>Responsible for:</p> <ul style="list-style-type: none"> • Promoting and maintaining the highest standards of conduct by Councillors. • Monitoring the operation of the Councillors' Code of Conduct. • Advising, training or arranging to train Councillors on matters relating to the Code where necessary. • Considering and recommending to Council, when necessary, changes to the financial procedure rules and contract standing orders. • Providing independent assurance on the adequacy of the risk management framework.

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<p>Finance and Performance Sub Committee</p> <p>Responsible for:</p> <ul style="list-style-type: none"> • To scrutinise the Council's performance against KPIs and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. • To scrutinise the Council's financial monitoring data against budget and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. 		
<p><u>Decision Making</u></p>	<p><u>Risk Management</u></p>	
<ul style="list-style-type: none"> • All decisions are made in line with legislation and rules set out in Council's Constitution. • Reports, decisions and minutes of committee meetings published on the Council's website. • All committee meetings are held in public and webcast. Webcast recordings of previous meetings are available to the public for six months. 	<ul style="list-style-type: none"> • The Councils' Risk management Strategy ensures proper management of risks • Risk registers identify both strategic and operational risks • Regular updates on the management of risk are provided to the Corporate Leadership Team, Audit and Governance Committee and Cabinet. 	
<p><u>Statutory Chief Officers</u></p>		
<ul style="list-style-type: none"> • Head of Paid Service: This role has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review. • Chief Finance Officer (Section 151): The Director for Corporate Services holds the role of Chief Finance Officer, a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources. • Monitoring Officer: The Assistant Director for Governance & Law holds the role of Monitoring Officer and is responsible for: <ul style="list-style-type: none"> ○ Maintaining and interpreting the Councils constitution, ensuring lawfulness and fairness of decision-making. ○ Providing advice to all councillors, on the scope of powers and authority to take decisions; maladministration; financial impropriety; probity; and Budget and Policy Framework issues. ○ Conducting investigations, or arrange for investigations to be conducted, into complaints concerning alleged breaches of the councillor's Code of Conduct. 		

Following a full council motion work was undertaken during 2019/20 on reviewing the governance structure of the Council. This work, which remains ongoing, made in-year recommendations to improve the functioning of the Overview & Scrutiny Committee. During the year assistance from external expertise was given from Bevan Brittan, the Local Government Association and from the Centre for Governance and Scrutiny. In October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in decision making:

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- Reduction in number of meetings of the Overview and Scrutiny Committee from 11 to 5 or 6 per year.
- Creation of a finance and performance sub-group to meet quarterly.
- A committee work plan to include about 12 clearly scoped topics by OSC Members, allowing for detailed consideration of two topics per meeting, in general.
- Work plan topics to have clear lines of enquiry, questions, and to draw on external expertise as necessary.
- Members to lead the items at Scrutiny meetings.
- Introduction of an established Cabinet and Overview and Scrutiny Protocol to clarify relationships between the two and help ensure the smooth conduct of Scrutiny work, which was adopted by both groups in October 2020.

In addition to the changes implemented to the Overview & Scrutiny Committee, it should be noted that since 1st February 2020 changes have also been made to the membership of Cabinet which now includes a Councillor from the Green party and a Councillor from the Liberal Democrat party. They joined two councillors from the Independent party and five Conservative members to form the Executive under the leadership of the Conservative party.

Strategic Planning
















- 3.4. The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The latest plan covers the period 2021 to 2030, and was agreed by both Cabinet and Council in February 2021. Within this period in the short term there is a focus on COVID recovery, and the Plan will be reviewed in 2024.

The Corporate Plan sets out the Council's vision for improving the lives for all those who live and work in the district for the next nine years.

The vision for Folkestone & Hythe is '**Creating Tomorrow Together**'.


