Folkestone & Hythe District Council

Agenda

Meeting: **Audit and Governance Committee**
Date: **15 March 2023**
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.

This meeting will be webcast live to the council's website at https://folkestone-hythe.public-i.tv/core/portal/webcasts.

Please note there will be 37 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.

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

Queries about the agenda? Need a different format?

Contact Sue Lewis – Tel: 01303 853265/3267
Email: committee@folkestone-hythe.gov.uk or download from our website www.folkestone-hythe.gov.uk

Date of Publication: Tuesday 7 March 2023

3. **Minutes (Pages 7 - 12)**

To consider and approve, as a correct record, the minutes of the meeting held on 7 December 2022.

4. **Statement of Accounts 2020/21 (Pages 13 - 244)**

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 audit of the 2020/21 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2020/21 Statements of Account are set out in Grant Thornton's Audit Findings report.

5. **Statement of Accounts 2021/22 (Pages 245 - 436)**

In accordance with the Accounts and Audit (Amendment) Regulations 2022 the council must consider and approve its 2021/22 Statement of Accounts no later than 30 November 2022. The audit of the 2021/22 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2021/22 Statements of Account are set out in Grant Thornton's Audit Findings report.

Appendix 2 to follow.

6. **Quarterly Code of Conduct Complaints Update Report (Pages 437 - 440)**

This report provides an update to the Committee on Member Code of Conduct complaints received during quarter 3 of 22/23 (1 October to 31 December 2022).

7. **Annual Report - Maintaining Ethical Standards (Pages 441 - 444)**

This annual report to the Audit and Performance Committee is submitted in accordance with the Committee's term of reference as follows:

"To receive an annual report on the District Council's ethical governance arrangements".

One of the roles of the council's Monitoring Officer is to advance good governance and ensure the highest standards of ethical behaviour are maintained through the effective discharge of their statutory duties.

8. **Annual report of the Audit and Governance Committee (Pages 445 - 450)**

This report summarises the achievements of the Audit and Governance Committee against the terms of reference for the period 1 April 2022 to 31 March 2023 and details the impact that it has made on the overall system of internal control in operation.

9. **Review of Corporate Risk Register (Pages 451 - 462)**

This report provides an update to the Corporate Risk Register.

10. **Review of Risk Management Policy and Strategy (Pages 463 - 486)**

This report presents an updated Risk Management Policy & Strategy for consideration by the Audit & Governance Committee, ahead of its adoption by Cabinet. The Policy & Strategy provides a framework for the management of risk by Officers and Members. There is a separate report on the agenda which provides an update to the Corporate Risk Register.

11. **Local Code of Corporate Governance (Pages 487 - 500)**

This report recommends the approval of a local code of corporate governance for 2023/24.

12. **Quarterly Internal Audit Update Report from the Head of East Kent Audit Partnership (Pages 501 - 516)**

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 31st December 2022.

13. **Internal Audit Charter and Draft Internal Audit Plan 2023/24 from the Head of East Kent Audit Partnership (Pages 517 - 552)**

This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

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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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Folkestone & Hythe District Council

Minutes

Audit and Governance Committee

Held at:	Council Chamber - Civic Centre Folkestone
Date	Wednesday, 7 December 2022
Present	Councillors Mrs Ann Berry (Chairman), Laura Davison, Gary Fuller, Philip Martin (Vice-Chair), Terence Mullard and Rebecca Shoob
Apologies for Absence	
Officers Present:	Paul Butler (Elections Manager), Amandeep Khroud (Assistant Director), Sue Lewis (Case Officer (Committee)), Mrs Christine Parker (Head of Audit Partnership), Susan Priest (Chief Executive) and Charlotte Spendley (Director of Corporate Services)
Others Present:	Andy Vanburen, Independent Member and Paul Dossett, Grant Thornton

57. **Declarations of Interest**

Councillors Mrs Ann Berry and Terence Mullard informed they are Directors of Oportunitas and elected members of the main shareholder.

Councillor Rebecca Shoob informed she is a Director of Otterpool Park LLP.

58. **Minutes**

The minutes of the meeting held on 21 September 2022 were submitted, approved and signed by the Chairman with the following amendment:-

Paragraph 3 Minute 54 should read “The draft statement of accounts is available to view on the council’s website through the committee papers for this committee, with the final being published once signed off. This will remain in the public domain for 3 years as per the regulations.”

59. **Temporary Polling Place (station) Changes at Parliamentary, Local, police and Crime Commissioner Elections and Parish Polls**

It is best practice to ensure delegated power is in place for elections to allow an appropriate officer to determine suitable, alternative arrangements if a polling place (station) is unavailable, or unsuitable for the needs of the election, electorate and/or legislation changes. Temporary measures could be later made permanent at a compulsory polling district and place review and this report seeks to ensure that the necessary authority is in place to ensure polling place requirements are met.

Proposed by Councillor Philip Martin
Seconded by Councillor Laura Davison and

Resolved:
1. To receive and note report AuG/22/19.
2. To recommend to the Council that the Returning Officer / Acting Returning Officer be delegated the authority to amend the designation of polling districts and polling places, on a temporary basis, should it become necessary to do so, in the course of conducting Parliamentary, local government, police and crime commissioner elections and parish polls.

(Voting: For 6; Against 0; Abstentions 0)

60. **Quarterly update on Code of Conduct Complaints**

This report provided an update to the Committee on Member Code of Conduct complaints received during quarters 1 and 2 of 2022/23 (1 April to 30 September 2022).

It was agreed that future reports would include “Action Taken” (if applicable) to update members on what has been agreed.

Proposed by Councillor Gary Fuller
Seconded by Councillor Philip Martin and

Resolved: To receive and note report AuG/22/16.

(Voting: For 6; Against 0; Abstentions 0)

61. **Review of the Corporate Risk Register**

This report provided an update to the Corporate Risk Register.

Particular attention was paid to the following:

- C13 – this is a new risk added in respect of the election in 2023, the first requiring voter ID. Delays in secondary legislation and guidance will affect the planning for and delivery of the elections, it is hoped that a decision will be made in January 2023.

- C11 – this has been a low risk for a significant time and with actions implemented it was felt that it could now be deleted but remains a priority of the council.
- C9 – Housing Deliverability, with the stock condition survey now complete and officers using the data it was required to re-score from high to extreme in relation to concerns about meeting net zero carbon requirements.
  Compliance is a major focus of the housing team and CLT and although there has been a dip in some compliances, work undertaken recently by legal and housing has now been concluded with CLT receiving weekly updates.
- The government has announced that council's housing targets might be reduced and although this is advisory at this stage the council will continue to work with the approved core strategy. If policy does change then it is usual for a transitional arrangement to be in place but no information has been received. Head of Planning is keeping a close watch on this.

It was agreed officers would review in March the terminology in the policy and seek to make it easier to navigate in future reports, in the meantime a key to scores will be included.

Proposed by Councillor Laura Davison
Seconded by Councillor Philip Martin and

Resolved: To receive and note report AuG/22/18 and the updated Corporate Risk Register.

(Voting: For 6; Against 0; Abstentions 0)

62. **The Audit Findings for Folkestone & Hythe District Council 2021/22**

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 2022.

Members noted the financial risks set out within the report paying particular attention to valuation of assets, Otterpool adjustments and resourcing issues.

Proposed by Councillor Philip Martin
Seconded by Councillor Terence Mullard and

Resolved:
1. To receive and note Report AuG/22/22.
2. To note Grant Thornton's Draft Audit Findings for Folkestone & Hythe District Council Year Ended 31 March 2022 report.

(Voting: For 6; Against 0; Abstentions 0)

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

This 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 30th September 2022.

Members noted the report paying particular attention to the following:

- Garden Waste the audit had not covered any service issues or complaints regarding payments for extra bins The findings had centred on the requirement to improve reconciliations between the three relevant systems. The progress towards implementing the agreed recommendations will be reported at a future meeting.
- Progress against the audit plan had been updated since the report was published and is now at 62.5% complete as at end of November 2022.
- Particular attention was paid to how the sample was selected for the Contract Management review and the range in which they are chosen from the contracts register. The audit had covered the arrangements required for spend in a selection of departments for contracts up to £10,000, between £10,000 and £99K and over the tendering limit.
- Members questioned if Procurement staffing levels were sufficient and were informed that there is a lot of activity in that area , therefore it has been decided to recruit a temporary member of staff to work alongside the procurement team for 6 months. Responsibility for Procurement will still rest with budget managers who should behave within the rules the Council has. Training is to be provided and anyone who fails to follow the contract standing orders thereafter may face disciplinary action.
- Car park income – there have been some on-going issues in relation to the information provided by the contractor for cash collection but members were informed that progress was now being made and all the information was now available for the Council to be able to reconcile the payments, although the information arriving late had caused a backlog of work which was being undertaken with case officer support.

Proposed by Councillor Terence Mullard
Seconded by Councillor Laura Davison and

Resolved:
1. To receive and note Report AuG/22/17.
2. To note the results of the work carried out by the East Kent Audit Partnership.

(Voting: For 6; Against 0; Abstentions 0)

64. **Annual Governance Statement Actions –Update on 2022-23 actions**

This report presented the current position on progress towards achieving the 2022-23 actions set out in the Annual Governance Statement.

Proposed by Councillor Philip Martin
Seconded by Councillor Rebecca Shoob and

Resolved:
1. To receive and note report AuG/22/20.
2. To note the progress towards achieving the actions in the Annual Governance Statement (Appendix 1).

(Voting: For 6; Against 0; Abstentions 0)

65. **Governance Update**

This report summarised the key elements of the governance issues identified during 2022 within the Council and those actions agreed to improve the control environment. The report focused on those matters that relate to the remit of the Audit & Governance Committee, whilst there were associated personnel matters these will be considered by the Personnel Committee where relevant.

Members were asked to pay particular attention to the reasons for the recommendations/actions set out in the report and although the findings were not easy reading it was made clear that actions are now in place or in progress.

With regards to legal implications officers must adhere to the process and procedures set out in the constitution and if these are not met then legal challenge could follow. It is the onus of the spending officer to ensure that contract standing orders are adhered to. The OD team will ensure that all training/refresher training is given to officers over the coming year.

Declarations of interest of officers is managed by the Assistant Director - Governance, Law & Service Delivery with copies kept by her, the officer and relevant line-manager. Works are in progress to make the form clearer for officers to complete. The Monitoring Officer agreed to investigate if the declarations of interest should be published on our website.

Proposed by Councillor Philip Martin
Seconded by Councillor Terence Mullard and

Resolved:
1. To receive and note Report AuG/22/21.
2. To approve the proposed amendments to the Annual Governance Statement 2021/22 as outlined in section 11 of the report.

(Voting: For 6; Against 0; Abstentions 0)

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Agenda Item 4

This Report will be made public on 7 March 2023

Report **AuG/22/24**

To: **Audit and Governance Committee**
Date: **15 March 2023**
Head of Service: **Charlotte Spendley, Director of Corporate Services**
Cabinet Member: **Councilor 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 audit of the 2020/21 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2020/21 Statements of Account 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/22/24.**
2. **To consider Grant Thornton's final 2020/21 Audit Findings report (ISA 260) on the 2020/21 Statement of Accounts.**
3. **To consider the Auditors final 2020/21 Annual Report covering the Value for Money conclusion.**
4. **To note the 2020/21 Audit Opinion.**
5. **To receive and approve the audited 2020/21 Statement of Accounts.**
6. **To note and approve the Letter of Representation**

1. INTRODUCTION AND BACKGROUND

1.1 The 2020/21 Statement of Accounts have been 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) revised Accounts and Audit Regulations on 9 March 2021. The Accounts and Audit (Amendment) Regulations 2021 (SI 2021/263) extended 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 25 June 2021.

ii) The council must, no later than 30 September 2021, consider and approve the audited 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.

iii) No later than 30 September 2021, the council must publish its audited statement of accounts (including the annual governance statement and narrative statement) together with any certificate or opinion entered by the auditor.

1.3 It has not been possible to meet the deadlines due to a number of factors beyond the Council's control. All external auditors have faced difficulties as resulting from the impact of Covid equally a national issue in relation to the accounting treatment of Infrastructure Assets has caused a significant delay in finalising the audit.

2. STATEMENT OF ACCOUNTS 2020/21

2.1 The draft 2020/21 Statement of Accounts were presented to the Committee at its meeting on 29th July 2021, at which time external audit was already underway.

2.2 Since the draft 2020/21 Statement of Accounts were presented on the 29th July regular updates have been provided to Audit and Governance Committee on the progress of the audit. The key dates and reports are:-

- **29th July 2021-** draft 2020/21 Statement of Accounts signed and dated by the Chief Finance Officer on 25 June 2021, reported to the Committee.

- **28 September 2021-** This Committee received Grant Thornton's 2020/21 Annual Report covering the Council's Value for Money Arrangements, which was approved.

- **8 December 2021**-This Committee received Grant Thornton's draft 2020/21 Audit Findings Report (ISA260) with the audit substantially complete together with the 2020/21 Accounts. The Chair was authorised to sign the Accounts and Letter of Representation.

- **16 March 2022-** The Committee received an updated Audit draft 2020/21 Audit Findings Report (ISA260). It was noted that due to a national issue relating to accounting for Infrastructure Assets the external auditor was not able to sign the opinion on the 2020/21 Accounts until further work was undertaken or an override was received.

- **21 September 2022**-Update provided by Grant Thornton that audit was practically complete aside from the delay in relation to the national Infrastructure Assets issue. it was not possible for the external auditor to provide the final signed 2020/21 Audit Report and Opinion until this was resolved.

2.2 This report therefore concludes the audit of the 2020/21 Statement of Accounts with the submission of the updated 2020/21 Statement of Accounts as amended following the completion of the audit by Grant Thornton.

2.3 The report contains the following documents as Appendices.

- Appendix 1- The final 2020/21 Audit Findings report from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).
- Appendix 2-The final 2020/21 Annual Report covering the Value for Money Conclusion.
- Appendix 3- The 2020/21 Audit Opinion.
- Appendix 4- The audited 2020/21 Statement of Accounts.
- Appendix 5- Letter of Representation.

3. 2020/21 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. The draft 2020/21 Statement of Accounts were prepared for audit on the 25th June 2021 and made available for inspection by the public by the 1st August.

3.2 Members will wish to consider the 2020/21 Audit Findings Report, the 2020/21 Annual Report covering the Value for Money judgement and the Audit Opinion which Paul Dossett from Grant Thornton will introduce.

3.2 The external audit for 2020/21 which has been undertaken by Grant Thornton is now complete. The financial statements which were received by this Committee on the 29th July 2021 have been adjusted in line with the recommendations from Grant Thornton as described in their Audit Findings report Appendix 1 and are therefore reflected in the audited 2020/21 Statement of Accounts which are attached as Appendix 4.

3.3 In summary the main adjustments include reclassification of items on the balance sheet relating to Otterpool Land including Otterpool Land Options and the treatment of a year-end creditor and together with the addition of disclosure notes. These adjustments are identified in Grant Thornton's Audit Findings report (Appendix 1) and have been reflected in the draft Statement of Accounts reported as set out in Appendix 2.

3.4 It is important to note that the Audit Opinion in respect of the 2020/21 Accounts will be an Unqualified Opinion. It is also important to note that the adjustments arising from the audit have not resulted in a change in the financial position of the Council or impacted on the Council's Reserves and Balances previously reported in the draft accounts to Audit and Governance Committee.

4. CONCLUSION

4.1 The audited 2020/21 Statement of Accounts are unsigned at this stage. The Committee is asked to approve the Statement of Accounts for 2020/21 in accordance with the Accounts and Audit (Amendments) Regulations 2021. Following approval by the Committee these will be signed by the Chief Financial Officer, Charlotte Spendley and the Chair of the Audit and Governance Committee is requested to sign the 2020/21 Statement of Accounts (Appendix 4) and the Letter of Representation (Appendix 5) to confirm they have been considered and approved by the Audit and Governance Committee. Following the completion of these signatures Paul Dossett the Key Audit Partner at Grant Thornton will sign the Audit Opinion.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 **Legal Officer's Comments** (AK)

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** (CS)

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

Diversity and Equalities Implications (CS)

5.3 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

Charlotte Spendley – Director of Corporate Services
Telephone: 07935 517986
email: charlotte.spendley@folkestone-hythe.org.uk

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

Appendices:

Appendix 1- The final 2020/21 Audit Findings report from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).

Appendix 2-The final 2020/21 Annual Report covering the Value for Money Conclusion.

Appendix 3- The 2020/21 Audit Opinion.

Appendix 4- The audited 2020/21 Statement of Accounts.

Appendix 5- Letter of Representation.

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The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2021

Folkestone & Hythe District Council

March 2023

Contents

Your key Grant Thornton team members are:

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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.

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 : 15 March 2023

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.

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 24. We have identified four adjustments with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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 final signed management representation letter; and
- Review of the final signed 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 25, 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 Audit and Governance committee in March 15 2023.
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 15 March 2023 . 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

	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

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.

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.

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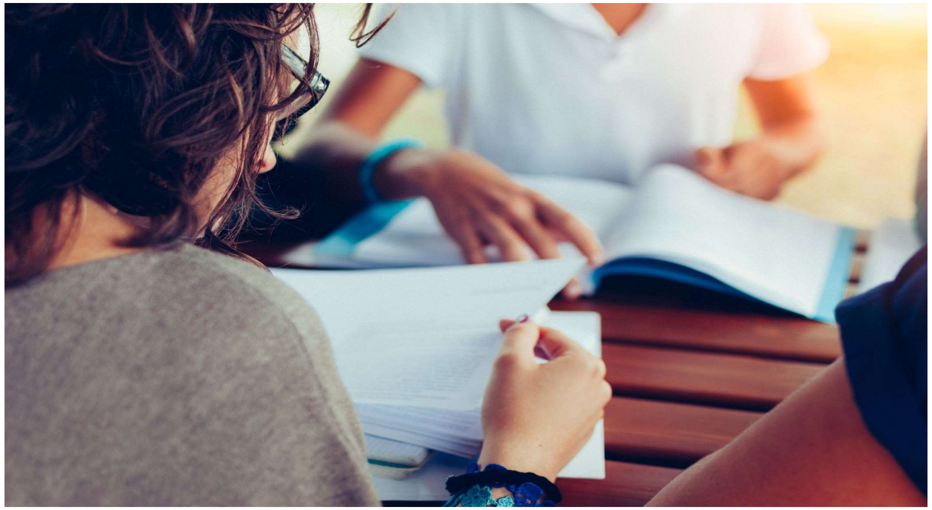

2. Financial Statements - Significant risks

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.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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. 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. We have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (PPE) as these does not meet the definition of Investment Property. See Appendix C for details. No other issue was identified in our response to this risk.

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 material issues in respect of level 3 financial assets and liabilities.

2. Financial Statements - Other Risks Identified

Risks identified in our Audit Plan	Commentary
Valuation of Infrastructure Assets Infrastructure assets include roads, highways, street lighting and coastal assets. As at 31 March 2021 the net book value of Infrastructure Assts was £10.346m, which is over five times the financial statements materiality. Gross book value at 31 March 2021 was £36.156m. In accordance with the LG Code, Infrastructure Assets are measured using the historical cost basis, and carried at depreciated historic cost. With respect to the financial statements there are two risks we plan to address: 1. The risk that the value of Infrastructure Assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of Infrastructure Assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure Assets is overstated. It will be overstated if management do not recognise components of Infrastructure when they are replaced.	To address this risk we have: • reconciled the fixed asset register to the financial statements; • used our own point estimate and considered the reasonableness of depreciation charge to Infrastructure Assets; • obtained assurance that the UELs applied to Infrastructure Assets are reasonable; and • documented our understanding of management's processes for derecognising Infrastructure Assets on replacement, and obtain assurances that the disclosure in the PPE note is not materially misstated. We have obtained sufficient appropriate audit evidence to corroborate that the net book value of infrastructure assets is not materially misstated through our substantial analytical review on depreciation, inquiries with management and sensitivity analysis of the infrastructure assets depreciation charge. Our audit work has not identified any issues in this area.

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	.	• 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	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. The total year end valuation of land and buildings was £26.4m, a net decrease of £0.3m from 2019/20 (£26.7m).	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: • 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.	

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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	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. 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. Closing balance is £28.3m as a result of reclassification from Investment properties to Surplus assets. See Appendix B for details.	We have tested the existence and accuracy of material capital additions to investment property assets, including the purchase of Former Debenhams Building. We have also assessed management's estimate, considering: •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. We have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (Surplus assets) as these does not meet the definition of Investment Property. See Appendix C for details.	
Land and Buildings – Surplus assets - £12.5m	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. The year end valuation of surplus assets was £12.5m, a net increase of £0.2m from 2019/20 (£12.3m). Closing balance is £70.4m as a result of reclassification from Investment properties to Surplus assets. See Appendix B for details.	We have assessed management's estimate, considering: •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 We have identified properties within our testing which were incorrectly classified as Investment Property instead of Property, Plant and Equipment (Surplus assets) as these does not meet the definition of Investment Property. See Appendix C for details.	

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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
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.	• 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).	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. • 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.	

Assessment

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- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
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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	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. 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: Local Authority Discretionary Grant Fund (LADGF) COVID-19 Emergency Funding COVID-19 LA Support Grant COVID Winter Grant Scheme Additional Restrictions Grant 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: Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) Business Grants Fund Local Restrictions Support Grant (including Addendum) 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.	• 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.	

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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
Minimum Revenue Provision - £775k	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. The year end MRP charge was £775k, a net increase of £417k from 2019/20.	We have carried out the following work: • 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. From our review of the MRP calculation, we noted that no MRP was charged against £36.7m of the Capital financing requirement that relates to cost incurred for the land and the delivery of the Otterpool park project. We have calculated the required MRP as £1.46m however we are satisfied our finding does not constitute a cumulative material misstatement of the financial statements. As a result, we consider this to be 'optimistic' but is unlikely to be materially misstated.	

Assessment

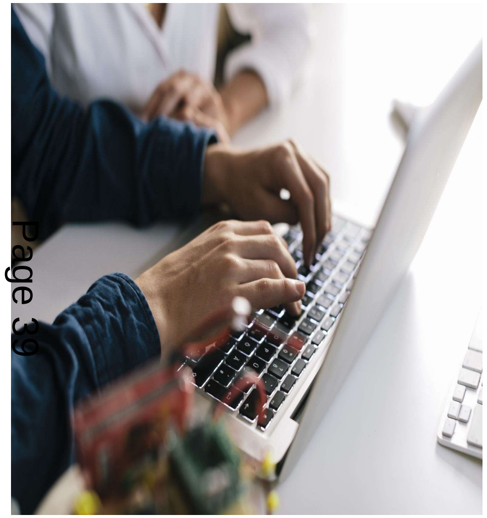
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider 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.

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



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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

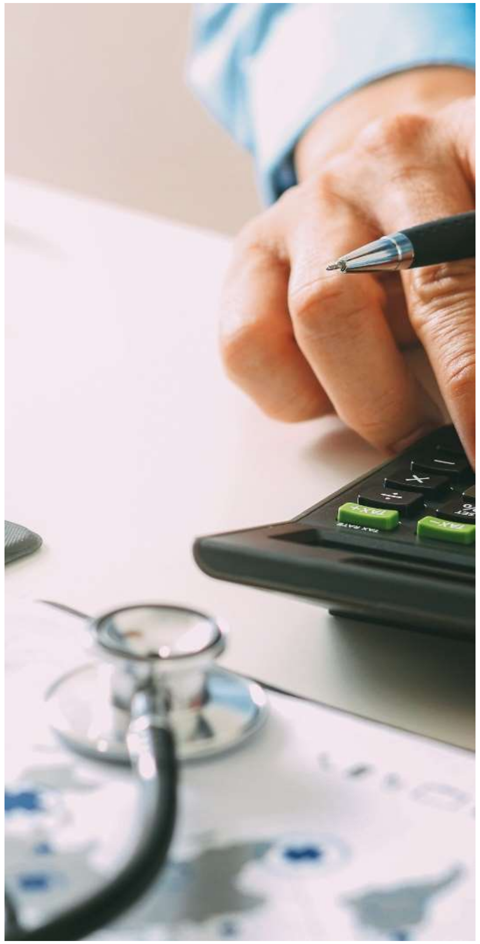
Our responsibility

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).

Issue	Commentary
Going concern	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • 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. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	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. No inconsistencies have been identified
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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. We have nothing to report on these matters



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 Audit and Governance committee in March 15 2023.

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)]

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.

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.

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. Action plan – Audit of Financial Statements

We have identified one recommendation as a result of issue identified during the course of our audits. We have agreed our recommendation with management, and we will report on progress on these recommendations during the course of the 2021-22 audit. The matter reported here is limited to the deficiency that we have identified during the course of our audit and that we have concluded is of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	HRA– Componentisation As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for year end valuations.	Management should componentise each part of the assets with the cost that should be depreciated separately.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. 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.