To help achieve the vision for the district, the Council has four service ambitions and six guiding principles set out below:

Creating Tomorrow Together: Corporate Plan 2021-30

<p>Service ambition 1: Positive community leadership Priorities in the next three years</p> <ul style="list-style-type: none">  Improve physical and mental health & wellbeing  Safer communities  Supporting & empowering our communities 	<p>Service ambition 2: A thriving environment Priorities in the next three years</p> <ul style="list-style-type: none">  Ensure an excellent environment for everyone  Grow the circular economy & reduce waste  Increase our resilience to climate change 	<p>Service ambition 3: A vibrant economy Priorities in the next three years</p> <ul style="list-style-type: none">  Reinvigorate the high streets  Support a vibrant & diverse business community  Help people access jobs & opportunity  Grow the skills we need for the future 	<p>Service ambition 4: Quality homes and infrastructure Priorities in the next three years</p> <ul style="list-style-type: none">  Improve outcomes & support for homeless people  Deliver sustainable, affordable housing  Deliver a safe, accountable housing service  Digital inclusion & connectivity  Deliver a sustainable new development at Otterpool Park
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In everything we do we will follow these guiding principles:

Sustainable recovery We will do all we can to ensure a strong recovery for the district from the effects of COVID.	Locally distinctive We will protect the special distinctive and diverse nature of our district - working with our key partners to enhance it.	Greener Folkestone & Hythe We will encourage and create a more sustainable district consuming fewer natural resources.	Transparent, stable, accountable and accessible We will be financially sustainable and communicate effectively with our communities in an accessible way.	Working effectively with partners We will engage with partners to understand the vital role they play and work collaboratively with them to ensure the best outcomes for our residents.	Continuous improvement We will embed a culture of continuous improvement, seeking feedback and being innovative and creative to find new ways to deliver services.
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- 3.5 For each service ambition set out above, the Council has committed to a number of priorities within the Corporate Plan that will be delivered over the next three years. The priorities are monitored regularly to ensure they are being delivered effectively.
- 3.6 Elected Members of the council are ultimately responsible for the delivery of the council's corporate objectives. The council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.
- 3.7 Effective communication, both within departments and across the council is continually supported through the Wider Management Team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.
- 3.8 On an annual basis, managers are required to develop a departmental service plan setting out the priorities and key outcomes for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

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3.10 Folkestone and Hythe District Council as public funded organisation is fully committed to principles of openness and accountability. In line with the Transparency Code, the Council continues to publish a series of data sets including;

- Senior Staff Salaries
- Organisational Structure Chart
- Payment to suppliers (over the value £250)
- Purchase Orders (£5,000 and over)
- Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
- Grants to Voluntary, Community and Social Enterprise Organisations
- Parking Accounts
- Local Authority Land Assets