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

C. 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Investment Property			
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	
Investment Property		(905)	
Creditors			
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	
Bank		(2,508)	

C. 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Investment Property We have identified a property (Folca Building) within our testing which was incorrectly classified as an Investment Property instead of a Property, Plant and Equipment (PPE) as it does not meet the definition of an Investment Property. This has been agreed that is moved to PPE.			
PPE		2,182	
Investment Property		(2,182)	
Investment Property We have identified Otterpool farm and land within our testing which were incorrectly classified as Investment Property instead of a Property, Plant and Equipment (PPE) as it does not meet the definition of an Investment Property. This has been agreed that is moved to PPE.			
PPE		55,764	
Investment Property		(55,764)	
Overall impact	NIL	NIL	NIL

C. 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.

Misclassification and disclosure changes

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

C. 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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Misclassification and disclosure changes

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.	✓
Note 5 - MIRS The breakdown for Transfer of capital grants and contributions to capital grants unapplied and Application of capital grants to finance capital expenditure was omitted.	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓
Investment Property The disclosure note is missing in 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.	✓
Financial Instrument Key Sensitivity analysis was omitted	The note was updated in response to our query. Management response This was an agreed amendment to the accounts.	✓

C. 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.

Misclassification and disclosure changes

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?
Investment Property The section on "Significant unobservable inputs - Level 3" paragraph 3 states the Authority's commercial units are categorised as level 3. 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. 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. The Investment Properties Categories with Level as 31 March 21 should be removed at the bottom of the disclosure.	The note was updated in response to our query. **Management response** This was an agreed amendment to the accounts.	✓
PPE Note The "Balance Sheet amount at 1 April 2020" in respect of 2020/21 disclosure is incorrect, this has not been updated.	The note was updated in response to our query. **Management response** This was an agreed amendment to the accounts.	✓

C. 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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Misclassification and disclosure changes

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?
Narrative statement We have identified incorrect descriptions to Otterpool park, Mountfied road industrial estate and FOLCA in respect the classification of these assets.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Financial Instruments - Fair Values We noted under Financial assets that Long-term loans to companies was incorrectly classified and disclosed as Fair value level 3 instead of fair vale level 2.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Mountfield Road Industrial Estate We noted an incorrect description (Joint venture) of the arrangement between East Kent Spatial Development Company and Mountfield Road Industrial Estate.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Infrastructure Asset We noted management has omitted the required disclosure for Infrastructure assets.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓

C. 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.

Misclassification and disclosure changes

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?
Group – Material notes We noted management has not disclosed all material notes i.e Long term Investment ,Long term debtors and Short term debtors.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓
Group – Accounting policy on consolidation We noted management has omitted accounting policy on consolidation.	We have recommended an amendment to be made by management. Management response This was an agreed amendment to the accounts.	✓

C. 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 £'000	Balance Sheet £'000	Impact on total net expenditure £'000	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				These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
Short term Debtors		110		
Impairment of Debt		(110)		
The error on incorrect spilt of land and building values on the FAR due to human error. Resulted to overstatement of buildings and understatement of land.				These balances are being investigated and will be corrected in the 2021/22 accounts once investigated is completed.
HRA - Land		177		
HRA – Building		(177)		

C. 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 £‘000	Balance Sheet £’000	Impact on total net expenditure £’000	Reason for not adjusting
Cash and Cash Equivalents During our testing, we noted that management has offset a liability (bank overdraft) against Money Market fund balance.				The balance Is below materiality and no other unadjusted issues identified with this balance.
Cash and Cash Equivalent - Asset		1,300		
Cash and Cash Equivalent - Liability		(1,300)		
Overall impact	£NIL	£NIL	£NIL	

D. 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	73,553
Total audit fees (excluding VAT)	£71,053	£73,553

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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

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.

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Auditor's Annual Report on Folkestone and Hythe District Council

2020-21

March 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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. 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.

Executive summary

Value for money arrangements and key recommendation(s)

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 required to report their commentary on the Council's arrangements under specified criteria and 2020/21 is the second year that we have reported our findings in this way. 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. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	
Financial sustainability	Risk identified because of the Council's low level of reserves	Green	No significant weaknesses in arrangements identified
Governance	No risks of significant weakness identified	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made.
Improving economy, efficiency and effectiveness	Risk identified because of the Council's low level of reserves	Amber	No significant weaknesses in arrangements identified, but improvement recommendations made.

- Green: No significant weaknesses in arrangements identified or improvement recommendation made.
- Amber: No significant weaknesses in arrangements identified, but improvement recommendations made.
- Red: Significant weaknesses in arrangements identified and key recommendations made.

Financial sustainability

We assessed the arrangements concerning Financial Sustainability and raised no indications of potential significant weaknesses. We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.

Governance

We assessed the arrangements concerning Governance and raised no indications of potential significant weaknesses.

We did not conduct further risk based work on Governance arrangements. Therefore whilst we have raised improvement recommendations, we have raised no key recommendations.

Improving economy, efficiency and effectiveness

We assessed the arrangements concerning EEE and identified one area of significant weakness in 2020-21 arrangement on procurement. One key recommendation has been raised

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. the Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 5 to 14. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

1. identifies all the significant financial pressures it is facing and builds these into its plans
2. plans to bridge its funding gaps and identify achievable savings
3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

1. identifies all the significant financial pressures it is facing and builds these into its plans

The MTFS identified that the Council faced a budget shortfall of £3.5m in 2021/22. The Corporate Leadership Team, Assistant Directors and Chief Officers have reviewed current budget allocations and savings proposals. Budget growth of £296k was added to this. the Council have set a balanced budget which includes a 1.99% rise in council tax, a 50% rates retention in the Kent pool and £1.1mil of internally generated savings as identified in the budget strategy process. We have no concerns that funding going forwards has not been appropriately reflected in the business plans.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that they have budgeted consistent; not growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. There are no indications that finances are being managed in the short-term only, with the Council investing heavily in long-term capital projects.

Having reviewed the Council's budgets and section 25 report we conclude that there is no evidence that the Council's financial plans are based on key assumptions that are unrealistic, e.g. are over-reliant on uncertain income streams that are significant to the delivery of the plans, or not backed by appropriate supporting evidence. Examples of this include recognition about the finite lifespan of the new homes bonus and the lack of predicted income growth through commercial ventures in-year.

Cashflow forecasting has been undertaken and for a sufficient time period; there are no projected cashflow gaps in the foreseeable future, hence this does not pose a significant weakness to the Council.

Arrangements in place to keep the body's financial plans under review, with budgets being set on a ''controllable factor'' basis only. There is no indication from our work that budgets are fixed and inflexible to changing environments.

2. plans to bridge its funding gaps and identify achievable savings

Combined with the aforementioned savings targets the Council plans to draw on it's reserves in year. Given the Council have £20mil in reserves this is an appropriate and not imprudent use of them. There is no lack of plan to address the gap in the medium term.

The borrowing at Folkestone and Hythe increased significantly in 2011 but as a total figure has been decreasing since, it is placed 5th of 10 in comparable Kent districts for borrowing which to some extent is a factor of it's ambitious capital development plan. There is no indication of defaulting on these loans, all of which are with the PWLB and as such are low risk. From our work we found no evidence that these loans are being used to prop up the revenue position.

the Council has a strong financial history and a stable reserves position. They are not reliant on non-recurrent savings to achieve targets. The use of reserves is minimal and equates to <5% of useable reserves, this is not an unsustainable use.

Financial sustainability

the Council, has to this point, not relied heavily on non-recurrent savings to bridge their financial gap. This means that they have potential capacity to do this should they need additional headroom, this includes not filling existing vacancies. There is however no intention to sell off assets or lend to bridge the gap. To assist with mitigating the risks associated with budget preparation there is a centralised contingency within the budget to allow for unforeseen events and to assist with ensuring corporate priorities are delivered.

We do not consider this to be an indicator of a significant weakness. This is due to the fact that the Council has significant reserves which are designed to be drawn upon in difficult times, there is unlikely to be a period of time which counts as more 'difficult' than the pandemic and so use of the reserves, rather than for instance cutting services is a sensible choice. the Council have continued to fund community hubs and other resources such as council tax support scheme, this is a more practical and long term approach to financial and service sustainability than cutting services to benefit the bottom line rather than drawing upon reserves.

We considered whether appropriate stakeholders were consulted during the development of savings plans and concluded that they were. Depending on the nature of the savings plans, stakeholders included include staff, local residents, service users, the voluntary sector and local businesses. The arrangements in place for approving and monitoring these schemes is sufficient.

3. plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The financial planning demonstrates a clear understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. It is clear that discretionary spend has been prioritised to support the corporate strategy (creating tomorrow together) and managed within the available funding envelope, this includes investing in the high street and increased recycling income. Therefore we see a coherent link between stated corporate strategic priorities and the design of the budget, particularly in regard to investment in services, and the approach to financial sustainability.

Identifiers of significant weakness in the Council’s ability to deliver these plans could include significant issues with; ICT infrastructure, financial skills, chain of budget responsibility, supervision, authorisation and review of financial processes, poor senior management challenge of performance, holding budget holders to account, and making decisive interventions, and positive financial culture and a ‘tone from the top’. We have found no issues to note with any of these areas throughout our engagement with the Council.

4. ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

the Council does not have a workforce plan, which is something we may expect for an organisation of this size. However the elements of workforce planning, for example monitoring of vacancy rates and planned new posts are completed in other documents ie the MTFS and the corporate plan. Specific posts are mentioned in the growth and savings proposals for 21/22 with values assigned to these. We therefore consider this to be appropriate and not a signifier of a significant weakness.

We can see through the increase in the Minimum Revenue Provision (MRP) and the recognition of interest repayments that the ongoing revenue costs of major capital investments been properly reflected in the revenue budget.

the Council has been able to use short term liquid cash to meet its underlying borrowing need through internal borrowing, reducing its exposure to credit risk. Secondly, the return from the strategic investments in pooled funds have continued to provide cash returns in excess of inflation. This is appropriate and prudent and mitigates risk whilst optimising the contribution that borrowing and investment can offer.

5. identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

the Council has appropriate arrangements for incorporating risks into its financial plans and discussing them with Cabinet. These risks take into account uncertainty, volatility and other financial risks.

As previously mentioned the Council has sufficient reserves to draw on should unplanned changes occur in year or if savings and income plans are not achieved.

No significant weaknesses have been identified in relation to Financial Sustainability.

Governance

We considered how the Council:

1. monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

2. approaches and carries out its annual budget setting process

3. ensures effectiveness processes and systems are in place to ensure budgetary control

4. ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

5. monitors and ensures appropriate standards.

1. monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

the Council has arrangements in place to identify strategic risks, understand them, record them within the their risk management system and assess them. the Council used the traditional risk scoring matrix which is prepared and reviewed internally by management before presentation at committee. the Council has appropriate arrangements in place to report risks to Cabinet. Risks are identified and reviewed to provide assurance that they are being appropriately managed and the risk management process enables Cabinet to focus on the key corporate risks, i.e. not reporting on too many risks. 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. This is appropriate preparation and chain of scrutiny.

the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.

Improvement Recommendation A: the Council should consider how to present it's mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.

There is an adequate and effective internal audit function in place to monitor and assess the effective operation of internal controls, the Internal audit function has delivered a sufficient portion of its plan and there is no evidence of significant gaps in the assurance provided.

Throughout our engagement with the Council we have found no evidence of pervasive and significant weaknesses in internal controls, especially where these have had a significant financial/service-delivery impact or exposed the body to fraud.

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 however this to merely ensure it is up to date; not an indication of a failure or breach of the policies.

2. approaches and carries out its annual budget setting process

There is evidence of consideration of trends including analysis and extrapolation and their impact on the projected final out-turn throughout the reporting at the Council. Additionally we have viewed several instances of forecasts being subject to risk and sensitivity analysis. Such items are especially prevalent in treasury management, capital projects and quarterly budget monitoring. the Council includes a list of risks alongside its budget. These risks include the knock-on financial impact to the budget of one of these risks coming into fruition. Where alternative actions are possible the impact of these is also presented for discussion, again this is especially prevalent in capital projects.

There is evidence that the impact of expected investment and borrowing activity is reflected in the annual budget; 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.

There are no concerns that the Council is leaning too heavily on its' investment properties to ensure financial stability. We can see that the Council have budgeted consistent rather than growing income from interest and investment properties into 21/22. This is consistent with our understanding of the value of the properties. Our headline review of these budgets indicates that they are reviewed by various levels and chains of management thoroughly before submission to scrutiny.

It is clear from our work that the annual budget setting process is informed by the medium-term financial strategy (MTFS) which lists 4 core corporate aims. There is a clear linkage between the priorities in the annual budget and these overarching ambitions in the MTFS. Our interviews and document reviews show there is adequate internal and external engagement in the budget setting process, including revenue and capital expenditure. This includes but is not limited to service area management, service user consultations and specific advisory boards. The chain of review by management and scrutineers is sufficient, timely and appropriate.

3. ensures effectiveness processes and systems are in place to ensure budgetary control

Arrangements are in place for the finance team to engage with budget holders to review financial performance and identify actions to resolve adverse variances by providing accurate and timely profiled financial monitoring reports for budget holders. 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.

Financial monitoring reports and minutes demonstrate that in year forecast variances are being picked up promptly, and budget holders are being held to account for delivering to budget and/or developing adequate mitigating action.

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.

Keeping within budget is featured in the Job descriptions of budget holders. Through conversation with the CEO it is clear that there is a focus on this when appraising staff members. The consultation process for creating budgets ensures that accountability is instilled from the beginning of the process.

Relevant non-financial information, such as service activity and workforce information, integrated into financial reports to Cabinet. the Council has a Performance Management Framework. Key Performance Indicators (KPIs) are reviewed annually to ensure the Council 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 Councils KPIs was reported to the June Cabinet meeting alongside the financial performance.

There is no integrated report as this has been judged to be too cumbersome to be useful however information is presented alongside each other. For significant projects the reporting of KPIs alongside financial information is easier as it is more discrete. Evidence of this can be seen in the Otterpool reporting and business planning.

Budget reporting is at a level of detail that enables the Cabinet to make effective decisions, i.e. not overly complex but not too simplistic either.

4. ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency

the Council ensures that all relevant information is provided to decision makers before major decisions are made and arrangements are in place for the challenge of key strategic decisions before they are taken. As a local authority the chains of review, approval and scrutiny are very clear and well documented. For example a budget will be created by management in consultation with budget holders, debated and approved through the finance sub-committee, sent upwards through the scrutiny and oversight committee and then ultimately up through Cabinet. Papers for these must be published in advance of the meeting for additional time to scrutinise. An extra layer of oversight is provided by the fact that as a local authority these papers must be published online, therefore theoretically being overseen by the general public and potentially challenged through the appropriate channel.

There is evidence of service user consultation however the Council are finding it difficult to galvanise public interest in the consultation process; despite widening their targeting they received limited pieces of feedback to the local budget setting agenda.

Consultation is more widely accessible through projects, for example the Otterpool project and the Tenancy engagement strategy and outreach. These areas garner more pubic interest.

These projects factor into the strategic plans of the Council and so are in fact the best place to have heightened interest in feedback.

There are further plans for how to engage stakeholders in the new MTFS showing the direct link between setting the MTFS and enacting it with the consideration of stakeholders' wishes. This is also true of the tenancy engagement strategy which has been instigated after housing services were brought back in-house - thus showing commitment to getting it right for the user.

Our experiences with the Council show that there is no indication of reactive rather than proactive decision making, there is a long term focus with regeneration and investment and an appropriate tone from the top.

Attendance at audit committee provides us with evidence of effective challenge of officers by some members. TCWG are making best use of the skills and experience of its members. The committee has received training from both Grant Thornton and its' internal audit function. Audit Committee is stable and has benefited from the addition of an independent member.

5. monitors and ensures appropriate standards.

Arrangements in place to monitor compliance with legislation and regulatory standards, this includes communicating effectively to its staff what behaviours are expected/not expected of them. Leadership from senior officers and members illustrates required standards of behaviour, in turn establishing and maintaining an appropriate culture within the Council.

There have been no instances of non-compliance with the constitution. There have been considerations of the constitution in regards to council meetings which under COVID restrictions were permitted to be via Zoom but on lifting of those restrictions had to be available in person (with the potential for a hybrid meeting).

There is no repeated deviation from required standards. There was one instance of an ICO failure to comply notice under section 51 (see screenshot of legislation). This is in response to a failure to issue information under the FOI act in the required timeframe. Procedures for review of these decisions have been put in place since.

This does not constitute a significant weakness as it was a single breach related to a complex and ongoing redevelopment, therefore whilst new procedures are put in place to protect from this going forwards it is not an element which is core to the Council operations and occurs often.

Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are is not accompanying the data.

Improvement recommendation B: Improve the accessibility and completeness of the information of the gift and hospitality register.

No significant weaknesses have been identified in relation to Governance.

Improving economy, efficiency and effectiveness

We considered how the Council:

1. uses financial and performance information to assess performance to identify areas for improvement

2. evaluates the services it provides to assess performance and identify areas for improvement

3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

1. uses financial and performance information to assess performance to identify areas for improvement

In reporting KPI's to the scrutiny committees of the Council management must assure themselves of the accuracy of the financial and non-financial data. This is done through use of direct download reports, the use of specialists within the Council who are 'close' to the data and would recognise error and a chain of review up through senior management before publication. There is no indication that any data presented to scrutiny committees is inaccurate.

the Council is part of the Kent CFO group and the generally close working relationships of those organisations. This includes a shared internal audit function and until 20/21 a housing management service with some of the fellow District councils.

There are examples of benchmarking on specific areas:

- National Planning Policy Framework (NPPF) in 2012 has sought to significantly boost housing land provision and has created a metric for measuring the likely future housing need, this has been used by the Council
- the CIPFA resilience index (however noting that the most recent publication for this is for 19/20).
- the climate emergency emissions planning.
- Monthly collaboration and data sharing with the Kent Financial Officers Group (KFOG).

This last point in particular allows for consideration of outliers and identification of best practise . It also informs choices on provisions of services re cost. This is best practise and is far more collaborative than we see in other council groups.

There is evidence too that the Council seeks to learn from the reports of regulators and act upon their findings, for example in relation to the Landlord Gas Safety regulations (LGSR) regarding East Kent Housing.

A review of benchmarking data from the CFO Insights (CFOI) tool by Grant Thornton shows three trends to bring to the attention of the Council for their review on whether these factors are something they wish to investigate further:

1. The cost per head of population of housing services in FHDC is the highest in Kent

2. Within Kent the number of households with support needs (which nationally averages at 45%) is the lowest, at 20% of households.

3. Within Kent the Council has the 10th of 11 lowest numbers of households in temporary accommodation.

Infographics for this are considered on the following page.

CFO Insights – Housing data for Folkestone and Hythe District Council

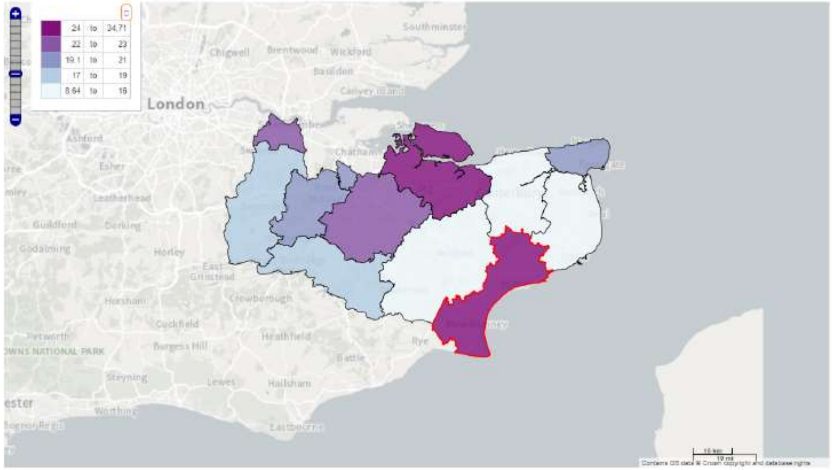
Expenditure: Total housing services

Unit cost £/head on total housing services

TOTAL HOUSING SERVICES (GFRA only) (RO) £/head (2019-20)

Primary geography
Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018)

Geo context
Kent



These are complex areas with significant inter-dependencies, as part of this work we are not making a value judgement on these data-driven indicators, but are sharing them given the focus at the Council on housing.

As part of this work we have considered whether these indicators show potential significant weaknesses. Given the work put into the new housing service, including working with the regulators, we have no concerns that the quality of the housing services provided by the Council are of poor quality.

In terms of cost of the housing service it is likely that this has increased in the short-term due to the changes and challenges of brining this back 'in-house'. Again, we do not consider this to be a signifier of a significant weakness.

Initial Assessments: Support needs

Nationally, approximately 45.0% of households were identified as having one or more support needs

Support needs: Households with one or more support needs - Total (2019-06)

Top (1)	Area (11)	Bottom (11)
Area Maidstone Count 175	Area Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count 20	Area Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count 20

Temporary Accommodation: total

Accommodation type (TA): Total number of households in TA (2018-06)

Top (1)	Area (10)	Bottom (10)
Area Thanet Count 228	Area Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count 24	Area Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018) Count 24

Rank	Area	
1	Thanet	228
2	Ashford	166
3	Swale	164
4	Dover	148
5	Maidstone	107
6	Gravesham	87
7	Sevenoaks	66
8	Tunbridge Wells	46
9	Tonbridge and Malling	36
10	Folkestone and Hythe, (Shepway from 01/01/2009 to 31/03/2018)	24
	Canterbury	(no data)

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2. evaluates the services it provides to assess performance and identify areas for improvement

With the exception of the previously explored East Kent Housing there have been no instances of a failure to meet minimum service standards in core service areas. Given the refreshed MTFS and the internalisation of the housing service there is evidence that the Council has actively reviewed and challenged strategic priorities and cost-effectiveness of existing activities.

A signifier of potential significant weakness could be that the Council have not considered alternative or lower cost options for delivery of services in the long term. We considered this through a review of Otterpool Park and Princes Parade development projects. We see that projects are costed over the full life of the project and so whilst cost is not the only driver (service potential, speed, environmental concerns) it is appropriately considered. the Council is growing, it has high borrowings comparably to furnish the redevelopments which come with interest charges, these are costed into the schemes. We reviewed the tender documentation and found that competitive tendering was pursued and that value for money re cost and capital financing requirements were a significant component of the assessment criteria.

the Council has no history of repeated failures to achieve efficiency or financial targets and it has a strong reserves and cash position. Under covid funding arrangements from central government it has received additional funding for general use. the Council has ensure that redevelopments such as Otterpool and Princes parade have not been curtailed financially.

3. ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve

There are examples of strategies being developed at a partnership level leading to meaningful action. For example The proposal to extend Mountfield Road Industrial Estate, New Romney is seeking to diversify the local economy to mitigate the loss of over 1000 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). Construction of this business hub is well underway and will be completed by the end of 2021. As has previously been noted, the Council works closely as a finance group (KFOG) and under other initiatives such as the Kent Resilience Forum (KRF).

Partnership work is reported through the same process as work completed just within the Council, i.e. through the finance and performance sub-committee, on to the overview and scrutiny and up to cabinet. The differences exist in partnership working for big projects which then have its' own reporting chain. For example Otterpool Park LLP exists to deliver the Otterpool Park project. 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.

Our reviews have shown us that the Council is transparent, collaborative and open with significant partners about performance so that it can build up a shared understanding of common challenges and design improvements to address them. the Council publishes extensively on its' website thus much of the information is publicly available, if for example a private contractor wanted to see the full plans for Princes parade they are listed online.

We have viewed throughout this assessment several targeted engagement strategies including the tenancy engagement strategy, the corporate plan strategy and strategies related to large regeneration projects. There is no evidence that local priorities have not been considered.

4. ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits

The Council has an established procurement strategy in place which was updated in 2020. We have found eevidence of significant procurement happening outside of this policy.

During 2021-22 a number of significant procurement breach was identified by the Council through standard checks of controls. The Council initiated investigations internal investigational and commissioned an internal audit which has uncovered a number of instances whereby officers were failing to comply with SOs and wider procurement requirements , A detailed training programme has been put in place. These issues may have had some legacy impact on 20-21 and earlier but have been reported in detailed in out 21/22 AAR where a significant weakness has been identified and a key recommendation made.

Improvement Recommendation C: review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.

There is no evidence of repeated commissioning from previous service partners without sufficient regard to the market position. the Council must competitively tender for every contract over £100k and get 3 written responses for everything lower than this but more than £10k. Therefore the possibility for avoiding this safeguard is limited. The contracts are posted online on the Kent Business Portal and are published on the contract register for additional scrutiny. There is no evidence of unexplained extensive use of consultants and interim staff, where this leads to significant increase in costs.

Arrangements in place to monitor the performance of key service providers or sub-contractors. All contracts are monitored in terms of performance and service level agreements. This is usually undertaken by the relevant service area with assistance from Procurement. Regular meetings take place with contractors and any issues are discussed and sought to be resolved and performance reviews are conducted. There were several minor disputes in-year which were resolved largely in the Council's favour.

No significant weaknesses have been identified in relation to Economy, Efficiency and Effectiveness.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

the Council's arrangements have adapted to respond to the new risks they are facing from 2020-21 onwards in respect of Covid-19. This includes lack of income growth and unavoidable growth in costs. It also recognises there could be a valuation impact on its' investment properties.

the Council has taken the prudent approach of drawing on reserves in order to continue to fund drives aimed at alleviating the pressure of Covid-19 such as supporting the community support hubs.

There are appropriate arrangements in place also to monitor costs and incomes related to Covid-19 such as part of the Government Delta return process.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Financial Sustainability.

Governance

Appropriate actions were taken early in the pandemic to ensure costs were incurred only where benefit would be achieved in relation to alleviating the impact of Covid-19.

The system of internal control and approval remained constant throughout the pandemic as the Council was already set-up to operate electronically. An initial investment in IT infrastructure allowed a transition to home working without losing the rigour of the review process.

During lockdown procedures the Council operated a remote meeting system for it's scrutiny meetings. Keeping within statutory and constitutional requires this arrangement has returned to in-person meetings since lockdown measures eased.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to Governance.

Improving economy, efficiency and effectiveness

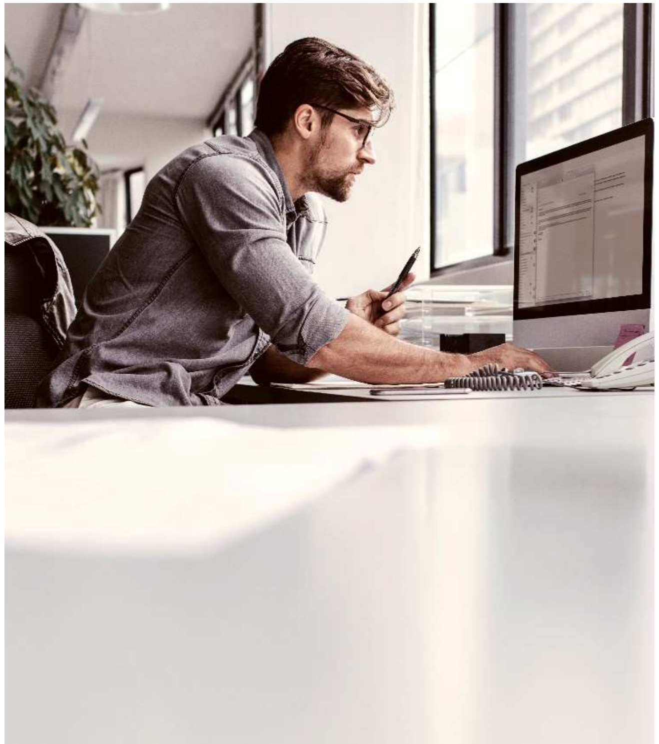
Effective controls around procurement have been maintained during the Covid-19 impacted operating environment. Several projects were fast-tracked through the process in order that they become quickly operational, such as the community support hubs. However reviews into this after the fact have not highlighted any issues in the efficacy of the procurements.

There are no indications that there are any significant weaknesses in the Council's arrangements to secure VfM as a result of Covid-19 in relation to EEE.

Improvement recommendations

Governance

2	Recommendation A	Risks and their related mitigations
	Why/impact	the Council runs a 'tolerate, treat, transfer or terminate' system to dictate the type of mitigating actions it should take. However within this there is not a clear link to the assurances or key controls applied. We judge this to not be a risk of significant weakness as there are mitigations and action plans, they are just not the best practise as we have viewed at comparative councils. This is not an indication that the Council is not acting on risks or mitigations, but is a manifestation that the Council have several very high level risks which are mitigated against in very high level ways.
	Auditor judgement	the Council should consider how to present it's mitigating actions or assurances of change against risk areas in a more linear and direct fashion. This will provide scrutineers with assurance that management are mitigating risks and will provide a basis for challenge of the effectiveness of those mitigations.
	Summary findings	the Council can improve its' presentation and organisation of risk mitigations.
	Management comment	The Section 151 Officer is currently reviewing the Councils Risk Strategy and Process. In doing so she will incorporate a review of comparative Councils and identify appropriate amendments to the existing process to consider this recommendation.

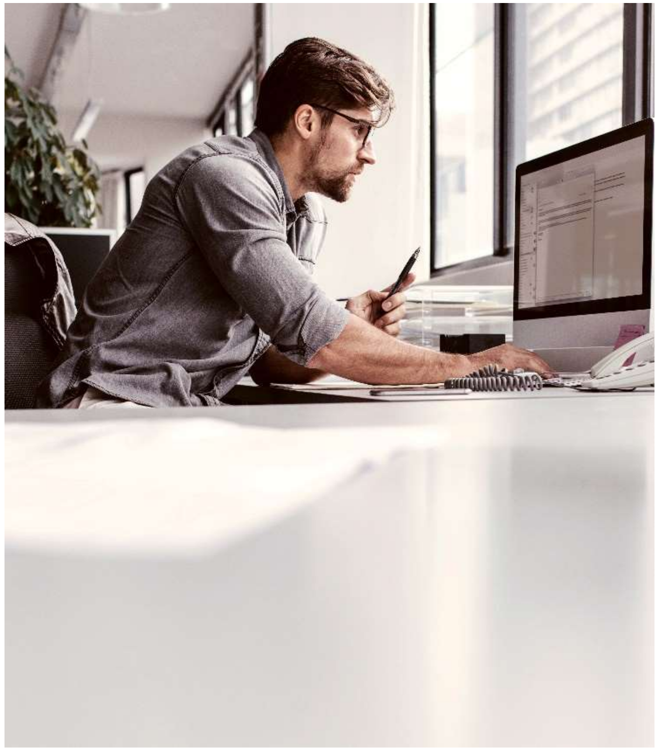


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Governance

2	**Recommendation B**	Usefulness, transparency and accessibility of the gift and interests register
	Why/impact	Online there is a register of gifts and hospitality for councillors but this is only viewable against each councillor and for 1 year time frames. This means that it is not very transparent. For example if you wished to check whether any councillors had received gifts from ABC Construction Ltd you would have to click on each councillor and change the time frame for each year you were interested in. There is also no description as what constitutes a gift or hospitality. Finally this only covers the Councillors, not very senior leadership as would be expected. It does not constitute a significant weakness as the information is largely present, just in a difficult format. There is also no indication of how up-to-date this information is because the policy and the compliance are is not accompanying the data.
	Auditor judgement	Improve the accessibility and completeness of the information of the gift and hospitality register.
	Summary findings	the Council can improve its' presentation of gifts and interests in the aim of transparency.
	Management comment	The Council will review the current presentation of its gifts and interest register, and explore practical options to improve its accessibility and completeness with the aim of improving our transparency.

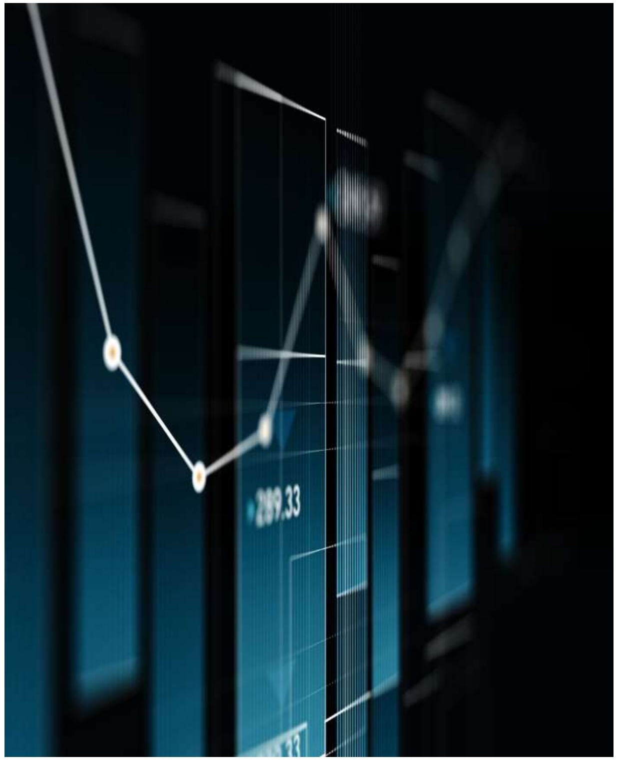


The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations

Improving economy, efficiency and effectiveness

3	**Recommendation C**	Understand the cost of the housing service
	Why/impact	We have not found any instances of the Council failing to consider the risk and rewards when undertaking significant commercial ventures, outsourcing, shared service arrangements or partnerships. However we draw attention again to East Kent Housing and the re-establishing this as an in-house service. Now that the service has had chance to settle and establish itself the Council should consider whether they have constructed a cost efficient programme. We see from our comparison data that in 19-20 the Council had the highest housing costs per head. We recommend, given that the new service is within FHDC, that the cost per head of population of the housing service is now reviewed against its' peers. This includes a consideration as to how many households have support needs which contribute to higher unit costs and how many families are in temporary accommodation.
	Auditor judgement	Review the cost of the housing service against peers to understand if the continuing costs of service provision (rather than establishing costs) are providing value for money.
	Summary findings	The costs of the housing service on initial review are higher than expectation based on peers. This should be reviewed to ensure these are still costs of establishing the service in house rather than inflated costs which will be a year-on-year burden.
	Management comment	The Council has been through an exceptional period with the return of the Housing Service and successfully transitioning out of regulation, but it welcomes the opportunity to review the cost base. The Council has recently undertaken its own benchmarking exercise for this service area and will utilise the results to review the cost of the service against suitable peers.



The range of recommendations that external auditors can make is explained in Appendix C.

Opinion on the financial statements

Audit opinion on the financial statements

We gave an unqualified opinion on the Council's financial statements on 15 March 2023.

Audit Findings Report

More detailed findings can be found in our AFR, Governance Committee on 15 March 2023. which was reported to the Council's Audit and Governance Committee on March 15th 2023

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

the Council is responsible for putting in place proper arrangements to secure 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.

Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	No	15-17

Appendix C - Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	No formal use of powers
Public interest report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	No formal use of powers
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	No formal use of powers
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	No formal use of powers
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	No formal use of powers

Grant Thornton

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Independent auditor's report to the members of Folkestone & 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 Council (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.

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 set out on page 21, 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 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

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.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 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

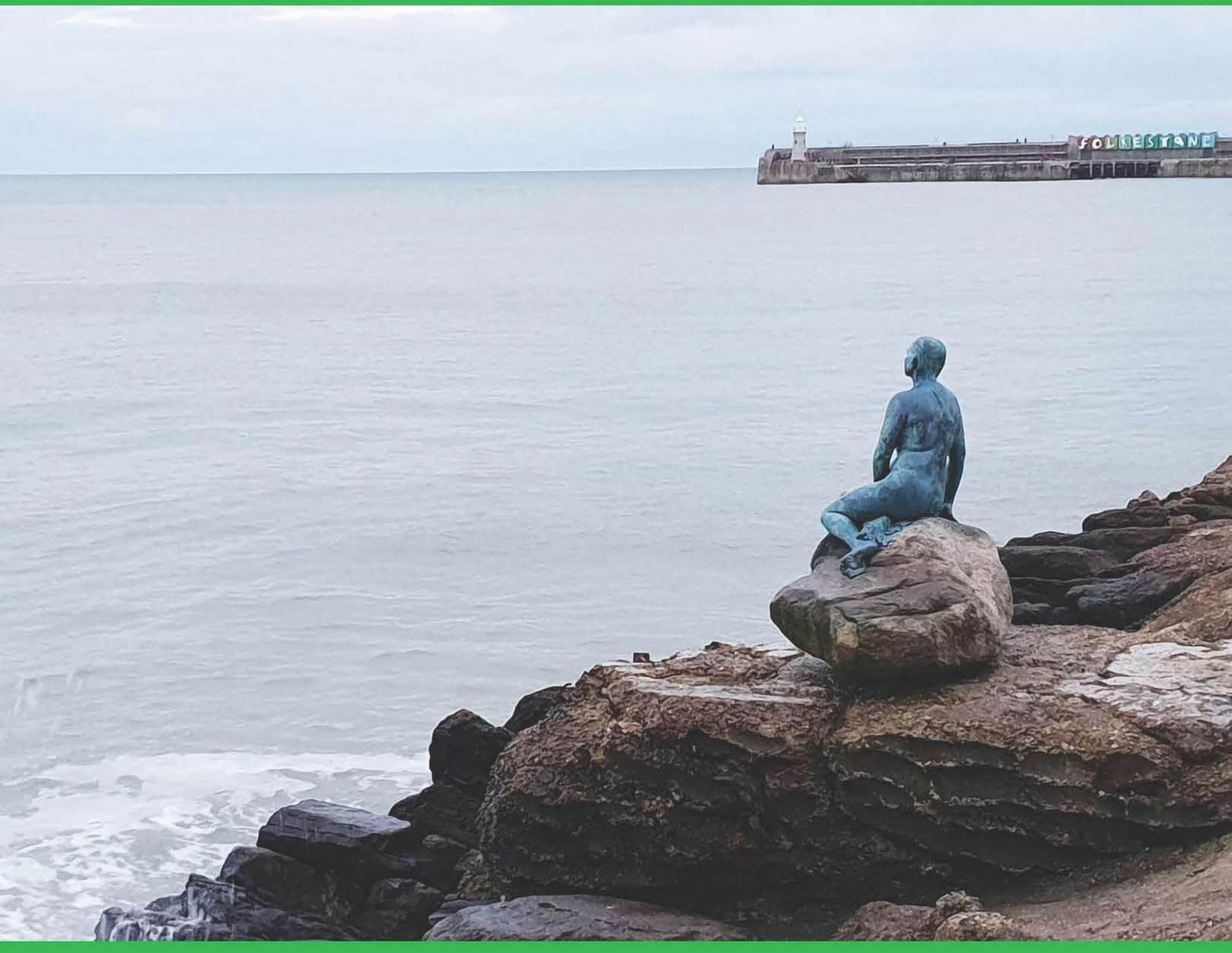
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

16 March 2023

STATEMENT OF ACCOUNTS

2020/21



Folkestone & Hythe

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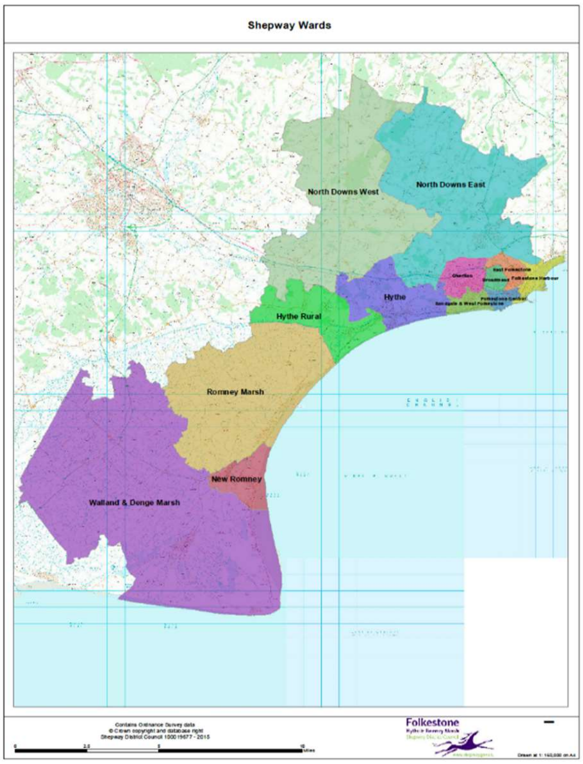
Narrative Report

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 113,000[1] 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 skills[2].

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

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[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 130-144.

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 in two phases. Phase 1, the development of a new business centre to provide co-working space designed to attract new companies to the area, is being delivered by means of a joint venture with East Kent Spatial Development Company (EKSDC). £1.3m was secured from EKSDC and Magnox with £0.7m met by the Council to deliver the new business centre on Council owned land. Construction of this business hub is expected to be completed by the end of December 2021 and as at the end of March 2021 there has been minimal economic activity and as such the Council has taken the decision not to consolidate this joint venture in the 2020-21 financial statements. The business centre will be owned and operated by EKSDC. In the summer of 2020 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 Council is progressing plans to dispose the phase 2 site for employment development purposes. The aim of the project is to develop the area, as a result realise capital appreciation on the land owned by the Council and as such the existing land and expenditure incurred are held as 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 Place Plan is being developed which will give key consideration to the use of this site. It is currently being held as a Surplus Asset and is included within the values in Note 17.

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. 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.

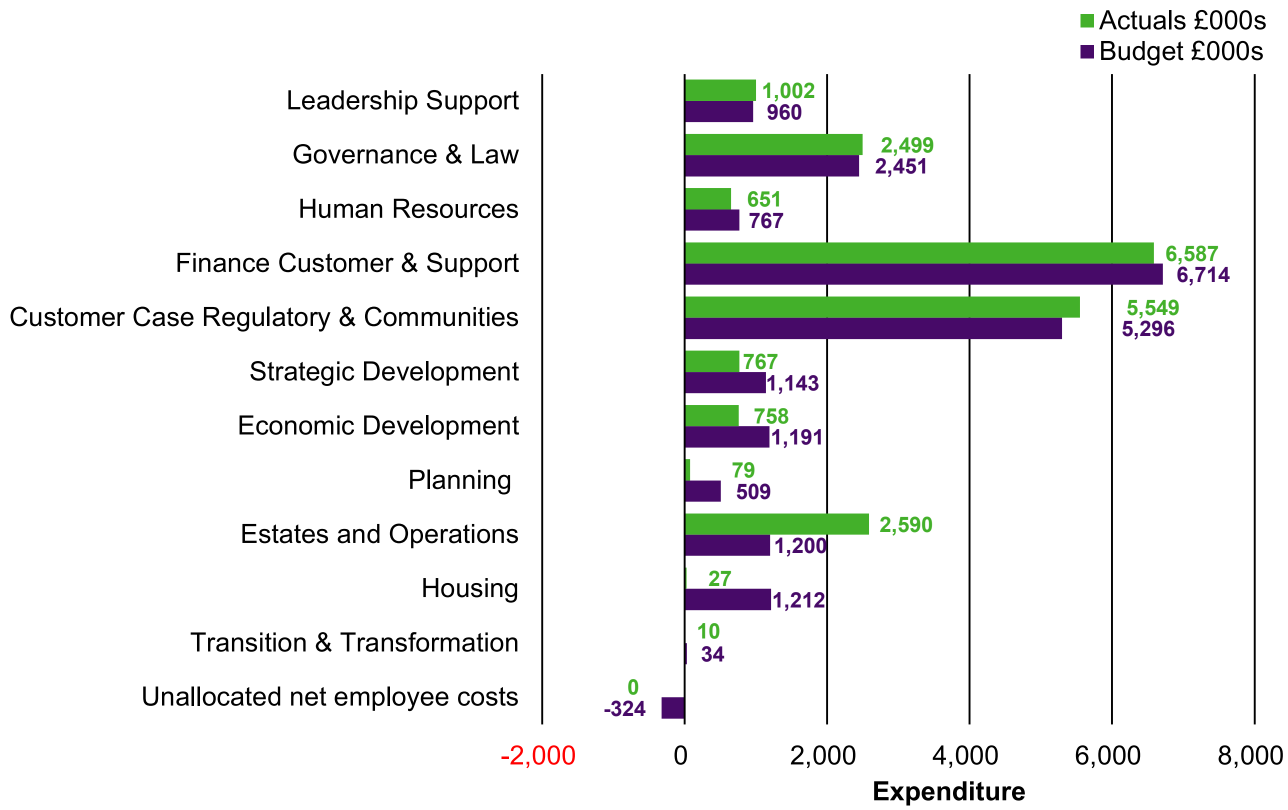
The Council's outturn performance includes:

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

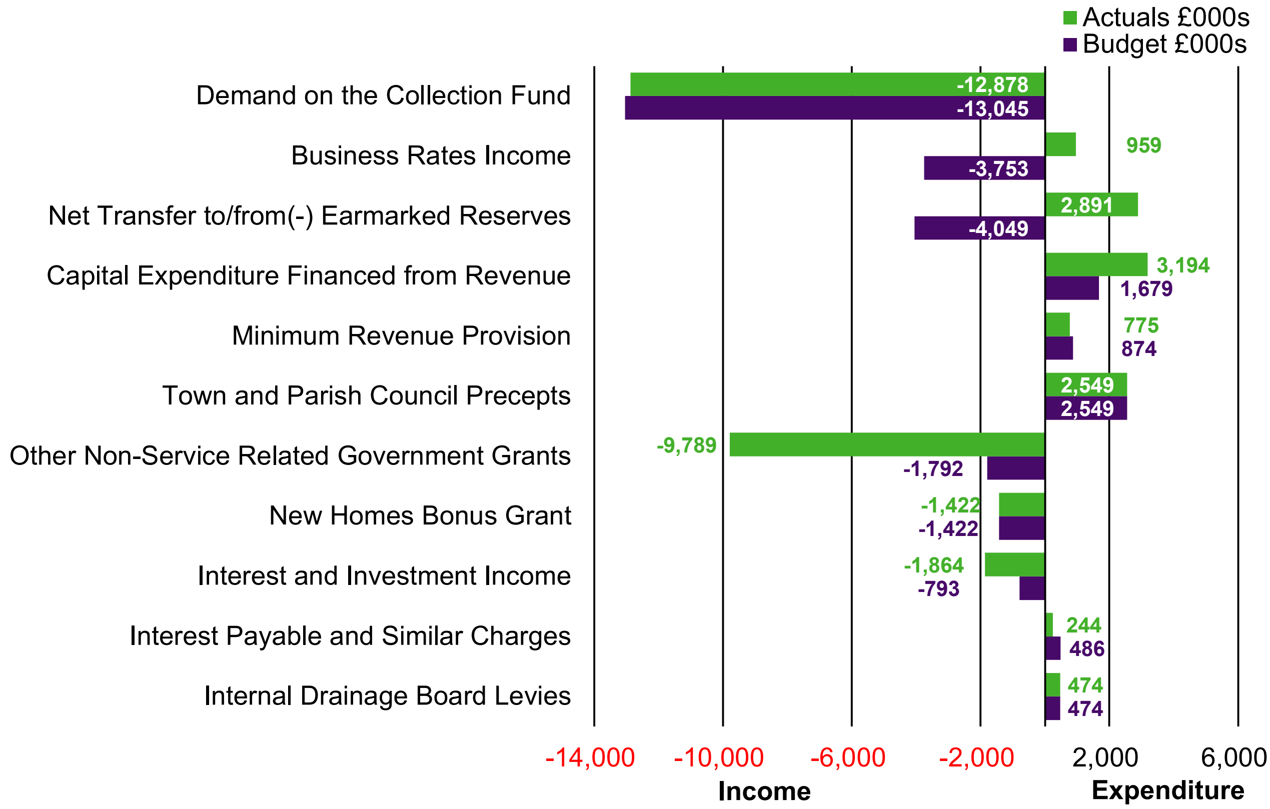
General Fund – Revenue

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:



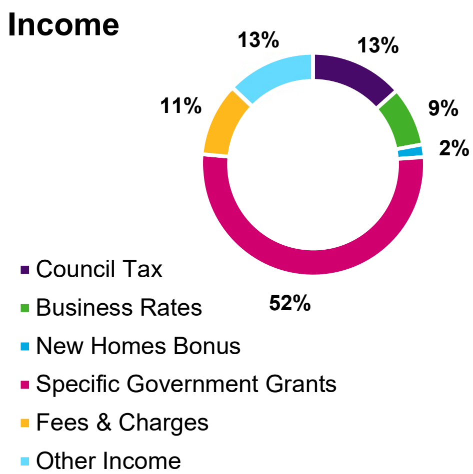
The total net cost of services for 2020/21 of £20.5m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £27.3m before the debit adjustment in respect of the HRA of £6.8m, under the heading of “As reported for resource management”.

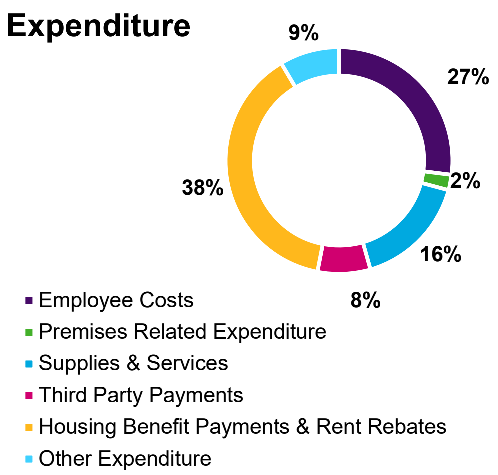
The following entries affect the Other Income and Expenditure within the EFA (in addition to entries from the HRA), and are reported to Members through the in-year monitoring and outturn reports.