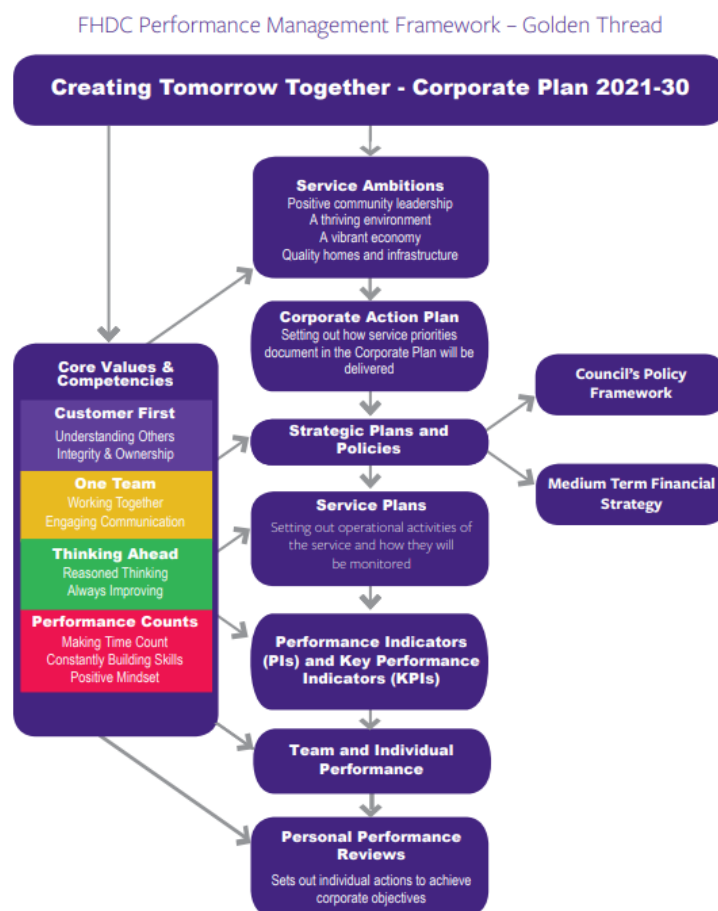
Performance Management

3.11 The Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.

3.12 The Performance Management Framework demonstrates how the Council's corporate vision and objectives are cascaded down through the organisation in what is known as the 'Golden Thread' (See diagram 1). The objectives defined with the corporate plan and our core values help drive the development of strategic policy, operational service plans and the performance of both teams and individual members of staff. A revised version of framework was considered by the Overview & Scrutiny Committee in June 2021.

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Diagram 1: FHDC Golden Thread of Performance Management:



3.13 The Council has recently enhanced its performance reporting procedures to Members. The new Finance & Performance Sub Committee and Cabinet receive Quarterly Performance Reports enabling them, along with other Members of the Council and the public to scrutinise the performance of the Council against strategic deliverables and key indicators in accordance with the approved Corporate Plan. All performance reports presented are made publically available through the Council’s website.

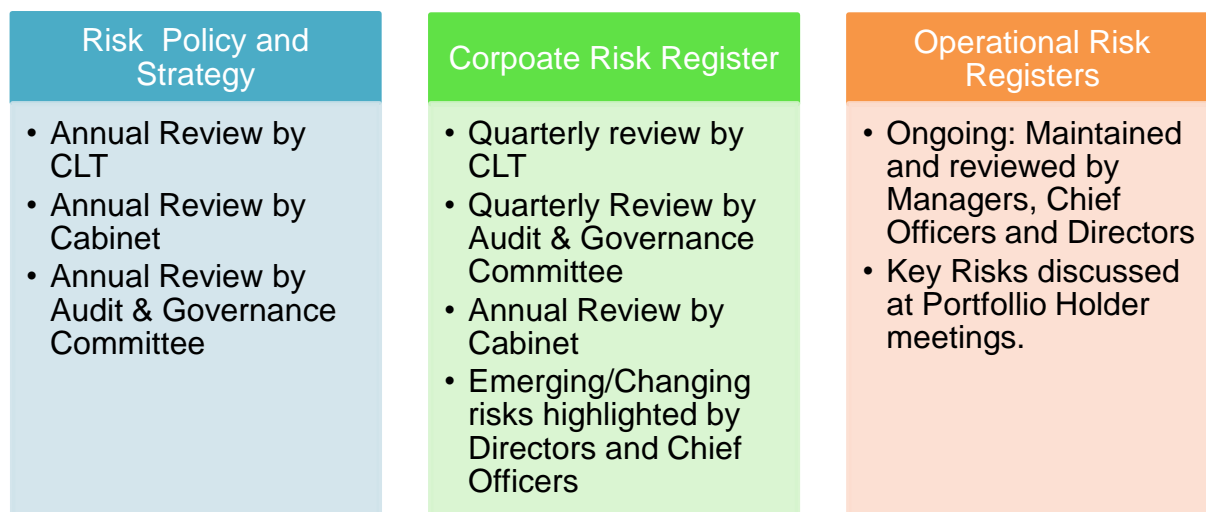
3.14 A key component of performance management for the Council is the overall quality of the service provided to the customer. The Customer Access Strategy takes into consideration customers’ feedback to develop and implement plans to improve the way in which the Council delivers and receives day to day information about the services it provides. The strategy also sets out the council’s principles in delivering customer service for its residents.

In September 2020, the Council successfully retained its Customer Service Excellence (CSE) accreditation. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. The independent assessor was so impressed by the Council’s ongoing commitment to customer service he awarded a further 3 compliance plusses as part of his latest inspection bringing the overall number awarded to 15.