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:





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

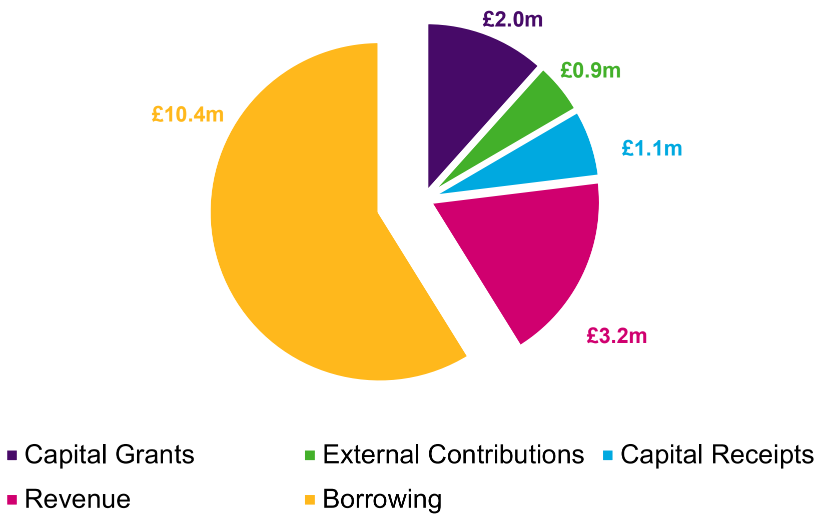
Further detail can be found in the Outturn report to Cabinet in June 2021.

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.

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: 15th March 2023

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: 15th March 2023

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 15th March 2023.

Signed:

Councillor Ann Berry
Chairman, Audit and Governance Committee
Date: 15th March 2023

Core Financial Statements

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	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
2020/21	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
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	2,452	8,221	-	-	-	**10,674**	(23,583)	**(12,909)**
Adjustments between accounting basis and funding basis under regulations (Note 5)	(5,856)	(7,783)	(305)	1,324	(843)	**(13,463)**	13,463	**-**
(Increase) or Decrease in 2020/21	**(3,404)**	**438**	**(305)**	**1,324**	**(843)**	**(2,789)**	**(10,120)**	**(12,909)**
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.

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 Gross Expenditure £000s	Income £000s	Net Expenditure £000s		2020/21 Gross Expenditure £000s	Income £000s	Net Expenditure £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	(32,032)	4,797	Finance Customer & Support	44,490	(37,704)	6,786
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	9,420	(5,234)	4,186
3,416	(2,325)	1,091	Housing	4,235	(4,085)	150
8,376	(2,904)	5,472	Customer Case Regulatory & Communities	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	**(62,412)**	**21,672**	**(Surplus)/Deficit on Continuing Operations**	**99,484**	**(69,217)**	**30,267**
2,995	(711)	2,284	Other Operating Expenditure (Note 9)	3,381	(852)	2,529
7,801	(2,342)	5,459	Financing and Investment Income and Expenditure (Note 10)	4,569	(1,926)	2,644
6,462	(26,191)	(19,729)	Taxation and Non-specific Grant Income (Note 11)	6,717	(31,483)	(24,766)
101,342	**(91,656)**	**9,686**	**(Surplus) or Deficit on Provision of Services**	**114,151**	**(103,477)**	**10,674**
		(16,637)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 32)			(28,257)
		(4,767)	Re-measurement of net defined liability (Note 30)			4,673
		(21,404)	**Other Comprehensive Income and Expenditure**			**(23,584)**
		(11,718)	**TOTAL Comprehensive Income and Expenditure**			**(12,911)**

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

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	70,499
1,677	Assets under construction	17	2,034
2,998	Heritage assets	18	2,998
75,920	Investment property	19	28,396
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: 15th March 2023

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 £000s		**Note**	**2020/21 £000s**
(9,686)	Net surplus or (deficit) on the provision of services		**(10,674)**
18,972	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	36	**25,677**
(3,350)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	36	**(5,965)**
5,936	**Net cash flow from operating activities**		**9,038**
(43,618)	**Net cash flow from investing activities**	37	**(10,755)**
34,760	**Net cash flow from financing activities**	38	**(6,533)**
(2,922)	**Net increase or decrease in cash and cash equivalents**		**(8,250)**
13,492	Cash and cash equivalents at the beginning of the reporting period		10,570
10,570	**Cash and cash equivalents at the end of the reporting period**	23	**2,320**

Notes to the Financial Statements

Folkestone & Hythe District Council

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

- 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.
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 de-recognition 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 **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, each council committed to fund the purchase of their new vehicle fleet and other service equipment specifically required for use within each of their districts. As each Council own their fleet and equipment, the purchase and ownership of these assets have been recognised in respective the balance sheet. The annual maintenance 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 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 72.

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.

East Kent Spacial Development Company (EKSDC)

In 2020/21 the Council entered into a partnership with the East Kent Spatial Development Company (EKSDC), which is partnership of 4 councils in East Kent. It is a local authority controlled company limited by guarantee. The partnership relates to the development of a business hubs in the partners area to stimulate employment and regeneration. The Council' contribution was land 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 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. 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.	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 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. 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.
Pension liability	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.	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. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 30.

Item	Uncertainties	Effect if actual results differ from assumptions
Provisions	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.	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).
Fair value measurements	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. 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.	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						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
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)	(5,323)	1,778	-	-	-	3,545
Total Adjustments to Revenue Resources	**(12,337)**	**(3,171)**	**-**	**-**	**-**	**15,508**
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
Transfer of capital grants and contributions to capital grants unapplied	-	-	-	-	(1,961)	1,961
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)**	**(1,961)**	**(1,543)**
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	-	-	-	1,118	(4,881)
Cash payments in relation to deferred capital receipts	(5)	(3)	-	-	-	8
Total Adjustments to Capital Resources	**3,758**	**(3)**	**3,965**	**2,337**	**1,118**	**(11,175)**
Total Adjustments	**(3,404)**	**438**	**1,324**	**(305)**	**(843)**	**2,790**

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2019/20	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						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
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**

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.

Earmarked Reserves	Balance	Transfers		Balance	Transfers		Balance
	01-Apr-19	In	Out	31-Mar-20	In	Out	31-Mar-21
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Fund							
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)**

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.

	2020/21				
	As reported for resource management	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	1,677	4,186
Housing	27	257	284	(134)	150
Customer Case Regulatory & Communities	5,549	848	6,397	(388)	6,009
Transition & Transformation	10	35	45	(14)	31
Local Authority Housing (HRA)	6,806	(5,846)	960	5,846	6,806
(Surplus)/Deficit on Continuing Operations	**27,325**	**(3,322)**	**24,003**	**6,264**	**30,267**
Other Income and Expenditure	(21,235)	(5,734)	(26,969)	7,376	(19,593)
(Surplus) or Deficit on Provision of Services	**6,090**	**(9,056)**	**(2,966)**	**13,640**	**10,674**
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

	2019/20 Restated				
	As reported for resource management	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	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 & Communitie:	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	69,183
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**	**110,999**
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**	**10,674**

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 Gross Expenditure £000s	2019/20 Income £000s	2019/20 Net Expenditure £000s		2020/21 Gross Expenditure £000s	2020/21 Income £000s	2020/21 Net Expenditure £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 £000s	2020/21 £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)
Movement in fair value of surplus assets	-	124
	2,284	**2,528**

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2019/20 £000s	2020/21 £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 19)	1,495	2,549
	5,459	**2,644**

11. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2019/20 £000s	2020/21 £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)
	(19,729)	**(24,766)**

12. Members' Allowances

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

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

13. Officers' Remuneration

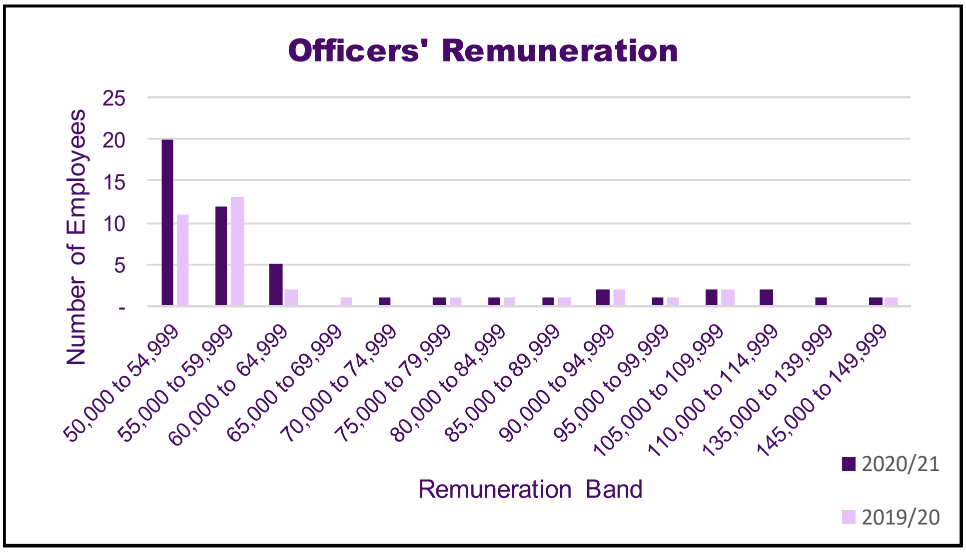
The remuneration paid to the authority's senior employees is as follows:

		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.

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

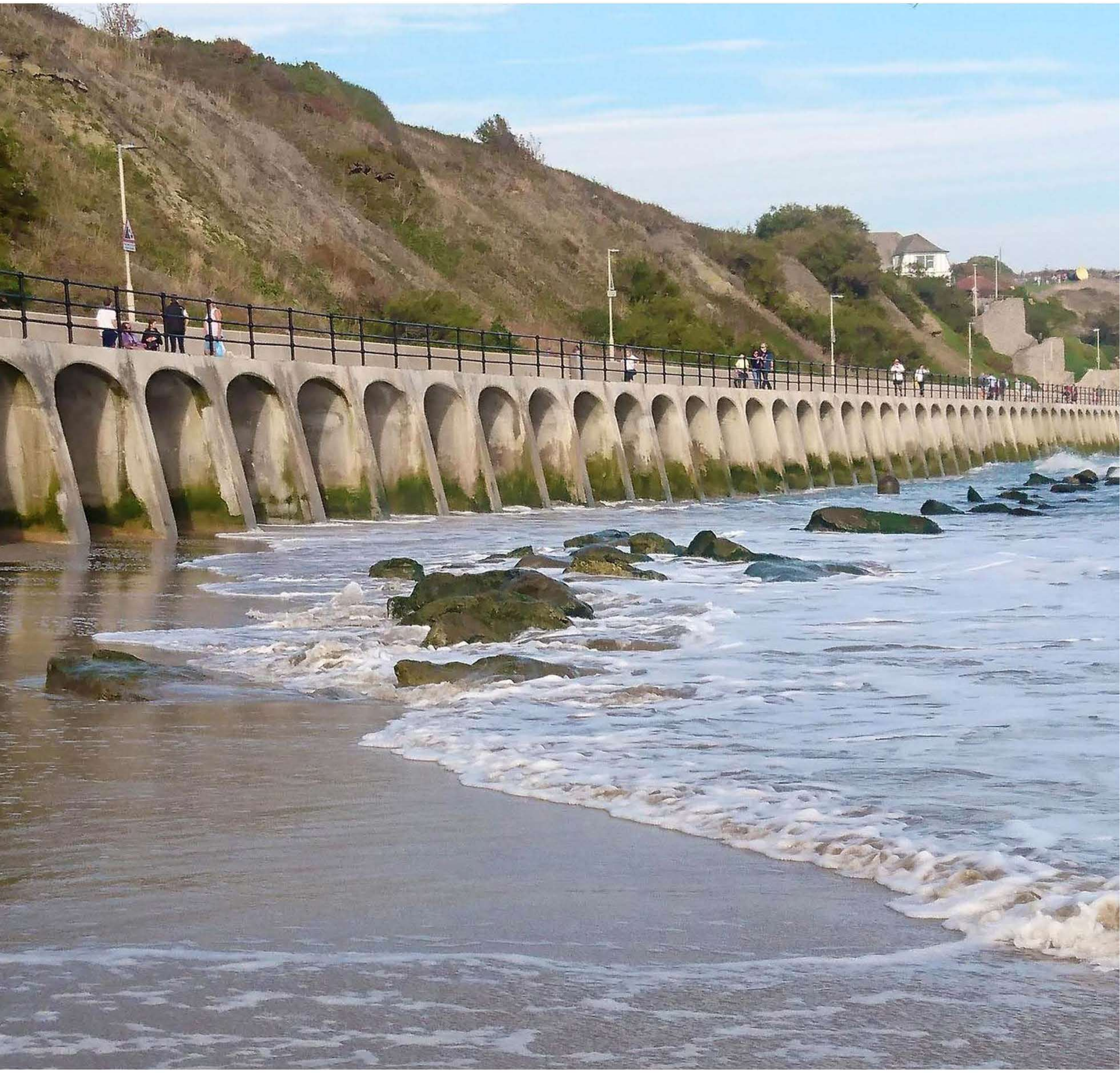
Note to restated Consolidated Income and Expenditure Statement 2019/20

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 £2.2m
- 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

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**	**11,272**	**3,461**	**1,677**	**12,377**	**257,072**
Additions	7,676	420	2,559	436	-	357	2,340	13,788
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,923	(78)	-	-	-	-	7,412	28,257
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,517)	(960)	-	-	-	-	(510)	(4,987)
De-recognition - Disposals	-	-	-	-	-	-	(920)	(920)
Assets reclassified (to)/from Held for Sale	(403)	35	-	-	-	-	-	(368)
Other reclassifications	-	-	-	-	-	-	49,800	49,800
Other movements in cost or valuation #	(4,259)	(20)	-	-	-	-	-	(4,279)
At 31 March 2021	**185,603**	**28,110**	**12,500**	**11,708**	**3,461**	**2,034**	**70,499**	**338,363**
Depreciation and Impairment								
At 1 April 2020	**-**	**(1,981)**	**(8,287)**	**-**	**-**	**-**	**-**	**(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)**	**(1,362)**	**-**	**-**	**-**	**(36,231)**
Balance Sheet amount at 31 March 2021	**185,603**	**26,423**	**3,766**	**10,346**	**3,461**	**2,034**	**70,499**	**302,132**
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.

**Infrastructure Assets are valued on the basis of Net Book Value.

The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets where there is replacement expenditure is nil.

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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	**(1,394)**	**(1,005)**

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	5,618
Additions – construction	453	26
Net gain/(loss) from fair value adjustments	(1,431)	(2,549)
Impairment losses/(reversals) recognised in the CIES	(203)	(14)
Reclassification to Capital Debtor	-	(805)
Reclassification to PPE-Surplus Asset	-	(49,800)
At 31 March	**75,920**	**28,396**

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	745	745
Agricultural Land	10	-	10	32	32
Offices	17,000	-	17,000	17,401	17,401
Commercial Units	-	1,617	1,617	1,888	1,888
Commercial Land	767	-	767	660	660
Total at Fair Value	**73,707**	**1,617**	**75,324**	**28,242**	**28,242**
Assets Under Construction	596	-	596	154	154
Total Investment Properties	**74,303**	**1,617**	**75,920**	**28,396**	**28,396**

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 £000s	2020/21 £000s
Bond, equity & property funds	14,125	15,204
Shares in unlisted companies	1,300	4,718
	15,425	**19,922**

21. Long Term Debtors

Long Term Debtors	2019/20 £000s	2020/21 £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
	7,103	**7,919**

22. Short Term Debtors

Short Term Debtors	2019/20 £000s	2020/21 £000s
Trade Receivables	3,593	4,029
Receivables from Related Parties	3,380	9,224
Prepayments	706	1,371
Other Receiveables	4,477	4,670
	12,156	**19,294**
Impairment of debt		
Trade Receivables	(1,130)	(938)
Other Receiveables	(741)	(949)
Total	**(1,871)**	**(1,887)**
Balance as at 31 March	**10,285**	**17,407**

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:

Age of Debt	2019/20 £000s	2020/21 £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 £000s	2020/21 £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 £000s	2020/21 £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 £000s	2020/21 £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.

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:

	Long Term		Short Term	
Financial Liabilities	**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:

Financial Assets	Long Term 31-Mar-20 £000s	Long Term 31-Mar-21 £000s	Short Term 31-Mar-20 £000s	Short Term 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

Financial Liabilities	Fair Value Level	Balance Sheet 31-Mar-20 £000s	Fair Value 31-Mar-20 £000s	Balance Sheet 31-Mar-21 £000s	Fair Value 31-Mar-21 £000s
Financial liabilities held at amortised cost:					
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**	
Recorded on balance sheet as:					
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.

Financial Assets	Fair Value Level	Balance Sheet 31-Mar-20 £'000	Fair Value £'000	Balance Sheet 31-Mar-21 £'000	Fair Value £'000
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	2	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**	

*Comparatives for 2019/20 restated due to omissions

*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

Financial Asset – Long term loan to Oportunitas Limited

The fair value has been estimated by discounting future cash flows for the loan at the rate for an equivalent loan made on 31 March 2020. This rate has been estimated using the BB corporate bond curve.

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 Instruments Income,Expense,Gains and Losses 2020/21	Financial Liabilities measured at amortised cost £000s	Financial Assets at Amortised Cost £000s	Financial Assets at Fair Value Profit & Loss £000s	20/21 Total £000s	19/20 Total £000s
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.

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 £000s**	**31-Mar-21 £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 31-Mar-20 £000s**	**Year to 31-Mar-21 £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 31-Mar-20 £000s	**Year to 31-Mar-21 £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**

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

	Year to 31-Mar-20 £000s	Year to 31-Mar-21 £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 £000s	Year to 31-Mar-21 £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.

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)	**7,325**
Employer Contributions	**3,464**

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 £000s	2020/21 £000s
Revaluation Reserve	(55,508)	(81,934)
Pooled Investment Funds Adjustment Account	876	(204)
Capital Adjustment Account	(137,821)	(138,158)
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
	(128,008)	**(138,128)**

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)		(28,257)
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		**(55,508)**		**(81,934)**

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.

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		-	
		1,385		(1,080)
Balance as at 31 March		**876**		**(204)**

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.

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		1,506	
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	1,310		(88)	
		15,379		**14,944**
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**		**13,112**
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	(1,890)		(6,159)	
		(9,713)		**(16,155)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**1,431**		**2,706**
Balance as at 31 March		**(137,821)**		**(138,158)**

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		**39**		**13**

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		**(137)**		**(129)**

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	**1,387**	**5,100**

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 £000s**	**2020/21 £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 £000s**	**2020/21 £000s**
Opening Capital Financing Requirement	67,794	117,358
Capital Investment		
Property, Plant and Equipment	6,177	13,788
Heritage assets	3,359	-
Investment Properties	45,713	5,645
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.
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	**Short-term**	**Long-term**	**Short-term**
	£000s	**£000s**	**£000s**	**£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 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	**90**

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. 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:

	Discounted (Principal)		Undiscounted (Principal plus interest)	
Time to maturity	**31-Mar-20 ***	**31-Mar-21**	**31-Mar-20 ***	**31-Mar-21**
	£000s	**£000s**	**£000s**	**£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 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:

	£000s
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	New Contributions	Amounts Applied	Closing Balance 31-Mar-21
£000s	£000s	£000s	£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)
	(2,430)	**(2,364)**

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:

The cash flows for operating activities include the following items:

2019/20 £000s		2020/21 £000s
549	Interest received	241
(1,887)	Interest paid	(1,981)
718	Dividends received	645

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2019/20 £000s		2020/21 £000s
4,758	Depreciation and impairment	4,842
6,105	Impairment and downward revaluations	12,120
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	(3,415)
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		**25,677**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2019/20 £000s		2020/21 £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 £000s		2020/21 £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
(43,618)	**Net cash flows from investing activities**	**(10,755)**

38. Cash Flow Statement – Financing Activities

2019/20 £000s		2020/21 £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
34,760	**Net cash flows from financing activities**	**(6,533)**

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). Payment of £509k was made to the Charity in respect of Special Expenses and £520k in respect of a loan. Balances due to/from the Charity at 31st March 2021 are £215k and £524k respectively.

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 109-121.

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 partnership 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.

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)	Folkestone Parks and Pleasure Grounds Charity	(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.

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.

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
		42,493	**(36,504)**	**5,989**	

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.

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 3rd February 2023. 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

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**

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	-
(3,750)	Difference between any other items of income and expenditure 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**

The Balance Sheet value was as follows:

	2019/20 £000s	2020/21 £000s
Dwellings	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**
Assets under construction	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**

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**

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.

7. Rent Arrears

	31-Mar-20 £000s	31-Mar-21 £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 £000s	2020/21 £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)
	(3,750)	**(6,132)**

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 £000s		2020/21 * £000s
96	Current Service Cost	619
-	Past Service Cost and Settlement	4,510
43	Net interest on net defined liability	164
139		5,294
(56)	MIRS Movement	(4,894)
83	Employer's Contribution	**400**

**East Kent Housing ceased trading on 30th September 2020 and its housing operation was transferred back to the relevent councils. Membership to the Kent Local Government Pension Fund was terminated and the associated pension liability was transferred to the four owner councils.*
The share of FHDC's pension liability is now included in the Council's pension liability and is reflected in the additional costs in 2020/21.

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

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 Council Tax £000s	2019/20 Business Rates (Restated) £000s	2019/20 Total £000s		2020/21 Council Tax £000s	2020/21 Business Rates £000s	2020/21 Total £000s
			Amounts required by statute to be credited to the Collection			
(74,013)		(74,013)	Council Tax (Note 1)	(75,539)		(75,539)
22		22	Council Tax benefit	16		16
			Council Tax S13A 1(C) Discounts	(1,158)		(1,158)
	(26,534)	(26,534)	Business Rates income (Note 2)		(15,276)	(15,276)
	370	370	Business Rates transitional protection		550	550
(73,991)	**(26,164)**	**(100,155)**	**Total Income**	**(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	Kent County Council	52,846		52,846
7,544		7,544	Kent Police and Crime Commissioner	7,945		7,945
3,037		3,037	Kent and Medway Fire and Rescue	3,101		3,101
12,598		12,598	Folkestone & Hythe District Council	13,045		13,045
683		683	Surplus/(deficit) distribution	(447)		(447)
322		322	Council Tax bad debts written off	357		357
(228)		(228)	(Decrease)/Increase in provision for Council Tax bad debts	264		264
			Payment of Business Rates			
	146	146	Cost of Business Rates collection		143	143
			Share of Business Rates income:			
	13,783	13,783	Central Government (central share)		13,709	13,709
	2,481	2,481	Kent County Council		2,467	2,467
	276	276	Kent and Medway Fire and Rescue		274	274
	11,027	11,027	Folkestone & Hythe District Council		10,967	10,967
	(1,736)	(1,736)	Surplus/(deficit) distribution		(3,966)	(3,966)
	170	170	Business Rates bad debts written off		153	153
	28	28	(Decrease)/Increase in provision for Business Rates bad debts		219	219
	1,731	1,731	(Decrease)/Increase in provision for Business Rates appeals		(185)	(185)
74,708	**27,906**	**102,614**	**Total Expenditure**	**77,111**	**23,781**	**100,892**
717	1,742	2,459	**(SURPLUS)/DEFICIT FOR THE YEAR**	430	9,055	9,485
(267)	1,533	1,266	(Surplus)/Deficit brought forward	450	3,275	3,725
450	3,275	3,725	(Surplus)/Deficit carried forward	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%).