Risk

- 3.15 The Council’s Risk Management Strategy (Adopted by Cabinet in December 2019) is reviewed on annual basis to reflect any changes in the council’s assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 3.16 In preparing the Council’s Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. Progress made against any required action in relation to the risks is reported to the council’s Corporate Leadership Team on a regular basis.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority’s risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the council’s Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption.
- 3.18 Diagram 2 below provides an overview of the revised governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council’s operations:

Diagram 2: Reporting Arrangements for Risk Management



Finance

- 3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2020-21 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial

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management of service areas within the council, which includes accurate forecasting and the effective monitoring of financial performance against budget.

- 3.20 The council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in '*Delivering Good Governance in Local Government*'.
- 3.21 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the council's Corporate Plan priorities. The MTFS was updated and approved by Council in November 2020 and expresses the aims and objectives of various plans and strategies in financial terms over a four year period ending 31st March 2025. The MTFS is a key element of sound corporate governance and financial management which is reviewed on a regular basis.
- 3.22 In addition, the Overview & Scrutiny Committee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2020-21 financial year at its meeting in February 2020; Cabinet endorsed this at its subsequent meeting. A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting in January 2021 which provided an update on the council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.
- 3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Councils service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. In 2020 due to the pandemic the Director for Corporate Services took an officer decision on behalf of Council to adopt these strategies for 2020/21 on 27 March 2020. Full Council adopted the relevant strategies for 2021/22 on 24 February 2021.
- 3.24 Regular budget monitoring took place in 2020-21 in order to manage the council's net revenue budget. Regular meetings were held virtually between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Overview & Scrutiny Committee or Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to have an additional focus on the council's revenue budget monitoring during 2020/21 due to the unprecedented impacts of the pandemic on council finances. Therefore in addition to the regular monitoring that was undertaken papers were also tabled in November to Cabinet (in addition to the Finance & Performance Sub-Committee) noting the action required in year, the current reserves position and potential call upon reserves required in year.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports.

Partnership and Joint-working

- 3.26 The Council is continuously looking at innovative solutions to deliver its range of services, including the processes associated with service delivery, the ongoing requirements for the scale of services and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with public bodies and local agencies, including identification of shared service opportunities where appropriate.
- 3.27 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency.

Internal and External Audit

Internal Audit

- 3.28 The Internal Audit function is performed by the East Kent Audit Partnership (EKAP) and aims to provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions and systems.
- 3.29 The Head of Internal Audit plays a critical role in delivering the organisation's strategic objectives by: championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- 3.30 As at 31st March 2021 the Internal Auditors completed 327 days of review equating to 95% of planned completion, the remaining audits being carried over as work in progress at the year end. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Audit and Governance Committee in July 2021.

External Audit

- 3.31 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.
- 3.32 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.33 The 2019/20 Audit Findings Report gave an unqualified opinion on the Council's financial statements. The 2019/20 Annual Audit Letter from Grant Thornton UK LLP remains pending, the outstanding objection to the 2018/19 accounts has now been

considered and resolved and we await the Annual Audit letters for 2018/19 and 2019/20 from Grant Thornton in due course. The auditors were also able to certify the pooling of housing capital receipts return without amendment or qualification, and the Housing Benefits Subsidy return was certified by the auditor and submitted to Department of Work & Pensions.

Counter Fraud Arrangements

- 3.34 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:
- encourage fraud deterrence and prevention
 - raise awareness of fraud and corruption and promote their detection
 - perform investigations and facilitate recovery in a prompt, thorough and professional manner
 - invoke disciplinary proceedings and further action as appropriate.
- 3.35 The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework is currently in the process of being reviewed by the Section.151 Officer and Monitoring Officer.
- 3.36 The responsibility for the prevention of fraud and corruption lies with management, who ensure that adequate controls, including policies and procedures, are in place to prevent and detect fraud and corruption. The Council has developed systems and procedures that incorporate effective and efficient internal controls, and management ensure that controls minimise risk to an appropriate level. Controls are regularly reviewed to ensure they remain appropriate and effective. The internal and external auditors independently monitor the existence, effectiveness and appropriateness of these controls.
- 3.36 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its officers:
- has made, or about to make, a decision which involves incurring unlawful expenditure
 - has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
 - is about to make an unlawful entry in the authority's accounts
- 3.37 The Assistant Director for Governance & Law is the 'Monitoring Officer' for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring

Officer is required to report to Cabinet and Council where it appears to him/her that the Cabinet or Council and/or officers appointed by them:

- has made or is about to make a decision which contravenes any enactment, or rule of law
- has made or is about to make a decision that would give rise to maladministration or injustice as referred to in Part III of the Local Government Act 1974.

4. REVIEW OF EFFECTIVENESS

4.1 The Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 In maintaining and reviewing the effectiveness of the governance framework, the key elements are as follows:

- The Audit and Governance Committee, which has responsibility to provide independent assurance on the adequacy of the risk management framework and the associated control environment. The committee provides independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk. It also oversees the financial reporting process and oversees the work of the East Kent Audit Partnership.
- The council's internal management processes, such as performance monitoring and reporting; budget monitoring and reporting; the staff performance appraisal framework and monitoring of policies, such as the corporate complaints and health and safety policies.
- The opinion on the overall adequacy and effectiveness of the council's overall control environment from the Head of Internal Audit.
- An annual self-assessment and management assurance statement signed by Directors and senior managers, confirming that the Code of Conduct, Financial Regulations and other corporate governance processes have operated as intended within their directorates throughout the year.
- Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the council.
- The Council continues to seek external advice when appropriate on some of our large projects, including Otterpool Park and Princes Parade by working closely with the Local Government Association and the Centre for Governance and Scrutiny.

- 4.3 The Council received notification in May 2021 from the Information Commissioners Office of a decision notice issued on 30 March 2021 with regards to their concerns about the council's engagement to an investigation undertaken by their office. The ICO seeks to work with the Council on an informal basis. The Council, in response, has initiated its own internal review of the case and related arrangements. This review will be concluded by August when the Council needs to respond to the Commissioner and will consider the facts of the case. The review will include a self-assessment of the council's FOI processes utilising the Commissioner's toolkit; the identification of actions to be taken following the self-assessment including target dates for implementation; the identification of training needs and changes to processes and any further steps required to facilitate effective engagement with future investigations and correspondence with the Commissioner.

5. GOVERNANCE ARRANGEMENTS IN RESPONSE TO COVID-19 PANDEMIC

- 5.1 In response to the Coronavirus pandemic Folkestone and Hythe District Council, like all other local authorities across the UK, has had to adjust to a virtual way of way delivering the majority of its essential services to residents over the past year.
- 5.2 To help meet the needs of those most vulnerable within the District, the Council has continued to support three established community hubs serving Folkestone, Hythe and the Romney Marsh with Cabinet approving an additional £35,000 in July 2020 to support the hub model throughout 2020/21. At the start of the pandemic and thorough the first two lockdowns, charity, volunteer groups, town and parish councils and council staff provided essential support to the day to day operations of these hubs which have included the collection and delivery of essential food and medicines. By the third lockdown staff were stood down and the hubs were operating self-sufficiently using volunteers and stakeholder contacts and networks of support services. Fortnightly updates on the operational progress and activities of the community hubs are provided at check in calls with the portfolio holder and weekly data updates provided to Corporate Leadership Team and others. The Health Wellbeing and Partnerships Senior Specialist acts as the Council's operational lead for the hubs, reporting to the Vulnerable People and Communities Cell of the Kent Resilience Forum leading on Covid response and recovery work in relation to national support and guidance.
- 5.3 In order to ensure the Council remains effective in managing and delivering its 'business continuity' obligations in response to the pandemic, virtual meetings have continued to been undertaken with a senior team of staff, including those leading on a number of themes relating to service delivery and managing responses to requests from both Central Government and the Kent Resilience Forum.
- 5.4 Legislative changes introduced as part of the Coronavirus Act 2020 have ensured that virtual committee meetings could take place until May 2021. The Committee Services team in light of the legislation change implemented a programme of committee meetings to take place throughout the year via the Zoom conferencing platform to ensure essential decision making and the democratic processes of the Council have continued to operate throughout the pandemic.

5.5 As part of the wider emergency response to the Coronavirus pandemic, the Council is an active member of Kent Resilience Forum (KRF) formed of emergency responders and supporting agencies that are required to plan for emergencies. The Council has continued to ensure key staff have been actively contributing to the strategic and tactical planning group meetings of the KRF as well as participating in the work of established recovery cells that focus on a range of themes including the economy, district/community and finance. The KRF response was wound down in May 2021.