2019/20 £000s		2020/21 £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 MOVEMENT IN RESERVES STATEMENT

	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	2,452	8,221	-	-	-	**10,673**	(23,583)	**(12,910)**	(208)	**(13,118)**
Adjustments between accounting basis and funding basis under regulations	(5,856)	(7,783)	(305)	1,324	(843)	**(13,463)**	**13,463**	**-**	-	**-**
Increase or Decrease in 2020/21	**(3,404)**	**438**	**(305)**	**1,324**	**(843)**	**(2,790)**	**(10,120)**	**(12,910)**	**(208)**	**(13,118)**
Balance at 31st March 2021 carried forward	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**	**(371)**	**(194,833)**
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*	10,207	(521)	-	-	-	**9,686**	(21,404)	**(11,718)**	(112)	**(11,830)**
Adjustments between accounting basis and funding basis under regulations	(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
**Otterpool is included for 2020/21

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2019/20* Gross Expenditure £000s	Income £000s	Net Expenditure £000s		2020/21** Gross Expenditure £000s	Income £000s	Net Expenditure £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	(37,768)	6,722
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	9,420	(5,234)	4,186
3,416	(2,325)	1,091	Housing	4,235	(4,085)	150
8,376	(2,904)	5,472	Customer Case Regulatory & Communities	8,708	(2,700)	6,008
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 Operations**	**99,483**	**(69,281)**	**30,202**
2,995	(711)	2,284	Other operating expenditure (Note 9)	3,381	(852)	2,529
7,975	(2,342)	5,633	Financing and investment income and expenditure (Note 10)	10,743	(7,889)	2,854
6,502	(26,191)	(19,689)	Taxation and non-specific grant income (Note 11)	6,717	(31,494)	(24,777)
101,556	**(91,772)**	**9,784**	**(Surplus) or Deficit on Provision of Services**	**120,324**	**(109,516)**	**10,809**
-	-	(16,847)	(Surplus) or deficit on revaluation of non-current assets (Note 32)	-	-	(28,600)
-	-	(4,767)	Re-measurement of net defined liability (Note 30)	-	-	4,673
-	**-**	**(21,614)**	**Other Comprehensive Income and Expenditure**	**-**	**-**	**(23,927)**
-	**-**	**(11,830)**	**TOTAL Comprehensive Income and Expenditure**	**-**	**-**	**(13,118)**

*2019/20 comparatives restated following post-audit results for Oportunitas accounts
**2020/21 includes group results for Otterpool Park LLP

Restated 2019/20* £000s		Note	2020/21** £000s
	Non current assets		
165,183	Council dwellings		185,603
57,173	Property, plant and equipment		116,558
2,998	Heritage Assets		2,998
80,773	Investment property	2	36,094
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**		**359,901**
3,510	Short term investments		-
15	Inventories		359
11,579	Short term debtors	5	17,442
10,776	Cash and cash equivalents	6	4,132
25,880	**Current assets**		**21,933**
(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**		**(38,130)**
(58,455)	Long term borrowing		(72,155)
(62,935)	Other long term liabilities		(76,591)
(110)	Non-current provisions		(126)
(121,500)	**Long term liabilities**		**(148,872)**
181,715	**Net assets**		**194,833**
(53,707)	Usable reserves		(56,705)
(128,008)	Unusable reserves		(138,128)
(181,715)	**Total Reserves**		**(194,833)**

*2019/20 comparatives restated following post-audit results for Oportunitas accounts
**2020/21 includes group results for Otterpool Park LLP

Restated 2019/20* £000s		2020/21** £000s
(9,784)	Net surplus or (deficit) on the provision of services	(10,809)
17,918	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	26,621
(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**	**9,847**
(41,609)	**Net cash flow from investing activities**	**(9,958)**
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*	**Restated '2020/21**
	£000s	**£000s**
Cost or Valuation		
At 1 April	36,404	80,773
Additions	45,792	8,147
Reclassification to Capital Debtor	-	(805)
Net gain/loss from fv adjustments	(1,221)	3,758
Impairment	(202)	(15)
Reclassification to PPE- Surplus Ass	-	(55,764)
At 31 March	**80,773**	**36,094**

*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:

2020/21 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Fair value at 31-Mar-21 £000s
Residential Units	15,214	15,214
Agricultural Land	1,437	1,437
Commercial Units	19,289	19,289
Total at Fair Value	**35,940**	**35,940**
Assets Under Construction	-	154
Total Investment Properties	**35,940**	**36,094**

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**

Note 5 – Short Term Debtors

Short Term Debtors	2019/20 £000s	2020/21 £000s
Trade Receivables	3,593	4,029
Receivables from Related Parties	4,674	9,259
Prepayments	706	1,371
Other Receiveables	4,477	4,670
	13,450	**19,329**
Impairment of debt		
Trade Receivables	(1,130)	(938)
Other Receiveables	(741)	(949)
Total	**(1,871)**	**(1,887)**
Balance as at 31 March	**11,579**	**17,442**

Note 6 – Cash and Cash Equivalents

Cash and Cash Equivalents	2019/20 £000s	2020/21 £000s
Bank Accounts	(1,083)	512
Money Market Funds	11,859	3,620
Total	**10,776**	**4,132**

Note 7 – Cash Flow Statement – Investing Activities

2019/20 £000s		2020/21 £000s
(55,128)	Purchase of property, plant & equipment, investment property and intangible assets	(20,435)
-	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
(41,609)	**Net cash flows from investing activities**	**(9,958)**

Note 8 – Financial Instruments

	Long Term		Short Term	
Financial Liabilities	**31-Mar-20 £000s**	**31-Mar-21 £000s**	**31-Mar-20 £000s**	**31-Mar-21 £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)	(4,717)
Included in Creditors	**-**	**-**	**(2,389)**	**(4,717)**
Total Financial Liabilities	**(58,455)**	**(72,155)**	**(34,310)**	**(11,619)**

	Long Term		Short Term	
Financial Assets	**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	13,636	14,803	-	-
Total investments	**13,636**	**14,803**	**3,510**	**-**
At amortised cost:				
- Principal	-	-	(1,083)	512
At fair value through profit & loss:				
- Fair value	-	-	11,859	3,620
Total Cash & Cash Equivalents	**-**	**-**	**10,776**	**4,132**
At amortised cost:	-	-	-	-
- Trade receivables*	-	-	2,098	2,819
- Lease receivables*	128	119	8	9
- Loans made for service purposes*	2,839	2,962	1,013	540
- Loss allowance Expected Credit Loss*	-	-	(172)	(193)
Included in Debtors	**2,967**	**3,081**	**2,948**	**3,176**
Total Financial Assets	**16,603**	**17,884**	**17,234**	**7,307**

Note 9 – Restatement of Accounts

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)**

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)**

Note to restated Cash Flow Statement 2019/20

	Reported 2019/20	Post Audit Change in Oportunitas 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.

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.

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 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.
- 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.

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

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.

Paul Dossett, Key Audit Partner

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

London

15th March 2023

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:

- A. Behave with integrity
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

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

<table>
<tr><td colspan="3"><u>Cabinet</u>
Responsible for:
• 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.</td></tr>
<tr><td><u>Overview & Scrutiny</u>

Responsible for:
• 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.</td>
<td><u>Council</u>

Responsible for:
• 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.</td>
<td><u>Audit and Governance</u>

Responsible for:
• 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.</td></tr>
</table>

Finance and Performance Sub Committee Responsible for: • 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.		

Decision Making

- 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.

Risk Management

- 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.

Statutory Chief Officers

- **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 Offer, 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:
    - 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:

- 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.

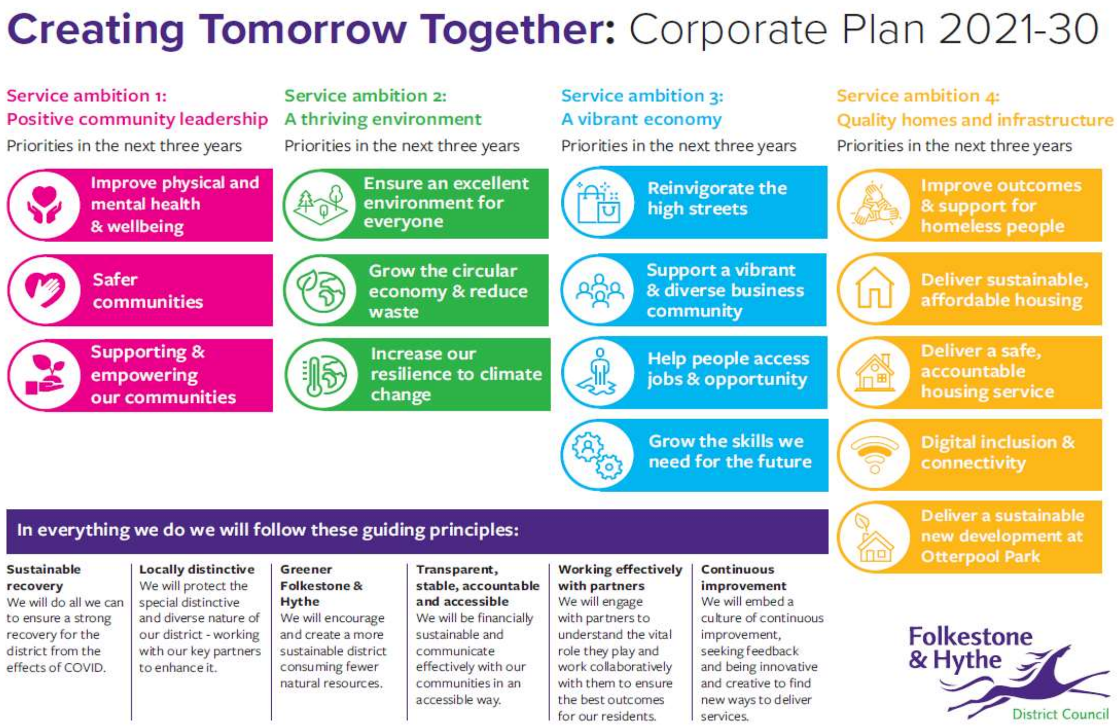
Strategic Planning

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:



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.

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;

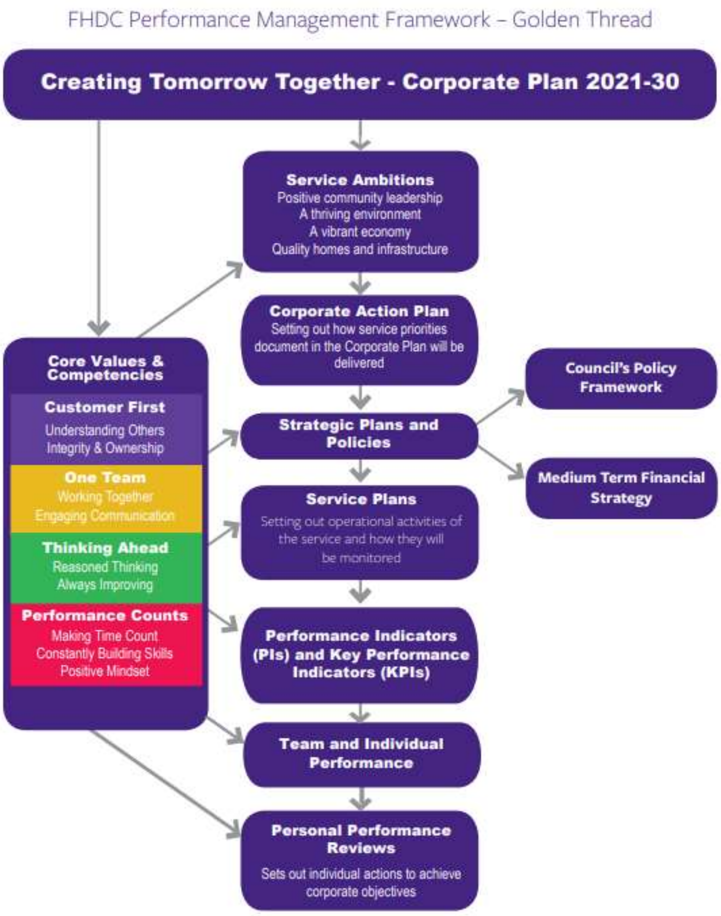
- Senior Staff Salaries
- Organisational Structure Chart
- Payment to suppliers (over the value £250)
- Purchase Orders (£5,000 and over)
- Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
- Grants to Voluntary, Community and 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.

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

Risk Policy and Strategy	Corpoate Risk Register	Operational Risk Registers
• Annual Review by CLT • Annual Review by Cabinet • Annual Review by Audit & Governance Committee	• Quarterly review by CLT • Quarterly Review by Audit & Governance Committee • Annual Review by Cabinet • Emerging/Changing risks highlighted by Directors and Chief Officers	• Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors • Key Risks discussed at Portfollio Holder meetings.

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 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.

3.34 The financial statements for 2020-21 has been unduly delayed as the CIPFA ruling on the treatment of Infrastructure Asset was only received in December 2022. CIPFA has now given a temporary override applicable to 31 March 2024 as to the treatment of Infrastructure Assets, beyond which the Local Authorities are to apply the CIPFA code on the treatment of their Infrastructure Assets. Hence, there is no substantial change to the this set of financial statements and the relevant disclosure in respect of the Infrastructure Assets has been made in Note 17.

Counter Fraud Arrangements

3.35 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.

3.36 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.

3.37 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.

3.38 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

3.39 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
- 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.

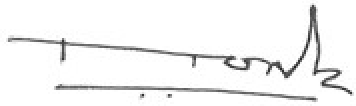
8. CONCLUSION

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 15th March 2023.

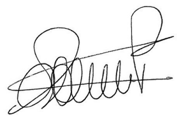
Signed



Cllr David Monk
Leader of the Council

Date: 3rd February 2023

Signed



Dr Susan Priest
Head of Paid Service

Appendix 1 - Action plan for improvement following review of effectiveness of governance arrangements 2021/22

	Action	Who	Date
1	**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	Monitoring Officer	May 2022
2	**Governance Arrangements** To keep under review, the Council's governance arrangements.	Monitoring Officer	March 2022
3	**Data Retention Policy and General Data Protection Regulation** To keep under review, the Data retention policy and the new General Data Protection Policy.	Monitoring Officer	March 2022
4	**Review of the Overview & Scrutiny Committee function** To keep under review the governance and working arrangements of the committee.	Monitoring Officer	Ongoing
5	**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.	Director of Corporate Services	March 2022
6	**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.	Lead Accountant & Monitoring Officer	October 2021

7	**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).	Corporate Director of Place	March 2022
8	**Otterpool Park LLP Assurance Framework** Conclude the work being undertaken on the assurance framework and governance arrangements between FHDC and Otterpool Park LLP	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.

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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Folkestone & Hythe District Council

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Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

15th March 2023

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.

xviii. 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 15th March 2023.

Yours faithfully

Name Charlotte Spendley

Position Director Corporate Services & S151 Officer

Date: 15th March 2023

Name: Councillor Ann Berry

Position: Chairman of the Audit and Governance Committee

Date: 15th March 2023

Signed on behalf of the Council

Agenda Item 5

This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/32**

To: Audit and Governance Committee
Date: 15 March 2023
Head of Service: Charlotte Spendley, Director of Corporate Services
Cabinet Member: Councilor David Monk, Leader of the Council

Subject: **Statement of Accounts 2021/22**

Summary: In accordance with the Accounts and Audit (Amendment) Regulations 2022 the council must consider and approve its 2021/22 Statement of Accounts no later than 30 November 2022. The audit of the 2021/22 Accounts has now been fully completed. The final audit findings in relation to the audit of the 2021/22 Statements of Account 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 2022 require the council to consider and approve its 2021/22 Statement of Accounts by no later than 30 November, to enable publication to be made by that date.

Recommendations:
1. **To consider Grant Thornton's final 2021/22 Audit Findings report (ISA 260) on the 2021/22 Statement of Accounts.**
2. **To consider Grant Thornton's 2021/22 Annual Report on Value for Money.**
3. **To receive and approve the audited 2021/22 Statement of Accounts.**
4. **To note the 2021/22 Letter of Representation.**

1. INTRODUCTION AND BACKGROUND

1.1 The 2021/22 Statement of Accounts has been 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 Department for Levelling-Up, Housing and Communities (DLUHC) published the Accounts and Audit Regulations on 28 June 2022.The Accounts and Audit (Amendment) Regulations 2022, amended the latest date for the publication of draft accounts from 31 May to 31 July and the publication of the final audited accounts from 31 July to 30 November and then 30 September for 6 years, beginning with 2022/23 as part of longer-term measures to help stabilise the market and address long-term supply issues. In addition the public inspection period must commence on or before the first working day of August 2022.

1.3 The changes mean that audited accounts (that must be confirmed by the Chief Finance Officer (CFO) were to be published by 30 November 2022 at the latest. It has not been possible to meet the deadlines due to a number of factors beyond the Council's control.

2. STATEMENT OF ACCOUNTS 2021/22 – FINANCIAL POSITION AND PERFORMANCE

2.1 The draft 2021/22 Statement of Accounts were presented to the Committee at its meeting on 21st September 2022, at which time external audit was already underway having started in early September.

2.2 Regular updates have been provided to Audit and Governance Committee on the progress of the audit. The key dates and reports in respect of 2021/22 are:-

- **28th July 2022**- Annual Governance Statement considered and approved by this Committee.

- **21st September 2022**- The draft 2021/22 Statement of Accounts was considered and approved by this Committee.

- **7th December 2022**-This Committee received Grant Thornton's initial draft of the 2021/22 Audit Findings Report (ISA260) with the audit substantially complete.

2.2 This report therefore brings the audit of the 2021/22 Statement of Accounts to a conclusion with the submission of the updated 2021/22 Statement of Accounts as amended following the completion of the audit by Grant Thornton.

2.3 The report contains the following documents as Appendices.

- Appendix 1- The final 2021/22 Audit Findings report, including the Audit Opinion from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).
- Appendix 2-The final 2021/22 Annual Report covering the Value for Money Conclusion
- Appendix 3- The audited 2021/22 Statement of Accounts.
- Appendix 4- 2021/22 Letter of Representation.

3. 2021/22 AUDIT OF THE ACCOUNTS AND ANNUAL REPORT

3.1 The final version of the draft 2021/22 financial statements was produced for publication on the 23rd January 2023 and the authority commenced the period for public inspection rights on the 23rd January 2023 which concluded on the 6th March 2023.

3.2 Members will wish to consider the external auditors 2021/22 Audit Findings Report, and their 2021/22 Annual Report covering the Value for Money judgement and the Audit Opinion which Paul Dossett from Grant Thornton will introduce.

3.3 The external audit for 2021/22 which has been undertaken by Grant Thornton is now complete. The draft financial statements which were received by this Committee on the 21st September 2022 have been adjusted in line with the recommendations from Grant Thornton as described in their Audit Findings report Appendix 1 and are therefore reflected in the audited 2021/22 Statement of Accounts which are attached as Appendix 3.

3.4 In summary the main adjustments include reclassification of items on the balance sheet relating to Otterpool Land including Otterpool Land Options and the treatment of a year-end creditor and together with the addition of disclosure notes. The audit adjustments are identified in Grant Thornton's Audit Findings report (Appendix1) and have been reflected in the draft Statement of Accounts reported as set out in Appendix 3.

3.5 It is important to note that the Audit Opinion in respect of the 2021/22 Accounts will be an Unqualified Opinion and that the adjustments arising from the audit have not resulted in any significant change in the financial position of the Council or impacted upon the Council's Reserves and Balances previously reported in the draft accounts to the Committee in September 2022.

3.6 The Auditors Annual report for 2021/22 (appendix 2) outlines the authorities position with regards to Value for Money arrangements. The Auditor has made a number of improvement recommendations in respect of the financial sustainability and governance arrangements, and some key recommendations regarding the arrangements for improving economy, efficiency and effectiveness within the Council.

3.7 The Council must address the actions identified within this report, as they are essential in the council in ensuring that its use of resources is effective and appropriate. The report does not find any significant weaknesses in the financial sustainability and governance criteria, but it does identify one significant weakness in the improving economy, efficiency and effectiveness criteria. This recommendation relates to the matters previously reported to this committee on procurement and contractual management arrangements. The key recommendation in this regard is that "The Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews." The Council is already undertaking this work and many actions are well progressed.

4. CONCLUSION

4.1 The audited 2021/22 Statement of Accounts are unsigned at this stage. The Committee is asked to approve the Statement of Accounts for 2021/22 in accordance with the Accounts and Audit (Amendments) Regulations 2022. Following approval by the Committee these will be signed by the Chief Financial Officer, Charlotte Spendley and the Chair of the Audit and Governance Committee, is requested to sign the 2021/22 Statement of Accounts (Appendix 3) and the 2021/22 Letter of Representation (Appendix 4) to confirm they have been considered and approved by the Audit and Governance Committee. Following the completion of these signatures Paul Dossett the Key Audit Partner at Grant Thornton will sign the Audit Opinion.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 **Legal Officer's Comments** (AK)

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** (CS)

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

5.3 **Diversity and Equalities Implications** (CS)

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

Charlotte Spendley – Director of Corporate Services
Telephone: 07935 517986
email: charlotte.spendley@folkestone-hythe.org.uk

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

Appendices:

Appendix 1- The final 2021/22 Audit Findings report, including the Audit Opinion from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).

Appendix 2-The final 2021/22 Annual Report covering the Value for Money Conclusion.

Appendix 3- The audited 2021/22 Statement of Accounts.

Appendix 4- 2021/22 Letter of Representation.

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The Audit Findings for Folkestone & Hythe District Council

Year ended 31 March 2022

Folkestone & Hythe District Council

March 2023

Contents

Your key Grant Thornton team members are:

Sophia Y Brown
Key Audit Partner
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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 Committee.

Name: Sophia Y Brown
For Grant Thornton UK LLP
Date: 15 March 2023

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 2022 for those charged with governance.

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 2022 to February 2023. Our findings are summarised on pages 7 to 20 and onwards. We have identified one adjustment with nil General Fund/Balance Sheet impact to the financial statements. Audit adjustment is detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work 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 final signed management representation letter; and
- Review of the final signed 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 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in the area of procurement. Our findings are set out in the value for money arrangements section of this report.
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. Certification of the completion of the will be delayed as the process for concluding local authority elector questions and objections is ongoing.
Significant matters	We did encounter staffing challenges within the finance team of Council which has resulted in audit outstanding matters as stated on page 3 of this report.

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 will be 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 component and to determine the planned audit response. From this evaluation we determined that analytical reviews were required for each component; and
- 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 15 March 2023. The outstanding items are detailed on page 3 of this report.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial statements

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	1,834,000	1,815,000
Performance materiality	1,283,800	1,270,500
Trivial matters	91,700	90,800
Materiality for officers' remuneration	50,000	50,000

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.

We have revised the materiality amount from that communicated in the Audit Plan to reflect the decrease in gross expenditure for the financial year 2021-22. For planning purposes, we used the gross expenditure for financial year 2020-21 as the figures for financial year 2021-22 had not yet been made available.

We have also revised the performance materiality percentage from 75% to 70% of materiality to reflect the number of misstatements identified in the 2020-21 financial statements and the national issues around Infrastructure Assets.

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 Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of controls, in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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. We have not identified any issues in relation to the significant risk of management override of controls.

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2. Financial statements – Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings including Investment Properties The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings including Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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; • wrote 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 audit work is complete, and we have not identified any issues in relation to this risk.
Valuation of pension fund net liability The Council'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 (£72.548m in the Council's 2021-22 balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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. We have not identified any issues in relation to the significant risk in relation to the valuation of the pension fund net liability.

2. Financial statements – Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in expenditure recognition of operating expenditure As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	To address this risk we: • 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; compared 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 is complete, and we have not identified any issues in relation to this risk.
Level 3 financial assets and liabilities The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3 assets. By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.	To address this risk we: • 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; and • challenged management about the disclosure of the Level 3 financial assets. We noted that Otterpool loan was held at cost for £1.25m however the Otterpool Park LLP net asset position as at 31/03/2022 was £0.537m. This means that if Otterpool Park LLP was no longer a going concern the maximum recovery in respect of the loan for the Council would be £0.537m. See Appendix C for details Our audit work is complete, and we have not identified any other issues in relation to this risk.

2. Financial statements – Other risks identified

Issue	Commentary
Valuation of Infrastructure Assets Infrastructure assets include roads, highways, street lighting and coastal assets. As at 31 March 2021 the net book value of Infrastructure Assts was £10.346m, which is over five times the financial statements materiality. Gross book value at 31 March 2021 was £36.156m. In accordance with the LG Code, Infrastructure Assets are measured using the historical cost basis, and carried at depreciated historic cost. With respect to the financial statements there are two risks we plan to address: 1. The risk that the value of Infrastructure Assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of Infrastructure Assets. 2. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure Assets is overstated. It will be overstated if management do not recognise components of Infrastructure when they are replaced.	To address this risk we have: • reconciled the fixed asset register to the financial statements; • used our own point estimate and considered the reasonableness of depreciation charge to Infrastructure Assets; • obtained assurance that the UELs applied to Infrastructure Assets are reasonable; and • documented our understanding of management's processes for derecognising Infrastructure Assets on replacement, and obtain assurances that the disclosure in the PPE note is not materially misstated. We have obtained sufficient appropriate audit evidence to corroborate that the net book value of infrastructure assets is not materially misstated through our substantial analytical review of depreciation, inquiries with management and sensitivity analysis of the infrastructure asset depreciation charge. Our audit work is complete and we have not identified any issues in this area.

2. Financial statements – Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Net pension liability – £72.548m	The Council's net pension liability at 31 March 2022 is £72.548m (PY £76.591m) comprising the Kent County Council Local Government Pension Scheme. 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.	See audit comments below	Light purple

Audit comments

We considered the following areas:

- assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.
- assessed the actuary's approach taken, detail work undertaken to confirm reasonableness of approach.
- 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	2.60%	2.55% - 2.60%	
Pension increase rate	3.20%	3.05% - 3.45%	
Salary growth	4.20%	0.5% - 2.5% above CPI inflation (3.10% - 5.1%)	
Life expectancy – Males currently aged 45 / 65	21.6 yrs	20.5 – 23.1	
Life expectancy – Females currently aged 45 / 65	23.7 yrs	23.4 – 25.0	

- confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimates.
- conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.
- confirmed adequacy of disclosure of the estimate in the financial statements.