6. HOUSING SERVICE

6.1 The Council commenced the direct management of its housing stock on 1st October 2020, with the termination of the East Kent Housing ALMO. As part of this legacy the Council remains in a voluntary undertaking and is working with the Regulator of Social Housing to demonstrate it is fully compliant with the Home Standard. With regard to the Landlord Gas Safety regulations (LGSR) the service received a 'substantial' assurance rating (the highest possible) from its external auditor in December 2020.

Since the service has been brought back in house transparent and detailed performance monitoring has been introduced which includes a monthly review of performance with all relevant managers. The data is shared information with the Corporate Leadership Team and Members. Performance is also published quarterly on the Council's web site, shared with the tenant board and published in the bi annual tenants' newsletter. A direction of travel audit was completed by East Kent Audit Partnership in December 2020 providing an overall assurance rating of 'limited', which was not unexpected given the infancy of the new in-house service. The audit has provided guidance which has enabled significant improvement to be made since December. A follow up review was completed in April 2021 and the results are currently being awaited from the auditor. Staff have also been trained in areas of routine landlord compliance and have gained qualification in the inspection of fire doors.

7. OTTERPOOL PARK LLP

7.1 The LLP was established on 27 May 2020. The LLP will act as master developer for Otterpool Park. As such, it is envisaged that the LLP will secure planning permissions and put in place infrastructure in order that parcels of land can be sold to housebuilders. This will be the main focus of activity and generator of value, i.e. income to the LLP. The main documents and mechanisms governing the relationship between the Council and the LLP will be:

- The Members' (or Owners') Agreement approved on 27 May 2020;
- A single, overarching Strategic Land Agreement
- Related agreements governing the transfer of land from the Council to the LLP (or other parties) pursuant to the Strategic Land Agreement;
- Legal instruments in relation to loans / members' equity;
- Loan agreements in relation to funds provided to the LLP by the Council as debt; and

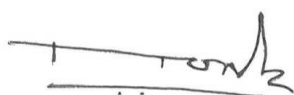
ANNUAL GOVERNANCE STATEMENT

- The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval)
- 7.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020).
- 7.3 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan includes a draft vision document which sets out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document draws on a range of Council documents, primarily the Charter for Otterpool Park. In November 2019, Full Council determined to *“To make available an additional one hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed.”*
- 7.4 The Business Plan was considered by the Overview and Scrutiny committee in July and December 2020 before being considered at Cabinet in January 2021.
- 7.5 Officers continue to work on the Assurance Framework as well as progress the work with professional advisors and the LLP on the key agreements and legal instruments outlined in 7.1, as delegated to them by Cabinet in January 2021.

8. CONCLUSION

- 8.1 In line with the council's responsibilities for its internal control and overall governance environment (paragraph 1.1), the conclusion to the annual review process for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts is that the arrangements in place are considered to be fit for purpose and in accordance with the council's governance framework, with no significant areas requiring attention.
- 8.2 Set out in Appendix 1 is the action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements.
- 8.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 29th July 2021.

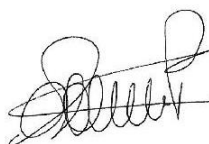
Signed



Cllr David Monk
Leader of the Council

Date: 29 July 2021

Signed



Dr Susan Priest

Head of Paid Service

ANNUAL GOVERNANCE STATEMENT

Appendix 1 - Action plan for improvement following review of effectiveness of governance arrangements 2021/22