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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
Provisions for NNDR appeals - £2.011m	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 £266k in 2021-22.	In the course of our work we have: • Assessed the method used by the Council to calculate the estimate is that agreed by all Kent Authorities. • Assessed if 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.	Light purple
Surplus assets - £81.22m	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 Surplus Assets as at 31 March 2022. This class of assets contains land at Princes Parade and Recreation Ground.	We have assessed management's estimate, considering: • 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. We consider management's estimate to be reasonable.	Light purple

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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
Land and Building valuations – Other - £26.4m	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),to complete the valuation of properties as at 31 March 2022, on a five yearly cyclical basis. 65% of total assets were revalued during 2021-22. The total year end valuation of land and buildings was £27.084m, a net increase of £0.661m from 2020-21 (£26.423m). Management have considered the year end value of non-valued properties, based on the market review provided by the valuer as at 31 March 2022, 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.	We identified a significant audit risk in respect of the valuation of land and buildings. In the course of our work we have: • checked the completeness and accuracy of the underlying information used to determine the valuation of land buildings; • reviewed the consistency of estimate against the valuation trends for the period; • checked the reasonableness of the net increase in the valuation of land and buildings; and • checked the adequacy of disclosure relating to the valuation of land and buildings in the financial statements. We consider management's estimate to be reasonable.	Light purple

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
Land and Buildings – Council Housing - £220.2m	The Council owns 3,396 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 to complete the valuation of these properties which was completed on a desktop basis this year using industry indices. The year end valuation of Council Housing was £220.2m, a net increase of £34.6m from 2020-21 (£185.6m).	In the course of our work we have: • assessed the Council's valuer, WHE, to be competent, capable and objective; • carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate; • checked the consistency of estimate against valuation trends for the period; • checked the reasonableness of the net increase in the valuation of council dwellings; and • checked the adequacy of disclosure of estimate in the financial statements. We consider management's estimate to be reasonable.	Light purple

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
Investment property - £29.35m	Investment property is required to be valued at fair value at year-end. The Council has engaged its valuer WHE to complete the valuation of investment properties as at 31 March 2022. 100% of investment property assets were revalued during 2021-22, and the fair value adjustment on valuation resulted in an increase of £3.086m across the portfolio.	We identified a significant audit risk in respect of the valuation Investment properties. In the course of our work we have: • reviewed the investment property valuation estimate in line with the revised ISA540 requirements; • assessed management's valuation expert, competent, capable and independent; • reviewed the valuations against the relevant market indices such as Grant Thornton Real Estate Market update for August 2022, Gerald Eve Market Valuations and Knight Frank yields guide as benchmark tools; and • reviewed the underlying information used to determine the estimate is complete and accurate We consider management's estimate to be reasonable.	Light purple
Minimum revenue provision - £1.211m	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. The year end MRP charge was £1.211km a net increase of £0.436m from 2020-21 (£0.775m).	We have carried out the following work: • 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; and • Assessed there are no changes to the authority's policy on MRP in comparison with 2020-2021. We consider management's estimate to be reasonable.	Light purple

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
Grant income recognition and presentation - £47.8m	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. 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: - Local Authority Discretionary Grant Fund (LADGF) - Additional Restrictions Grant 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: - Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) - Business Grants Fund - Local Restrictions Support Grant (including Addendum)	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 determines whether the Council recognises the grant at all; • Check of completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that determines whether the grant be recognised as a receipt in advance or in-year income; • The assessment for grants received, whether the grant is specific or non-specific grant, also whether it is a capital grant, as this impacts on where the grant income is presented within the CIES; and • Review of adequacy of disclosure of management's policy around recognition of grant income in the financial statements. We consider management's estimate to be reasonable.	Light purple

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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 – 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.

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.
Written representations	We have requested management's representations in advance of issuing the 2021-22 opinion on the financial statements.
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.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent and returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completing our work we have not found any material omissions in the financial statements to date.

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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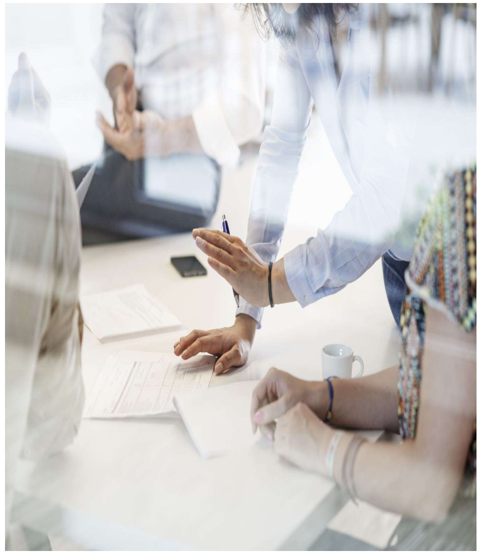
Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular 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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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. 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: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • 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	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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; or • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters
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. Note that this work is not required as the Council does not exceed the reporting threshold.
Certification of the closure of the audit	This is outstanding whilst we consider issues raised by local electors.



3. Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office issued its guidance for auditors in April 2020. 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 is presented alongside this report.

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. The risk we identified is detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its procurement activities. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Breach in Council's Contract Standing Orders During 2021-22 a significant procurement breach was identified by the Council through standard checks of controls.	The Council commissioned an internal audit which has uncovered a number of instances whereby officers were failing to comply with CSOs, and therefore, by definition, are failing to achieve the standards required by the Council in terms of procurement.	Our review of the work conducted by Internal Audit shows both significant and systemic deficiencies in the area of procurement and contract management, and is indicative that the behaviour and culture in this area is deficient. It is our Key Recommendation that the Council must fully action the recommendations set out by Internal Audit in both the Contract Management and Housing Planned Maintenance reviews.	There is no significant or material impact to the Council's 2021-22 financial statements. However, non-adherence to the Council's Contract Standing Orders calls into question if the Council has achieved value for money in the purchase of supplies and services using taxpayers' money, and if contracts have been fairly let in a proper competitive process. We will revisit this area of significant weakness in our work for 2022-23.

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we 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).

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:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Assurance Process	13,800	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 £13,800 in comparison to the total fee for the audit of £73,553 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.
Certification of Housing Capital Receipts return	6,000	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 £6,000 in comparison to the total fee for the audit of £73,553 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021-22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	Debtor and Creditor opening balances As part of our Debtor and Creditor work, we noted that there were several opening balances that were not valid for the period under audit.	The Council should ensure that brought forward Debtor and Creditor balances only include valid transactions, relevant to the financial year. Management response
Medium	Cleansing of the fixed asset register As part of our review of the fixed asset register we identified vehicle, plant and equipment assets with a nil net book value (NBV) that had a total historic cost of £7.7m, with an offsetting balance of £7.7m of accumulated depreciation. The balance sheet records the net book value and is correct. The Council's depreciation policy would indicate that the assets held at nil NBV are no longer in use. Good practice would require these assets to be written out of the fixed assets register or re-lifed if they are still operational.	The Council should co-ordinate a review of all assets held at nil net book value and write out those assets which are no longer in use. Any assets that remain in use should be reviewed to establish the appropriate value and useful economic life. Management response

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Internal Controls and Financial Statement issues

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified one issue in the audit of Folkestone and Hythe District Council's 2020-21 financial statements, which resulted in one recommendation being reported in our 2020-21 Audit Findings report. We have followed up on the implementation of our recommendation and is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**HRA – Componentisation** As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for year end valuations.	The issue of asset componentisation continues as management is not looking to componentise any asset parts below £5,000. The accounting policy in relation to asset componentisation should be reviewed to ensure that the Council is compliant with its own policy.

Assessment

✓ Action completed

X Not yet addressed

C. 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

An adjusted misstatement is set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Financial Instrument - Loan to Otterpool Park LLP We noted that Otterpool loan was held at cost of £1.25m, however the Otterpool Park LLP net asset position as at 31/03/2022 was £0.537m. We challenged management that if Otterpool Park LLP was no longer a going concern the maximum recovery in respect of the loan for the Council would be £0.537m.			
DR FV Impairment (loss)	712		712
CR FV Investments		(712)	
Overall impact	£712	(£712)	£712

C. 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.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
Group Balance Sheet We noted that the short-term debtors balance of £4.132m for 2020-21 in the Group Balance Sheet was incorrect and should be £17.442m	Group Balance Sheet should be amended to reflect the correct prior year value. Management response: Management agreed to amend.	✓
Assumptions made about the future and other major sources of estimation uncertainty – Note 4 We noted in Valuations (Property, Plant and Equipment , Investment Property & Heritage assets) that the 10% reduction or increase value disclosed was incorrect as it should be £35.8m, not £34.8m.	Note 4 should be amended to reflect the correct calculation of possible valuation movements. Management response: Management agreed to amend.	✓
Audit fees – Note 14 The payable for certification of housing benefit subsidy and housing capital receipts was incorrect as this should be £19,800, not £17,000.	Note 14 should be amended to reflect the correct values. Management response: Management agreed to amend.	✓
Impairment of Short-term Debtors – Note 21 The impairment balance disclosed in the Financial statement is incorrect as it should be £1.840m, not £1.478m.	Note 21 should be amended to include all impairments. Management response: Management agreed to amend.	✓
Interests in Companies and Other entities – Note 40 We identified some disclosure errors which were brought to management's notice. These errors were all minor and have no impact to the Balance Sheet or the Comprehensive Income and Expenditure Statement.	Note 40 should be amended to in the manner that has been communicated by the audit team. Management response: Management agreed to amend.	✓

C. Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Auditor recommendations	Adjusted?
Financial instruments – Note 27 Our audit work on financial instruments identified a £5m balance which had been classified and recorded as Money Market Fund however our review of this asset did not meet the classification of a Money Market Fund instead it should classified as structured loan and deposits.	Note 27 financial instruments should be correctly classified to reflect the nature of financial instruments. Management response: Management agreed to amend.	✓
Contractual Commitments – Note 16 Heating replacement programme balance of £0.48m is incorrect and should be £1.61m.	Note 16 should be amended to reflect the correct value for contractual commitments. Management response: Management agreed to amend.	✓

C. Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021-22 audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Fees, Charges & Other Service Income				Not material
As part of our Fees, Charges & Other Service Income testing, we noted an isolated error in Receipts in Advance calculation where the cash was not received.				
DR Rent/Service charge in advance (Liability code)		254		
DR Income (I&E)	18		Nil	
CR Caxton Debtor account		(254)		
CR Rent in advance (Liability code)	(18)			
Fees, Charges & Other Service Income				Not material - extrapolated
As part of our Fees, Charges & Other Service Income testing, we identified one transaction of £0.020m which was incorrectly classified as income instead of refund of expenditure. We extrapolated the impact of this error across the population tested which resulted in an extrapolated overstatement of £1.133m.				
Dr Other expenditure	1,133	Nil	Nil	
Cr Fees, Charges & Other Service Income	(1,133)			
Overall impact	£Nil	£Nil	£Nil	

D. Fees

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

Audit fees	Proposed fee	Final fee
Folkestone & Hythe District Council statutory audit	£73,553	TBC
Total audit fees (excluding VAT)	£73.553	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit-related services		
Certification of Housing Benefit Assurance Process	13,800	TBC
Certification of Housing Capital Receipts return	6,000	TBC
Total non-audit fees (excluding VAT)	£19,800	TBC

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DRAFT Independent auditor's report to the members of Folkestone & 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 Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, 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 2021/22.

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 2021/22 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.

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 21, 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 2021/22, 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 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 2021/22, 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

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 2022.

We have nothing to report in respect of the above matter except on 15 March 2023 we identified a significant weakness in the Authority's arrangements for improving economy, efficiency and effectiveness. This was in relation to systemic deficiencies in the Authority's procurement and contract management arrangements, identified through breach of the Authority's Contract Standing Orders and confirmed by internal audit investigation. We recommended that the Authority fully implement the recommendations made by internal audit in their Contract Management and Housing Planned Maintenance reviews.

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 December 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.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 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}

Sophia Y Brown, Key Audit Partner

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

London

Date

STATEMENT OF ACCOUNTS

2021/22

Folkestone & Hythe District Council

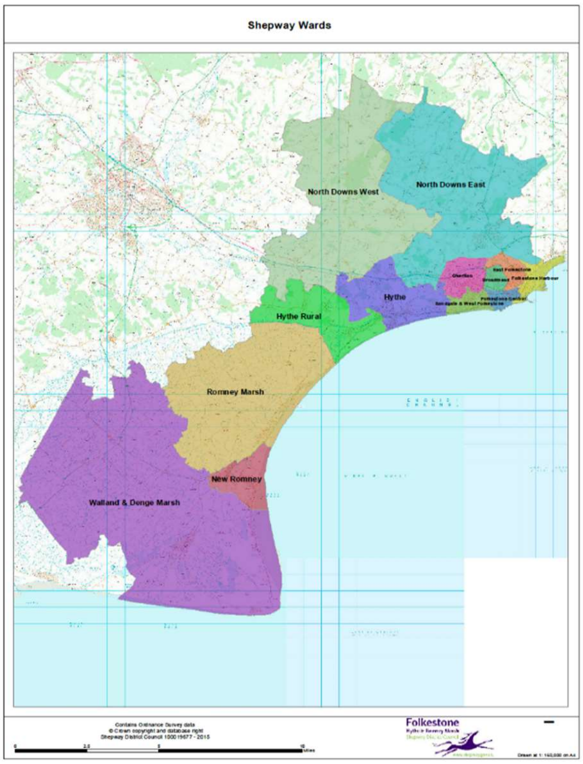
Contents

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 113,000[1] 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 skills[2].

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 community hubs have continued to provide a range of services to support the health and wellbeing of local communities across the district. The council during the year supported the hubs in accessing funding from Kent County Council's 'Helping Hands' fund where a total of £26k was allocated across the three hubs in the district to provide a range of support for people in need, including help with their utility bills and providing food vouchers.

Business rates reliefs and grants for businesses predominantly in the retail, hospitality and leisure sectors continued to be administered in line with government guidelines with nearly £10m being paid out during 2021/22.

Whilst the Council received a substantial amount of government funding in 2020/21 and some funding in 2021/22, the Council's financial strategy assumes there will not be a requirement for further lockdown and no specific additional expenditure relating to COVID-19 has been incorporated in the plan. A prudent view has been taken in the assumption that income realisable from sales, fees and charges will return to pre COVID levels. There are no commitments from Central Government regarding any further longer term COVID funding for local authorities.

GOVERNANCE

Our Political Leadership

The political leadership of the Council during the financial year 2021/22 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.

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

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

Our Managerial Leadership

The managerial leadership is made up of the Corporate Leadership Team (CLT: Chief Executive (the Head of Paid Service) and three Corporate Directors). CLT is supported by 1 Assistant Director and 8 Chief Officers.

Governance Arrangements

Member / officer relations are underpinned by a protocol; which form 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. Overview & Scrutiny Committee meetings are held 6 times a year with a committee work plan to include clearly scoped topics and Finance & Performance Sub-Committee (FPSC) 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 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 120-139.

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 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 2021/22 and 2022/23.

Annual Performance Report 2021-22

The Council has continued to pursue an ambitious corporate agenda in 2021-22 as the district recovers from the pandemic. It is a testament to the hard work and resilience of teams across the organisation in contributing towards the priorities set out in the Corporate Plan.

Some of the highlights from the year include:

- The adoption of the Core Strategy Review (CSR) by members of Cabinet and Full Council in March 2022 that will guide future development within the district over the next 15 years to 2037. This follows an extensive process of consultation over several years and a public examination hosted by independent Planning Inspectors.

- The Housing Landlord Service seeing its ‘breach consumer standard notice’ lifted during the year by government’s Regulator of Social Housing. This was as a result of the hard work being undertaken by the Housing team to make the necessary major improvements following the landlord service being brought back into the Council from East Kent Housing in October 2020.

- The Council during the year supported the community hubs in accessing funding from Kent County Council’s ‘Helping Hands’ fund where a total of £26k was allocated across the three hubs to provide a range of support for people in need, including help with their utility bills and providing food vouchers. A further £30k of funding has been allocated by the Council to support the continued core work of the hubs in 2022/23 and work is ongoing to develop new grant agreements that will provide further support to the hubs’ welfare response to the war in Ukraine in addition to the core work.

- In response to the Council's declaration of a climate change emergency back in 2019, proposals for a district wide Carbon Action Plan were approved during the year by Cabinet members that will empower local communities, businesses, residents and key partner organisations to achieve net zero by 2030. Work is being undertaken as part of the plan for the council to establish and run a 'Carbon Innovation Lab' that will work with key stakeholder groups to focus on ways of reducing carbon.

- The adoption of the Folkestone Place Plan, an ambitious plan to create a sustainable and vibrant future for Folkestone Town Centre, with work now being undertaken on identifying projects that will support an application for funding from the government's Levelling Up Fund.

- The opening of two new business centres within the district (Romney Marsh Business Hub, New Romney and Bouverie House Business centre, Folkestone) providing flexible working space to support local businesses to grow.

- The planning approval of 30 new low energy homes at the former Highview School site at Moat Farm Road, Folkestone that have been designed by the Council's in-house team with support of consultants and will feature low energy design principles, including high levels of insulation, solar panels and air source heat pumps.

- The rollout of the first new EV charging points across the district. A total of 18 points are now operational in 5 district owned car parks at the end of the year offering residents and visitors a mixture of fast and rapid charging speeds (dependent on location) for their electric vehicles. Further rollout of these new charging points will continue into the 2022-23 year.

- Securing Green Flag Status for Kingsnorth Gardens in Folkestone making it the fourth green space within the district to receive the prestigious award alongside the Royal Military Canal, Lower Leas Coastal Park and Radnor Park. The award is given to green spaces which boast the highest possible environmental standards, are beautifully maintained and have excellent visitor facilities.

- Successfully retaining the Customer Service Excellence accreditation for the eighth year in a row and building on the previous recognition for customer service by being awarded a further two compliance plusses, bringing the overall total to seventeen, the highest the Council has ever achieved since participating in accreditation and reflects the commitment to going above and beyond to support customers.

- Ranking fourth in the Best Companies 'Not-For-Profit Body's' to work for and 57th in the best companies to work for list in the South East Region in 2021.

- Achieving Gold in the Armed Forces Covenant Employer Recognition Scheme (ERS) in recognition of the council's work in employing and supporting persons within the armed forces community.

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, an updated version was agreed by Cabinet in March 2022. 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 Medium Term Financial Strategy 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 updated Business Plan for Otterpool Park LLP was approved by Cabinet in January 2022 which sets out the LLP's priorities as it continues to progress plans to deliver a 21st century garden town at Otterpool Park. The project has attracted £3.4m of capacity funding from Government to support the Council's work to date and Homes England, the Government's housing agency, has also invested in land at Otterpool Park to support the proposals. The Business Plan also sets out the details of a proposed strategic land agreement and associated funding arrangements between the Council and the LLP which are in the process of being finalised. Work continues on a new outline planning application to secure planning in 2022.

Climate Change – The Climate and Ecological Emergency Working Group met for the first time in October 2019 and made a commitment to reach net zero carbon emissions by 2030. Since then, a baseline year 2018/19 was established, carbon footprint from the council's own operations and estate was calculated and the Carbon Action Plan (February 2021) was adopted setting out 33 actions to reduce our carbon emissions. Progress is being made on the 33 high level actions set out in the Carbon Action Plan which should have a positive impact on reducing emissions over the next few years. In addition, changes to the carbon content of grid-supplied energy is also likely to reduce the emissions attributable to electricity use. However, it is uncertain whether these changes will be enough in themselves for the council to reach net zero emissions by 2030. Officers are therefore looking to commission a review of the Carbon Action Plan to provide more detailed information.

Mountfield Road Industrial Estate, New Romney - In 2020/21 the Council entered into a joint venture agreement with East Kent Spatial Development Company (EKSDC) relating to the development of a business hub at Mountfield Road Industrial Estate, New Romney. In 2021/22 the business hub was completed and the venture transferred to EKSDC, who now own and operate the hub and the Council no longer owns the asset. 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 completing phase 2 has been delayed by six months to the end of September 2022. The Council is progressing plans to dispose of a significant part of the phase 2 site for employment development purposes and is considering whether to develop the remainder itself, also for employment purposes. The aim of the project is to develop the area, and as a result realise capital appreciation on the land owned by the Council.

Town Centre Regeneration - In September 2021 Cabinet agreed the Folkestone Town Centre Place Plan which sets clear 'missions' to overcome decline in Folkestone's town centre to ensure it has a sustainable and vibrant future and focuses on six action areas within the town centre. The Council received £125,000 capacity funding from the Government's Levelling Up Fund in 2020/21 to assist with preparing a bid application for up to £20 million from the fund for investment in local infrastructure which has a "visible impact on people and their communities". The Council have developed several projects for inclusion in the funding application which was submitted in August 2022.

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 pandemic which will come to an end in Autumn 2022. In September 2021 Cabinet agreed the delivery of a new health centre provision by Premier Primarycare Ltd as phase 1 of the redevelopment and further use of the building is being explored.

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. In 2021/22 the Council was successful in securing £1.15m funding from the Brownfield Land Release Fund for the remediation of the site. A contract has been awarded for the remediation works which are due to complete in June 2023. Sales contracts for the residential and commercial sites are being negotiated with developers.

Highview – The Council purchased the former Highview School site in April 2017 and the site has been prepared for the development of 30 Council homes for affordable rent and shared ownership purchase. In January 2022 Cabinet agreed that the units should be delivered to a Zero Carbon in Use standard to align with the Council's ambitions following the announcement of a Climate Emergency and the Government's requirement for all homes to be zero carbon in use by 2050. Planning permission was approved in August 2022 and procurement of a design and build contractor is underway with construction due to start in Autumn 2022.

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 project recommenced in January 2021 and the Council appointed BAM Construction to deliver a new leisure centre, promenade and infrastructure works, as well as new homes. During 2021/22 significant ecological work and extensive site investigations were undertaken, the remediation strategy was developed, disposal of residential land areas was undertaken and Freedom Leisure (Wealden Leisure Ltd) have been appointed as the Leisure Centre operator. Work continues on the project to deliver the key priorities.

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. In June 2021 Cabinet agreed that a new Customer Access Point would be established initially within the Civic Offices and subsequently within FOLCA in Folkestone Town Centre in Autumn 2021 when the building ceases use as a COVID vaccination centre. The relocation of the Civic Offices is being taken forward separately and proposals include the creation of a smaller, purpose built, carbon-efficient facility with office space, meeting rooms and a civic chamber at Otterpool Park.

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 Medium Term Financial Strategy (MTFS) pushes the planning horizon to March 2026. The MTFS was reported to Council on the 24th November 2021 and significantly shaped the annual budget setting cycle for 2022/23. Similarly the MTFS considered by Cabinet on 11th November 2020 and the Budget Strategy on 9th December 2020 shaped the framework for the setting of a balanced budget for 2021/22.

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 £5.8 million over the lifetime of the MTFS (2022/23-2025/26). Cabinet's budget recommendation for 2021/22 was considered at a meeting of Full Council on 24 February 2021. Council approved a balanced budget for 2022/23 on 23rd February 2022.

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 organisations (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 councils KPIs was reported to the June 2022 Cabinet meeting.