	Action	Who	Date
1	<p>Annual Review of Corporate Governance At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Assistant Directors/Chief Officers and internal audit's opinion report</p>	Monitoring Officer	May 2022
2	<p>Governance Arrangements To keep under review, the Council's governance arrangements.</p>	Monitoring Officer	March 2022
3	<p>Data Retention Policy and General Data Protection Regulation To keep under review, the Data retention policy and the new General Data Protection Policy.</p>	Monitoring Officer	March 2022
4	<p>Review of the Overview & Scrutiny Committee function To keep under review the governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing
5	<p>Review of Corporate Risk Policy for the Council: Encourage all services to have up to date Departmental / Project Risk Registers that comply with the Corporate Policy. Undertake the annual review of the Policy alongside the Audit & Governance Committee and make recommendations to Cabinet.</p>	Director of Corporate Services	March 2022
6	<p>Financial Management Code Review and assess conformity with the CIPFA Statement of Principles of Good Financial Management, raise awareness in the organisation and make appropriate changes to processes to ensure compliance with the Financial Management Code for 2021/22.</p>	Lead Accountant & Monitoring Officer	October 2021
7	<p>Folkestone & Hythe Accelerated Delivery Board: Existing governance arrangements for the board will be reviewed in light of the council's approach to COVID-19 recovery and the new Corporate Plan (with due consideration of key strategic projects such as Otterpool Park and Folkestone Town Centre Place Plan).</p>	Corporate Director of Place	March 2022
8	<p>Otterpool Park LLP Assurance Framework Conclude the work being undertaken on the assurance framework and governance arrangements between FHDC and Otterpool Park LLP</p>	S151/ Monitoring Officer	Autumn 2021

Glossary of Terms

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement

MiRS – Movement in Reserves Statement

FVOCI – Fair Value through Other Comprehensive Income

FVPL – Fair Value through Profit and Loss

Accounts - A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Actual - The final amount of expenditure or income which is recorded in the council's accounts.

Actuarial Gains and Losses – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- (b) the actuarial assumptions have changed.

Assets – resources controlled by the authority as a result of past events and from which future economic benefits or service potential is expected to flow to the authority.

Balance Sheet - A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget - A statement of the council's plans for net revenue and capital expenditure over a specified period of time.

Capital Expenditure – Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Receipts - Proceeds from the sale of fixed assets, repayments of grants or the realisation of certain investments. Capital receipts are available to finance other items of capital expenditure or to repay debt on assets originally financed from loan.

Collection Fund - The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community Assets - Assets that the council intends to hold in perpetuity that have no determinable finite useful life, and in addition may have restrictions on their disposal, e.g. parks and cemetery land.

Council Tax - A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current Service Cost (Pensions) – The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Deferred Credits - Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of council houses (deferred capital receipts).

Depreciation - The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Events after the Balance Sheet date – those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exit Packages – can include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

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.

Finance Lease – a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

General Fund (GF) - The main revenue fund of the council from which are made payments to provide services and into which receipts are paid, including the district council's share of council tax.

Heritage Assets – assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for its contribution to knowledge and culture.

Housing Revenue Account (HRA) - The statutory account to which are charged the annual revenue costs of providing, maintaining and managing council dwellings financed by rents, grants and other income.

Impairment – A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets - Inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use, e.g. coast protection works.

Investment Assets – those assets that are held solely to earn rentals or for capital appreciation or both.

Lease – An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Liabilities – present obligations of an authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.

Minimum Revenue Provision – A prudent annual provision has to be made for the repayment of debt in accordance with Capital Finance Regulations.

GLOSSARY OF TERMS

Net Book Value – The amount at which property, plant and equipment are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net defined liability – also known as the net pension liability.

Net Service Expenditure - Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-Current Asset – Any asset which is not easily convertible to cash, or not expected to become cash within the next year.

Non-Domestic Rates - Businesses contribute to local government expenditure on the basis of a uniform rate, decided by the Government, levied on the rateable value of the business premises.

Non-specific Grant Income – grant that cannot be attributed to a specific revenue Service (e.g. New Homes Bonus).

Past Service Cost – The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept - The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Folkestone & Hythe District Council). Precepts on Folkestone & Hythe are also made by town and parish councils in the district, which are charged to the General Fund.

Prior Period Adjustments – Those adjustments applicable to prior years arising from the correction of material errors.

Provisions - Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Public Works Loans Board - A government agency which provides longer term loans to the public sector at interest rates only slightly higher than those at which the government itself can borrow.

Remuneration – all sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves - The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund and HRA General Reserves). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

Revenue Expenditure - The day-to-day running costs of services including salaries, running expenses and capital charges



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