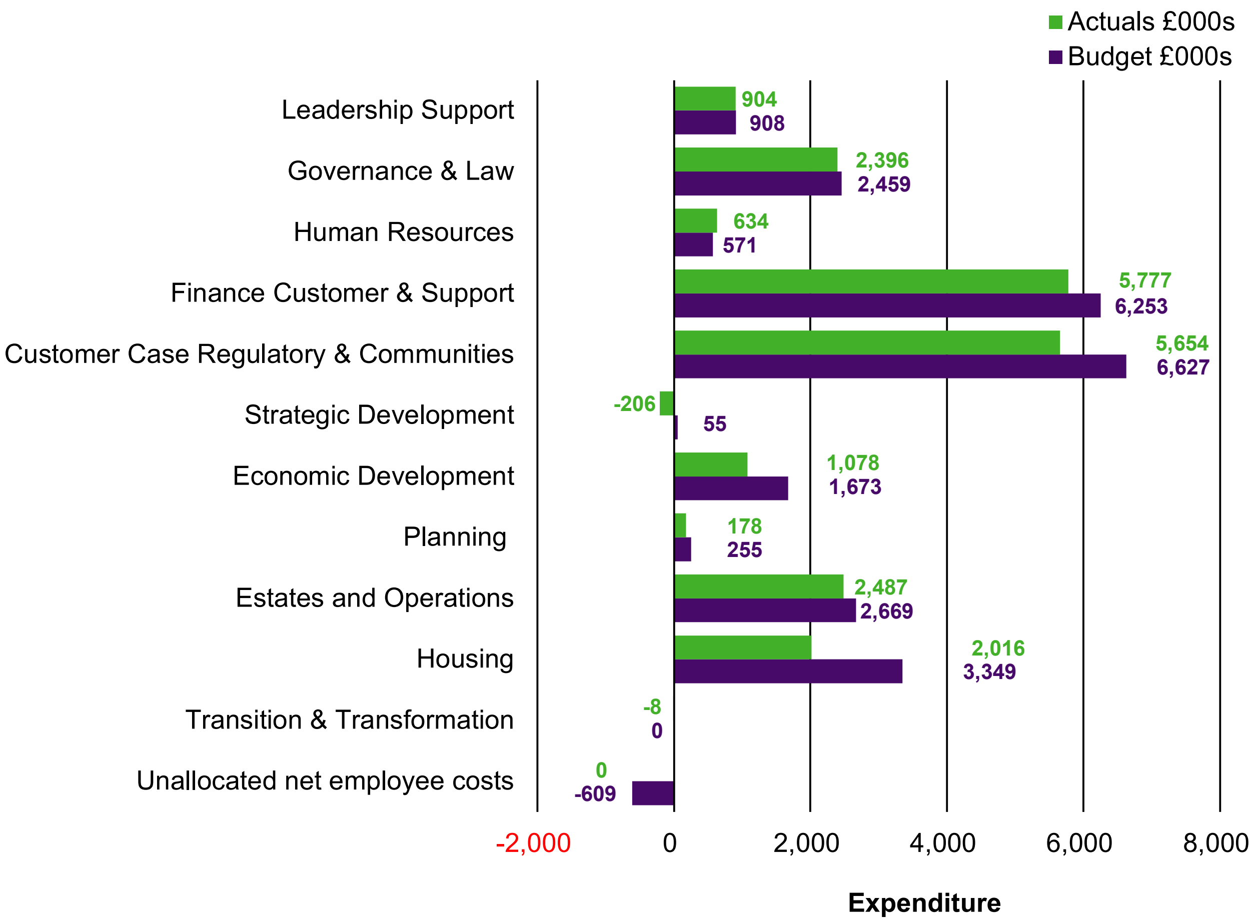
The Councils outturn performance includes:

Performance Indicator	Actual	Target	Status	2020/21 Comparison
Percentage of Council Tax due collected in year	96.30%	97.30%	✗	↑
Percentage of Non-Domestic Rates due collected in year	96.81%	97.50%	✗	↑
Average number of days taken to process new claims for Housing Benefit	12.2 days	17 days	✓	↑
Average time for graffiti to be removed from the time of being reported	30 hours	48 hours	✓	↑
Percentage of compliant air quality monitoring sites	100.00%	100.00%	✓	↑
Percentage of major planning applications to be determined within statutory period	87.20%	60.00%	✓	↓
Average number of households in Temporary Accommodation	29	35	✓	↑
Average number of rough sleepers in the period	5.63	6.00	✓	N/A

FINANCIAL PERFORMANCE

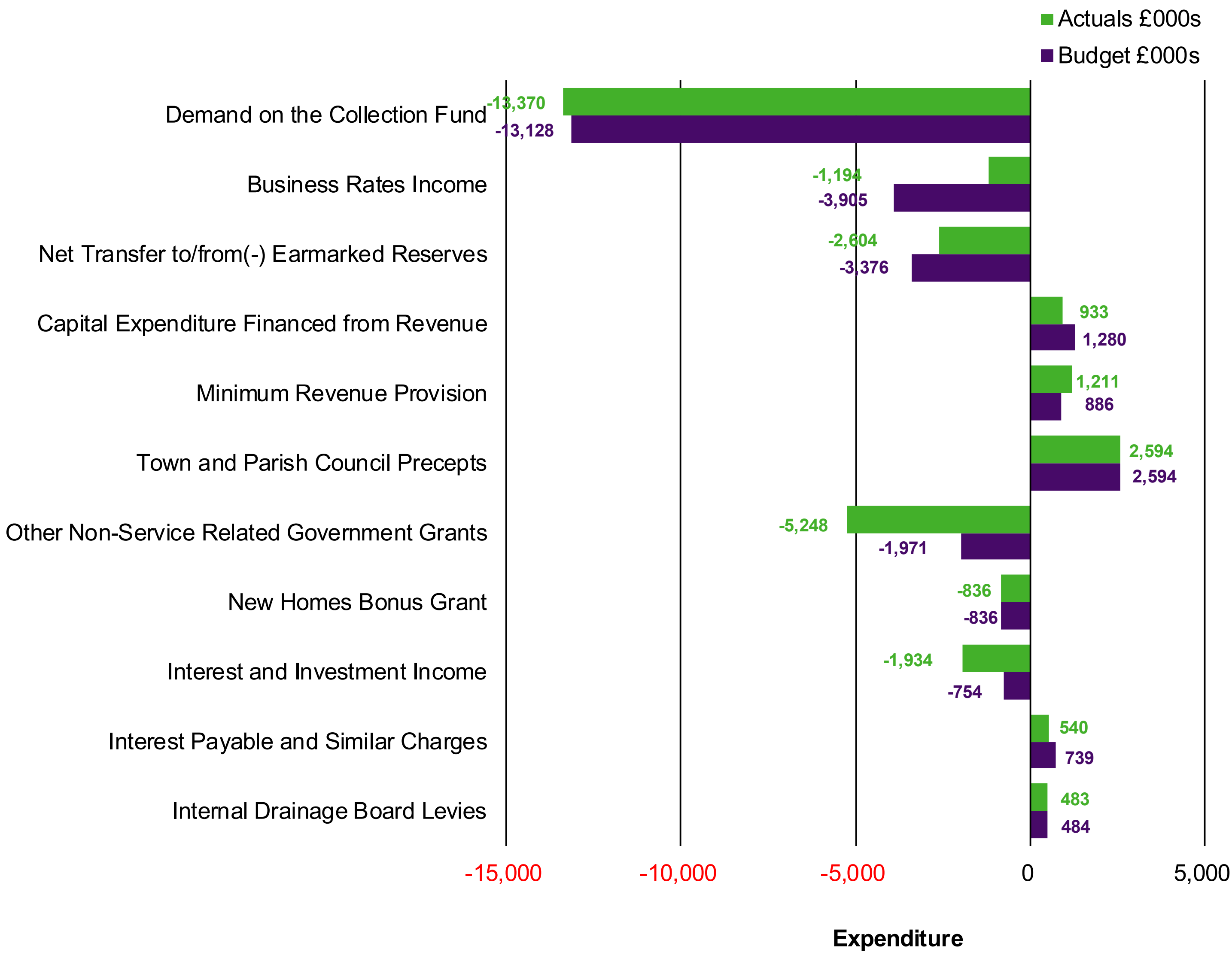
General Fund – Revenue

The latest approved budget for net cost of services to deliver the core services of the council and meet its strategic objectives was £24.2m. Delivering expenditure in line with agreed budgets is an important performance indicator and this was achieved in 2021/22 as outlined below:



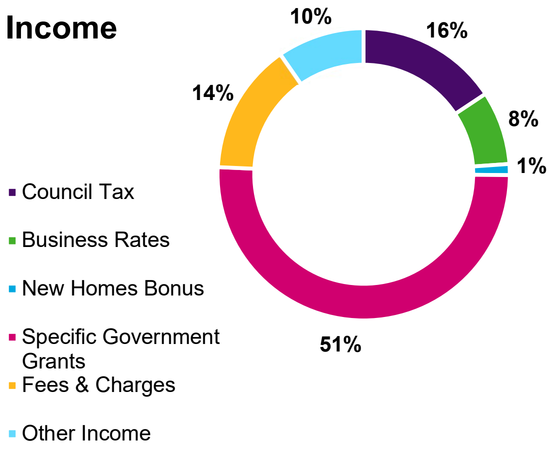
The total net cost of services for 2021/22 of £20.7m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £22.3m before the debit adjustment in respect of the HRA of £1.6m, under the heading of “As reported for resource management”.

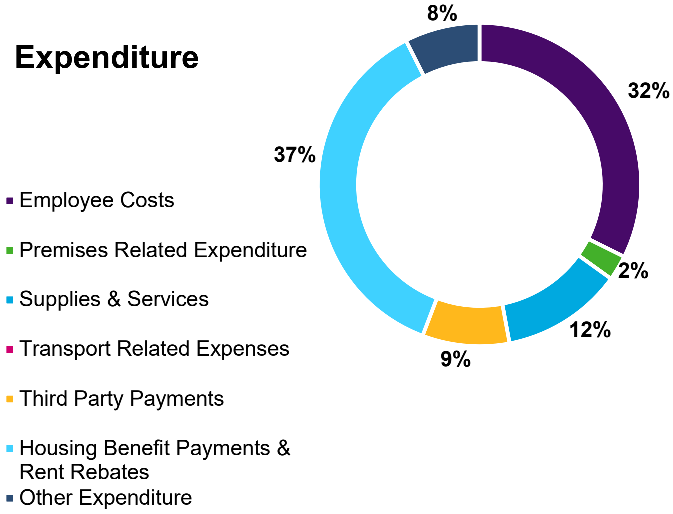
The following entries affect the Other Income and Expenditure within the EFA (in addition to entries from the HRA), are reported to Members through the in-year monitoring and outturn reports.



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:





The final outturn shows a net deficit for the year of £1.3m against the latest approved budgeted deficit of £6.3m. This represents a favourable variance of £5.0m compared to the latest approved 2021/22 budget.

It is important to note that this deficit position includes a net transfer from earmarked reserves of (£2.6m) which relates to the Collection Fund and the required accounting entries to comply with Collection Fund accounting regulations. It relates to the additional Covid reliefs awarded by the Government in 2020/21 and 2021/22 to businesses impacted by the pandemic. Due to the timing of Collection Fund accounting, the awarding of these reliefs result in a deficit to the General Fund in the subsequent year. An amount of £5.8m was set aside in earmarked reserves at the end of 2020/21 to offset the impact to the General Fund in 2021/22 and (£5.6m) has been drawn down. At the end of 2021/22 an amount of £2.3m has been set aside to offset the anticipated adverse impact on the General Fund in 2022/23. Excluding this amount the outturn position is a deficit of £4.5m, which is an underspend of (£1.8m).

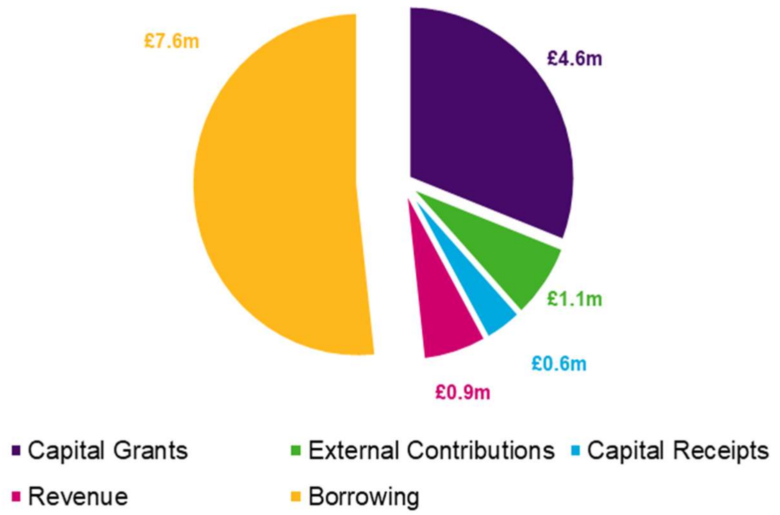
Further detail can be found in the Outturn report to Cabinet in June 2022.

General Fund Capital

The General Fund Capital summary position is outlined below:

Service Units	Latest Budget 2021/22 £'000	Final Outturn 2021/22 £'000	Variance Budget to Outturn £'000
Operations	4,516	2,954	(1,562)
Corporate Services	1,416	1,124	(292)
Housing	1,587	1,630	43
Place	14,662	8,965	(5,697)
Governance & Law	0	22	22
Economic Development	625	44	(581)
Total Capital Expenditure	**22,806**	**14,739**	**(8,067)**

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, Princes Parade, Mountfield Road Industrial Estate, Community Led Local Development ERDF Capital Projects (externally funded) and Oportunitas Loan and Share Capital Phase 2.

Further details can be found in the June 2022 Cabinet report.

Housing Revenue Account

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

	Latest Budget 2021/22 £000's	Final Outturn 2021/22 £000's	Variance Budget to Outturn £000's
Income	(15,831)	(18,704)	(2,873)
Expenditure	12,943	20,064	7,121
HRA Share of Corporate Costs	175	160	(15)
Net Cost of HRA Services	**(2,713)**	**1,520**	**4,233**
Interest Payable/Receivable	1,623	999	(624)
HRA Surplus/Deficit	**(1,090)**	**2,519**	**3,609**
Other items of Income & Expenditure	(295)	(4,794)	(4,499)
Revenue Contribution to Capital	5,938	4,249	(1,690)
Decrease/(Increase) to HRA Reserve	**4,553**	**1,974**	**(2,579)**

The main reason for the variance is a £1.7m 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 2021/22 £000's	Final Outturn 2021/22 £000's	Variance Budget to Outturn £000's
HRA Capital programme	**14,605**	**11,136**	**(3,469)**

The main reason for the variance compared to the latest approved budget, is an underspend on the current year's planned programme due to delays in sites being ready for works to commence. These schemes have been re-profiled and works on site are now due to commence in 2022/23 for Highview and Biggins Wood.

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 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 2022, there is capital investment planned for the next three years totalling £154.3 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.

Future Financial Resilience

The Council has coped well with the impact of COVID-19. It had maintained a level of reserves which has and continues to provide it with some protection against the difficult economic times and short-term gaps in funding. The table below shows the Council's reserves position for the last five years which allowed it to withstand the impact of the pandemic in 2019/20 and 2020/21.

The level of reserves currently held by Folkestone and Hythe gives it a secure financial base, however, it is important to have an appropriate balance between supporting the financial position of the Council and planning the delivery of services. The Council has identified specific uses for much of the reserves including setting aside sums to support the regeneration of High Streets and sums to support the Council's carbon net zero ambitions amongst other key priorities. Whilst the Council will seek to continue to add to earmarked reserves and seek to deploy them for their intended purpose, in the current financial climate it may be necessary to deploy reserves for other important needs.

	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Usable Reserves	(41,041)	(51,176)	(53,544)	(56,334)	(54,034)
Unusable Reserves	(81,481)	(118,658)	(128,008)	(138,128)	(190,551)
Total Reserves	(122,522)	(169,834)	(181,552)	(194,462)	(244,585)
% Increase	**13%**	**39%**	**7%**	**7%**	**26%**

The Medium Term Financial Strategy for 2022/23 to 2025/26 details the Council's future financial strategy.

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 2022.

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:

Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2021/22.

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 *2021/22 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 2022 and its income and expenditure for the year then ended.

CSpendle

Signed:

Charlotte Spendley, FCCA
Director of Corporate Services

Date: 23rd January 2023

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 2022.

Signed:

Councillor Ann Berry
Chairman, Audit and Governance Committee

Date:

Core Financial Statements

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.

Movement in Reserves Statement

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
2021/22	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Balance at 31 March 2021	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**
Movement in reserves during 2021/22								
Total Comprehensive Income and Expenditure	1,467	2,517	-	-	-	3,984	(54,107)	**(50,123)**
Adjustments between accounting basis and funding basis under regulations (Note 5)	(1,049)	(545)	(633)	3,271	(2,728)	(1,684)	1,684	**-**
(Increase) or Decrease in 2021/22	**418**	**1,972**	**(633)**	**3,271**	**(2,728)**	**2,300**	**(52,423)**	**(50,123)**
Balance at 31st March 2022 carried forward	**(26,977)**	**(10,065)**	**(9,069)**	**-**	**(7,923)**	**(54,034)**	**(190,551)**	**(244,585)**
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	2,452	8,221	-	-	-	**10,674**	(23,583)	**(12,909)**
Adjustments between accounting basis and funding basis under regulations (Note 5)	(5,856)	(7,783)	(305)	1,324	(843)	**(13,463)**	13,463	**-**
(Increase) or Decrease in 2020/21	**(3,404)**	**438**	**(305)**	**1,324**	**(843)**	**(2,789)**	**(10,120)**	**(12,909)**
Balance at 31st March 2021 carried forward	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**

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

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.

Gross Expenditure £000s	Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Income £000s	Net Expenditure £000s
			Continuing Operations			
1,198	(121)	1,078	Leadership Support	1,271	(306)	966
2,922	(354)	2,568	Governance & Law	3,275	(386)	2,889
900	(213)	687	Human Resources	845	(128)	717
44,490	(37,704)	6,786	Finance Customer & Support	36,752	(31,643)	5,108
851	(17)	834	Strategic Development	591	(721)	(130)
1,784	(935)	849	Economic Development	1,838	(675)	1,164
1,621	(1,337)	284	Planning	1,697	(1,288)	409
9,420	(5,234)	4,186	Operations	9,686	(6,264)	3,422
4,235	(4,085)	150	Housing	5,584	(6,004)	(420)
8,709	(2,700)	6,009	Place	9,060	(3,111)	5,949
31	-	31	Transition & Transformation	8	-	8
23,323	(16,517)	6,806	Local Authority Housing (HRA)	20,384	(18,866)	1,517
99,484	**(69,217)**	**30,267**	**(Surplus)/Deficit on Continuing Operations**	**90,993**	**(69,392)**	**21,601**
3,381	(852)	2,529	Other Operating Expenditure (Note 9)	3,297	(837)	2,460
4,569	(1,926)	2,643	Financing and Investment Income and Expenditure (Note 10)	5,821	(342)	5,478
6,717	(31,483)	(24,766)	Taxation and Non-specific Grant Income (Note 11)	6,603	(32,157)	(25,554)
114,151	**(103,478)**	**10,674**	**(Surplus) or Deficit on Provision of Services**	**106,713**	**(102,727)**	**3,984**
		(28,257)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 31)			(45,395)
		4,673	Re-measurement of net defined liability (Note 29)			(8,713)
		(23,584)	**Other Comprehensive Income and Expenditure**			**(54,108)**
		(12,911)	**TOTAL Comprehensive Income and Expenditure**			**(50,124)**

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-21 £000s		Note	31-Mar-22 £000s
185,603	Council dwellings	16	220,220
26,423	Other land and buildings	16	27,084
3,766	Vehicles, plant, furniture and equipme	16	4,710
10,346	Infrastructure assets	16	9,390
3,461	Community assets	16	3,461
70,499	Surplus assets	16	81,202
2,034	Assets under construction	16	8,036
2,998	Heritage assets	17	2,998
28,396	Investment property	18	29,356
179	Intangible assets	-	206
19,922	Long term investments	19	18,962
7,919	Long term debtors	20	9,032
361,547	**Long Term Assets**		414,657
8	Inventories		9
17,407	Short term debtors	21	15,502
2,320	Cash and cash equivalents	22	14,730
19,735	**Current Assets**		**30,240**
(6,902)	Short term borrowing	23	(40,602)
(27,381)	Short term creditors	24	(24,839)
(1,447)	Capital grants received in advance	-	(3,089)
(2,277)	Provisions	25	(2,011)
(38,007)	**Current Liabilities**		**(70,542)**
(72,155)	Long term borrowing	26	(57,155)
(76,591)	Net pensions liability	29	(72,548)
(67)	Provisions	25	(67)
(148,813)	**Long Term Liabilities**		**(129,770)**
194,462	**Net Assets**		**244,585**
(56,334)	Usable reserves	30	(54,034)
(138,128)	Unusable reserves	31	(190,551)
(194,462)	**Total Reserves**		**(244,585)**

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 2022.

CSpendle

Charlotte Spendley, FCCA
Director of Corporate Services Date: 23rd January 2023

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.

2020/21 £000s		**Note**	**2021/22 £000s**
(10,674)	Net surplus or (deficit) on the provision of services		**(3,984)**
25,677	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	**12,994**
(5,965)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	35	**(10,514)**
9,038	Net Cash flows from operating activities		**(1,504)**
(10,755)	Net Cash flows from Investing Activities	36	**(12,000)**
(6,533)	Net Cash flows from Financing Activities	37	**25,914**
(8,250)	**Net increase or (decrease) in cash and cash equivalents**		**12,410**
10,570	Cash and cash equivalents at the beginning of the reporting period		2,320
2,320	Cash and cash equivalents at the end of the reporting period	22	**14,730**

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 2021/22 financial year and its position at the year end of 31 March 2022. 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 2021/22* 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

- 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.

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:

- IAS IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

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 2021/22 a full revaluation of council dwellings was undertaken resulting in a balance sheet value of £220.2m (2020/21 £185.6m).

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 39 on page 95.

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.

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 and Otterpool Park Development Company
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. It is deemed that by its nature and context in the Council's operations the companies are material and so their results have been consolidated into the group accounts.

East Kent Spacial Development Company (EKSDC)
In 2020/21 the Council entered into a partnership with the East Kent Spatial Development Company (EKSDC), which is partnership of 4 councils in East Kent. It is a local authority controlled company limited by guarantee. The partnership relates to the development of a business hubs in the partners area to stimulate employment and regeneration. The business hub was completed in 2021/22 and the venture transferred to EKSDC, who now own and operate the hub and the Council no longer own the asset. The cost of £473k relating to this venture has been treated in the accounts as a Revenue Expenditure Funded from Capital under Statute (REFCUS) as this expenditure is of a capital nature but does not result in the creation of a non-current asset on the Balance Sheet. 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 but has been disclosed as a related party in Note 38 on page 94.

Mountfield Road – New Businesses
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 completing phase 2 has been delayed by six months to the end of September 2022. The Council is progressing plans to dispose of a significant part of the phase 2 site for employment development purposes and is considering whether to develop the remainder itself, also for employment purposes. The aim of the project is to develop the area, as a result realise capital appreciation on the land owned by the Council and as such the existing land and expenditure incurred of £3.01m as at 31 March 2022 are held as assets under construction on the balance sheet.

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 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. 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.	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES. The effects on the overall asset valuations of a 10% reduction or increase would result in a change of £34.8m on the revaluation reserve and/or CIES.
Pension liability	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.	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 £3.6m. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 29.
Provisions	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.	The business rates rateable value at 31/3/2022 was £73m. For every 1% successful reduction in the rateable value, it is equal to a cost of £146k to the Council (for a single year).

Item	Uncertainties	Effect if actual results differ from assumptions
Fair value measurements	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. 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 18 and 27.	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 2021/22	**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						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs (transferred to or from the Pensions Reserve)	(3,870)	(800)	-	-	-	4,670
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	(2,064)	-	-	-	-	2,064
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	1,692	-	-	-	-	(1,692)
Holiday pay (transferred to the Accumulated Absences Reserve)	74	12	-	-	-	(86)
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)	(5,292)	(7,758)	-	-	-	13,050
Total Adjustments to Revenue Resources	**(9,460)**	**(8,546)**	**-**	**-**	**-**	**18,006**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	129	1,728	-	(2,619)	-	762
Transfer of capital grants and contributions to capital grants unapplied	-	-	-	-	(4,911)	4,911
Administration costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	-	-
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	-	-	(2,408)	-	-	2,408
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,211	-	-	-	-	(1,211)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	932	4,288	-	-	-	(5,220)
Total Adjustments to between Capital and Revenue Resources	**2,053**	**6,016**	**(2,408)**	**(2,400)**	**(4,911)**	**1,650**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,767	-	(1,767)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	5,679	-	-	(5,679)
Application of capital grants to finance capital expenditure	6,363	1,989	-	-	2,183	(10,535)
Cash payments in relation to deferred capital receipts	(5)	(4)	-	-	-	9
Total Adjustments to Capital Resources	**6,358**	**1,985**	**5,679**	**1,767**	**2,183**	**(17,972)**
Total Adjustments	**(1,049)**	**(545)**	**3,271**	**(633)**	**(2,728)**	**1,684**

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						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
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 NDR (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
Transfer of capital grants and contributions to capital grants unapplied	-	-	-	-	(1,961)	1,961
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)**	**(1,961)**	**(1,543)**
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	-	-	-	1,118	(4,881)
Cash payments in relation to deferred capital receipts	(5)	(3)	-	-	-	8
Total Adjustments to Capital Resources	**3,758**	**(3)**	**3,965**	**2,337**	**1,118**	**(11,175)**
Total Adjustments	**492**	**(7,783)**	**1,324**	**(305)**	**(843)**	**7,115**

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 2021/22. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

Earmarked Reserves	Balance 01-Apr-20 £000s	Transfers In £000s	Transfers Out £000s	Balance 31-Mar-21 £000s	Transfers In £000s	Transfers Out £000s	Balance 31-Mar-22 £000s
General Fund							
Business Rates	(5,699)	(589)	3,565	(2,723)	(706)	767	**(2,662)**
Leisure Reserve	(497)	(50)	-	(547)	(50)	150	**(447)**
Carry Forwards	(681)	(393)	383	(691)	(999)	334	**(1,356)**
Vehicles, Equipment and Technology	(257)	(166)	140	(283)	(150)	146	**(287)**
Invest to Save	(366)	-	366	-	-	-	**-**
Maintenance of Graves	(12)	-	-	(12)			**(12)**
New Homes Bonus	(2,360)	(1,422)	1,441	(2,341)	(830)	1,174	**(1,997)**
Corporate Initiatives	(998)	-	400	(598)	(497)	135	**(960)**
IFRS Reserve	(31)	-	23	(8)	-	3	**(5)**
Otterpool Park Garden Town	(1,570)	-	1,570	-	-	-	**-**
Economic Development	(4,384)	(428)	2,821	(1,991)	(287)	293	**(1,985)**
Community Led Housing	(417)	-	52	(365)	-	55	**(310)**
Lydd Airport	(9)	-	-	(9)	-	-	**(9)**
Homelessness Prevention	(401)	(444)	357	(488)	(895)	425	**(958)**
High Street Regeneration	(3,000)	-	930	(2,070)	-	495	**(1,575)**
Climate Change	-	(5,000)	54	(4,946)	-	66	**(4,880)**
COVID	-	(6,501)	-	(6,501)	(2,871)	5,846	**(3,526)**
	(20,682)	**(14,993)**	**12,102**	**(23,573)**	**(7,285)**	**9,889**	**(20,969)**

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 2021/22 (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	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	904	185	1,089	(123)	966
Governance & Law	2,396	360	2,756	133	2,889
Human Resources	634	136	770	(53)	717
Finance Customer & Support	5,540	(48)	5,492	(384)	5,108
Strategic Development	(206)	128	(78)	(52)	(130)
Economic Development	1,078	99	1,177	(13)	1,164
Planning	178	378	556	(147)	409
Operations	2,487	(143)	2,344	1,078	3,422
Housing	2,016	(2,358)	(342)	(78)	(420)
Place	5,654	621	6,275	(326)	5,949
Transition & Transformation	(8)	26	18	(10)	8
Local Authority Housing (HRA)	1,654	(6,518)	(4,864)	6,382	1,518
(Surplus)/Deficit on Continuing Operations	**22,327**	**(7,133)**	**15,194**	**6,407**	**21,601**
Other Income and Expenditure	(18,970)	6,880	(12,804)	(4,812)	(17,616)
(Surplus) or Deficit on Provision of Services	**3,357**	**(253)**	**2,390**	**1,595**	**3,984**
Opening General Fund and HRA Balance			**(39,432)**		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			**2,390**		
Closing General Fund and HRA Balance at 31 March*			**(37,042)**		

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

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2020/21	As reported for resource management	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
Operations	2,590	(81)	2,509	1,292	3,801
Housing	27	257	284	(134)	150
Place	5,549	848	6,397	(388)	6,009
Transition & Transformation	10	35	45	(14)	31
Local Authority Housing (HRA)	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

Expenditure and Income Analysed by Nature

	2020/21* £000s	2021/22 £000s
Expenditure		
Employee Benefits Expense	25,952	23,485
Other Services Expense	69,183	56,054
Depreciation, Amortisation & Impairment	10,278	11,604
Interest Payments	3,180	4,221
Precepts & Levies	3,242	3,297
Gain / (Loss) on Disposal of Assets	(837)	(837)
Total Expenditure	**110,999**	**97,824**
Income		
Fees, Charges & Other Service Income	(30,020)	(31,499)
Interest & Investment Income	(5,208)	(14)
Income from Council Tax & NDR	(11,919)	(14,564)
Government Grants & Contributions	(53,178)	(47,762)
Total Income	**(100,325)**	**(93,839)**
(Surplus) or Deficit on Provision of Services	**10,674**	**3,984**

*Prior year comparatives have been restated to include Apprenticeship Levy funding

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).

2020/21 Gross Expenditure £000s	2020/21 Income £000s	2020/21 Net Expenditure £000s		2021/22 Gross Expenditure £000s	2021/22 Income £000s	2021/22 Net Expenditure £000s
			Other Housing Services			
21,772	(21,068)	704	Housing Benefit	19,374	(19,280)	94
8,521	(8,267)	254	Housing Rebates	7,958	(7,713)	245

9. Other Operating Expenditure

Other Operating Expenditure	2020/21 £000s	2021/22 £000s
Parish precepts	2,549	2,594
Internal Drainage Board levies	474	484
Payments to the Government Housing Capital Receipts Pool	219	219
Gains or losses on the disposal of non-current assets	(837)	(837)
Movement in fair value of surplus assets	125	-
	2,529	**2,460**

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2020/21 £000s	2021/22 £000s
Interest payable and similar charges	1,708	1,907
Net interest on net defined liability	1,472	1,491
Investment property rental income	(1,005)	(1,073)
Interest receivable and similar income	(912)	(861)
Financial Instruments fair valuation adjustments	(1,168)	2,095
Investment asset write off	-	110
Income and expenditure in relation to investment properties and changes in their fair value (see Note 18)	2,549	1,809
	2,643	**5,478**

11. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2020/21 £000s	2021/22 £000s
Council tax income	(12,878)	(13,370)
Non domestic rates	959	(1,194)
Non-ring fenced government grants	(11,211)	(6,084)
Capital grants and contributions	(1,636)	(4,906)
	(24,766)	**(25,554)**

12. Members' Allowances

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

Members Allowances	2020/21	2021/22
	£000s	£000s
Allowances	318	322
Expenses	10	11
Total	328	333

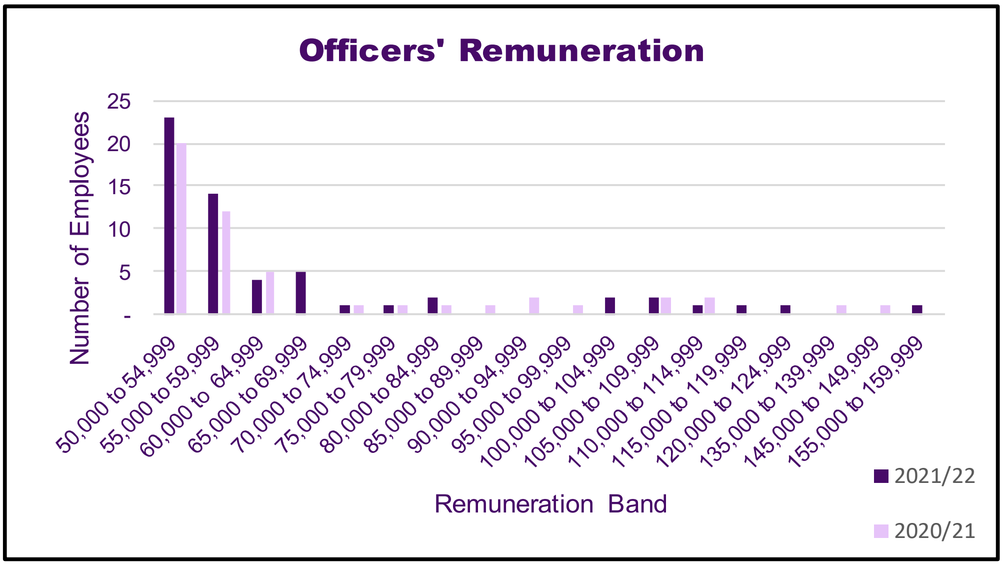
13. Officers' Remuneration

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

		Salary, including fees and allowances	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£
Chief Executive	2021/22	153,066	24,500	**177,566**
	2020/21	136,714	23,334	**160,048**
Director of Place	2021/22	110,115	18,492	**128,607**
	2020/21	94,260	15,860	**110,120**
Director of Corporate Services+	2021/22	109,665	18,492	**128,157**
	2020/21	105,936	17,824	**123,760**
Director - Housing & Operations	2021/22	109,920	18,492	**128,412**
	2020/21	105,936	17,824	**123,760**
Director of Transition and Transformation	2021/22	117,181	19,828	**137,009**
	2020/21	113,398	19,160	**132,558**
Director of Development	2021/22	120,326	19,828	**140,154**
	2020/21	113,398	19,160	**132,558**
Assistant Director Governance, Law & Regulatory Services ++	2021/22	101,617	17,328	**118,945**
	2020/21	95,007	16,248	**111,255**

+ Section 151 Officer
++ Monitoring Officer

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	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
£							£000s	£000s
0-20,000	2	-	2	1	**4**	**1**	**36**	**13**
20,001-40,000	1	-	1	-	**2**	**-**	**50**	**-**
40,001-60,000	-	-		1	**-**	**1**	**-**	**41**
60,001-100,000	-	-	1	-	**1**	**-**	**79**	**-**
100,001-150,000	-	-	1	-	**1**	**-**	**109**	**-**
Total	**3**	**-**	**5**	**2**	**8**	**2**	**274**	**54**

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.

External Audit Fees	2020/21 £000s	2021/22 £000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	71	74
Fees relating to prior years audits	-	(2)
Rebate of PSAA fees	-	(9)
Fees payable for the certification of grant claims and returns for the year	17	20
	88	**83**

15. Grant Income

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

Grant Income	2020/21* £000s	2021/22 £000s
Credited to Taxation and Non Specific Grant Income		
Business rates reliefs	7,557	4,399
Covid related grants	2,082	690
Non-service related grants	150	159
New Homes Bonus Grant	1,422	836
Capital Grants and Contributions	1,636	4,906
	12,847	**10,990**
Credited to Services		
REFCUS related Grants	1,303	1,335
KCC sundry grants	1,497	3,590
Council Tax Reduction Scheme grants	150	166
DWP – benefits subsidy	20,145	18,447
- rent rebate Subsidy	8,174	7,666
- benefits administration	342	330
Covid related grants	7,335	2,914
Other grants and contributions	1,492	2,324
	40,438	**36,772**

*Prior year comparatives restated to include Apprenticeship Levy funding

Notes Supporting the Balance Sheet

16. Property, Plant and Equipment

Measurement

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued as at 31 March 2022 by an external independent valuer, Wilks Head & Eve Chartered Surveyors, and increased in value by £0.39m compared to their value at 31 March 2021.

The external valuer also reviewed the value of the Council's surplus assets as at 31 March 2022, resulting in an increase of £10.7m. The value of surplus land at Princes Parade, Hythe has increased by £5.8m where an agreement has been reached to dispose of it for housing and commercial development once the Council has completed remediation and infrastructure works as part of the wider redevelopment of the site. The value of the Council's land holdings at Otterpool Park have increased by £4.9m and these will be subject to disposal to enable the development of the new Garden Town to proceed.

The Council's housing assets were also re-valued as at 31 March 2022 by Wilks Head & Eve Chartered Surveyors. Council dwellings were valued at £220m at 33% of the open market value based on their existing use value for social housing, an increase of almost 20% (£44m) compared to 31 March 2021. The valuation adjustment to the existing use value for social housing 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 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 £4.1m, an increase of £0.3m compared to their value at 31 March 2021.

Contractual Commitments

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

- Heating replacement programme 2019-2023 – approximately £1.61m
- Kitchen & Bathroom replacement - approximately £0.54m per annum
- External Planned Works programme 2021-2024 – approximately £0.35m per annum

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

The Council has entered into two contracts for the acquisition of new HRA dwellings direct from the developer through stage payments and the value of these commitments at 31st March 2022 is:

- Shepway Close, Folkestone £1.44m
- Radnor Park Avenue, Folkestone £1.72m

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Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra-structure **	Community Assets	Assets Under Construction	Surplus Assets	Total
2021/22	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2021	**185,603**	**28,110**	**12,500**	**10,346**	**3,461**	**2,034**	**70,499**	**312,553**
Additions	9,516	1,211	1,635	387	-	6,002	-	18,751
Revaluation increases/(decreases) recognised in the Revaluation Reserve	35,212	(134)	-	-	-	-	10,317	45,395
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(938)	178	-	-	-	-	385	(375)
De-recognition - Disposals	(156)	-	-	-	-	-	-	(156)
Assets reclassified (to)/from Held for Sale	(810)	-	-	-	-	-	-	(810)
Other movements in cost or valuation #	(8,207)	(244)	-	-	-	-	-	(8,451)
At 31 March 2022	**220,220**	**29,121**	**14,135**	**10,733**	**3,461**	**8,036**	**81,201**	**366,907**
Depreciation and Impairment								
At 1 April 2021	**-**	**(1,687)**	**(8,734)**	**-**	**-**	**-**	**-**	**(10,421)**
Depreciation charge for the year	(2,263)	(313)	(691)	(1,343)	-	-	-	(4,610)
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,253	(37)	-	-	-	-	-	2,216
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(8,197)	(244)	-	-	-	-	-	(8,441)
Other movements in depreciation and impairment #	8,207	244	-	-	-	-	-	8,451
At 31 March 2022	**-**	**(2,037)**	**(9,425)**	**(1,343)**	**-**	**-**	**-**	**(12,805)**
Balance Sheet amount at 31 March 2022	**220,220**	**27,084**	**4,710**	**9,390**	**3,461**	**8,036**	**81,201**	**354,102**
Balance Sheet amount at 1 April 2021	185,603	26,423	3,766	10,346	3,461	2,034	70,499	302,132

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year
**Infrastructure Assets are valued on the basis of Net Book Value

Property, Plant and Equipment 2020/21	Council Dwellings £000s	Land and Buildings £000s	Vehicles, Plant and Equipment £000s	Infra-structure ** £000s	Community Assets £000s	Assets Under Construction £000s	Surplus Assets £000s	Total £000s
Cost or Valuation								
At 1 April 2020	**165,183**	**28,713**	**9,941**	**11,272**	**3,461**	**1,677**	**12,377**	**257,072**
Additions	7,676	420	2,559	436	-	357	2,340	13,788
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,923	(78)	-	-	-	-	7,412	28,257
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,517)	(960)	-	-	-	-	(510)	(4,987)
De-recognition - Disposals	-	-	-	-	-	-	(920)	(920)
Assets reclassified (to)/from Held for Sale	(403)	35	-	-	-	-	-	(368)
Other reclassifications	-	-	-	-	-	-	49,800	49,800
Other movements in cost or valuation #	(4,259)	(20)	-	-	-	-	-	(4,279)
At 31 March 2021	**185,603**	**28,110**	**12,500**	**11,708**	**3,461**	**2,034**	**70,499**	**338,363**
Depreciation and Impairment								
At 1 April 2020	**-**	**(1,981)**	**(8,287)**	**-**	**-**	**-**	**-**	**(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)**	**(1,362)**	**-**	**-**	**-**	**(36,231)**
Balance Sheet amount at 31 March 2021	**185,603**	**26,423**	**3,766**	**10,346**	**3,461**	**2,034**	**70,499**	**302,132**
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
**Infrastructure Assets are valued on the basis of Net Book Value

17. 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 2021	2,900	98	2,998
Additions	-	-	-
Disposals	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-
At 31 March 2022	**2,900**	**98**	**2,998**

18. 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	2020/21 £000s	2021/22 £000s
Rental income from investment property	(1,190)	(1,164)
Direct operating expenses arising from investment property	185	91
Net (gain)/loss	**(1,005)**	**(1,073)**

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	2020/21 £000s	2021/22 £000s
Cost or Valuation		
At 1 April	75,920	28,396
Additions – acquisitions	5,618	669
Additions – construction	26	2,210
Net gain/(loss) from fair value adjustments	(2,549)	(1,808)
Impairment reversals and write off recognised in the CIES	(14)	(111)
Reclassification to Capital Debtor	(805)	-
Reclassification to PPE-Surplus Asset	(49,800)	-
At 31 March	**28,396**	**29,356**

Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2022 are as follows:

2021/22 Recurring fair value measurements using:	Other significant observable inputs (Level 2) 31-Mar-21 £000s	Fair value at 31-Mar-21 £000s	Other significant observable inputs (Level 2) 31-Mar-22 £000s	Fair value at 31-Mar-22 £000s
Otterpool Park - Residential Properties	7,516	7,516	7,695	7,695
Otterpool Park - Land	745	745	1,153	1,153
Agricultural Land	32	32	32	32
Offices	17,401	17,401	16,831	16,831
Commercial Units	1,888	1,888	1,945	1,945
Commercial Land	660	660	1,700	1,700
Total at Fair Value	**28,242**	**28,242**	**29,356**	**29,356**
Assets Under Construction	154	154	-	-
Total Investment Properties	**28,396**	**28,396**	**29,356**	**29,356**

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 2021/22.

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.

19. Long Term Investments

Long Term Investments	2020/21* £000s	2021/22 £000s
Bond, equity & property funds	15,204	16,105
Shares in unlisted companies	5,119	6,159
Changes in FV of equity investments in companies	(401)	(3,301)
	19,922	**18,962**

*2020/21 comparatives restated to include prior year changes in Fair Value

20. Long Term Debtors

Long Term Debtors	2020/21* £000s	2021/22 £000s
Loan to Oportunitas Limited	4,252	4,222
Loan to Otterpool Park LLP	-	1,250
Expected Credit Loss (Loans to Companies)	(88)	(46)
Soft Loans (see Note 28)	2,019	1,797
Other Loans	944	927
Capital Prepayment (Otterpool Land Options)	673	773
Lease Receivables	119	109
	7,919	**9,032**

*2020/21 comparatives restated to show Expected Credit Loss separately

21. Short Term Debtors

Short Term Debtors	2020/21 £000s	2021/22 £000s
Trade Receivables	4,029	4,183
Receivables from Related Parties	9,224	7,789
Prepayments	1,371	791
Other Receiveables	4,670	4,578
	19,294	**17,341**
Impairment of debt		
Trade Receivables	(938)	(993)
Other Receiveables	(949)	(847)
Total	**(1,887)**	**(1,840)**
Balance as at 31 March	**17,407**	**15,502**

The reduction in receivables from Related Parties is largely due to amounts owed from Central Government and Kent County Council in respect of the surplus/(deficit) on the Collection Fund.
An analysis of the age profile of trade debtors is given in the table below which form part of the debtors figures:

Age of Debt	**£000s**	**£000s**
0 to 30 days	24	333
31 to 60 days	5	14
61 to 90 days	6	279
over 90 days	548	478
Total	**583**	**1,104**

22. Cash and Cash Equivalents

	2020/21 £000s	**2021/22 £000s**
Bank Accounts	(1,300)	(405)
Money Market Funds	3,620	15,135
Total	**2,320**	**14,730**

23. Short Term Borrowing

	2020/21 £000s	**2021/22 £000s**
PWLB Loans	1,300	5,000
Loans from other authorities	5,500	35,500
Accrued loan interest	102	102
	6,902	**40,602**

24. Short Term Creditors

	2020/21 £000s	**2021/22 £000s**
Trade Payables	1,300	1,312
Payables to Related Parties	16,109	12,261
Receipts in Advance	3,499	5,319
Accrued Creditors	2,593	1,864
Other payables	3,880	4,083
	27,381	**24,839**

The reduction 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.

25. Provisions

Provisions	Balance 31-Mar-21 £000s	Provisions made £000s	Amounts used £000s	Balance 31-Mar-22 £000s	Short term £000s	Long term £000s
Business rate appeals	(2,277)	(1,462)	1,728	**(2,011)**	(2,011)	**-**
Other	(67)	-	-	**(67)**	-	(67)
	(2,344)	**(1,462)**	**1,728**	**(2,078)**	**(2,011)**	**(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.

26. Long Term Borrowing

Long Term Borrowing	2020/21 £000s	2021/22 £000s
PWLB Loans	52,155	47,155
Loans from other authorities	20,000	10,000
	72,155	**57,155**

27. 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.

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:

	Long Term		Short Term	
Financial Liabilities	**31-Mar-21**	**31-Mar-22**	**31-Mar-21**	**31-Mar-22**
	£000s	**£000s**	**£000s**	**£000s**
Loans amortised cost:				
- Principal sum borrowed	(72,155)	(57,155)	(6,800)	(40,500)
- Accrued interest	-	-	(102)	(102)
Total Borrowing	(72,155)	(57,155)	(6,902)	(40,602)
Liabilities at amortised cost:				
- Trade payables	-	-	(4,703)	(4,020)
Included in Creditors	-	-	(4,703)	(4,020)
Total Financial Liabilities	**(72,155)**	**(57,155)**	**(11,605)**	**(44,622)**

The total short-term borrowing includes £102k (£102k 2020/21) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £20.819m (£22.678m 20/21) 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:

Financial Assets	Long Term 31-Mar-21 £000s	Long Term 31-Mar-22 £000s	Short Term 31-Mar-21 £000s	Short Term 31-Mar-22 £000s
At amortised cost:				
- Principal	-	-	-	-
- Accrued interest	-	-	-	-
At fair value through profit & loss:				
- Fair value	19,922	18,962	-	-
Total investments	19,922	18,962	-	-
At amortised cost:				
- Principal	-	-	(1,300)	(405)
At fair value through profit & loss:				
- Fair value	-	-	3,620	15,135
Total Cash & Cash Equivalents	-	-	2,320	14,730
At amortised cost:				
- Trade receivables	-	-	2,787	5,318
- Lease receivables	119	109	9	10
- Loans made for service purposes	7,215	6,855	569	387
- Loss allowance Expected Credit Loss	(88)	(46)	(193)	(55)
Included in Debtors	7,246	6,918	3,172	5,660
Total Financial Assets	**27,168**	**25,880**	**5,492**	**20,390**

The debtors line on the Balance Sheet includes £9.841m (£14.235m 2020/21) 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:

	2020/21 £000s	2021/22 £000s
Opening carrying amount of soft loans on 1st April	**2,275**	**2,019**
Amounts repaid to the Council	(152)	(148)
Amounts written off	(130)	(49)
Increase/(decrease) in discounted amount due to passage of time	26	(25)
Closing Carrying Amount of Soft Loans on 31st March	**2,019**	**1,797**

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 2022, 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

Financial Liabilities	Fair Value Level	Balance Sheet 31-Mar-21 £000s	Fair Value 31-Mar-21 £000s	Balance Sheet 31-Mar-22 £000s	Fair Value 31-Mar-22 £000s
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	**2**	52,155	63,743	47,155	52,699
Other long-term loans	**2**	20,000	20,102	10,000	9,774
Short-term loans from PWLB	**2**	1,300	1,331	5,000	5,100
Short-term loans	**2**	5,500	5,572	35,500	35,388
Total		**78,955**	**90,748**	**97,655**	**102,961**
Liabilities for which fair value is not disclosed *		4,805		4,122	
Total Financial Liabilities		**83,760**		**101,777**	
Recorded on balance sheet as:					
Short-term creditors		4,703		4,020	
Short-term borrowing		6,902		40,602	
Long-term borrowing		72,155		57,155	
Total Financial Liabilities		**83,760**		**101,777**	

*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.

Financial Assets	Fair Value Level	Balance Sheet 31-Mar-21 £'000	Fair Value 31-Mar-21 £'000	Balance Sheet 31-Mar-22 £'000	Fair Value 31-Mar-22 £'000
Financial assets held at fair value					
Money market funds	1	3,620	3,620	10,135	10,135
Structured loans and deposits	1	-	-	5,000	5,000
Bond, equity and property funds	1	15,204	15,204	16,105	16,105
Shares in unlisted companies	3	4,718	4,718	2,857	2,857
Financial assets held at amortised cost					
Long-term loans to companies	3	5,108	6,121	6,353	6,592
Soft Loans	3	2,019	2,019	1,797	1,797
Lease receivables	3	119	119	109	109
Total		**30,788**	**31,801**	**42,356**	**42,596**
Assets for which fair value is not disclosed*		**2,738**		**6,082**	
Total Financial Assets		**33,526**		**48,438**	
Recorded on balance sheet as:					
Long-term investments		7,919		9,032	
Long-term debtors		361,547		414,657	
Short-term debtors		3,365		5,714	
Cash and cash equivalents		19,735		30,240	
Total Financial Assets		**392,566**		**459,644**	

*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 - 2 year period of business plan, plus an in perpetuity calculation
- Discount Rate – 8.5%: 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
- Inflation – 6.2% in 2022/23, 2.8% in 2023/24 and 2% in perpetuity
- Property price inflation – 7.1% based on average increase in Folkestone local area
- Rental yield - 6% rental yield in perpetuity based on company business plan

Sensitivity Analysis

Change in Assumption	Impact on Fair Value
Discount rate falls by 1%	Increases to £5.4m / decreases to £474k
Corporation Tax Rate does not increase as expected	Increases to £2.7m
Inflation falls/rises by 1%	Falls to £1.4m / rises to £3.5m
Property price inflation falls/rises by 1%	Falls to £1.0m / rises by £4.0m
Rental yield in 2024/25 is 1% lower/higher than expected	Falls to £461k / rises to £4.2m

Financial Asset – Long term loan to Oportunitas Limited

The fair value has been estimated by discounting future cash flows for the loan at the rate for an equivalent loan made on 31 March 2021. This rate has been estimated using the BB corporate bond curve.

Financial Asset - Equity Investment in Otterpool Park LLP

Valuation method – Fair Value deemed to be current value as at 31st March 2022 due to uncertainties around projected future cash flows due to the early stages of the project at the time of preparing the accounts.

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

	£'000
Balance 1 April	**4,718**
Oportunitas Equity Purchased 21/22	1,040
Unrealised valuation loss	(2,901)
Balance 31 March	**2,857**

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 Instruments Income,Expense,Gains and Losses 2021/22	Financial Liabilities measured at amortised cost £000s	Financial Assets at Amortised Cost £000s	Financial Assets at Fair Value Profit & Loss £000s	21/22 Total £000s	20/21 Total £000s
Interest expense	1,866	-	-	1,866	1,962
Losses from changes in fair value	2,901	-	-	2,901	-
(Gains)/Losses on derecognition impairment losses	(43)	-	-	(43)	(83)
Total Expense in Surplus or Deficit on the Provision of Services	**4,723**	**-**	**-**	**4,723**	**1,879**
Interest and dividend income	-	(231)	(643)	(874)	(887)
Gains from changes in fair value	(805)	-	-	(805)	(1,168)
Total Income in Surplus or Deficit on the Provision of Services	**(805)**	**(231)**	**(643)**	**(1,679)**	**(2,055)**
Net (gain)/loss for the year	**3,919**	**(231)**	**(643)**	**3,044**	**(176)**

28. 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 2021/22 £193k of borrowing costs were capitalised using a capitalisation rate of 0.76%.

29. 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.

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-21	31-Mar-22
	£000s	£000s
Present Value of the defined obligation	196,941	195,626
Fair Value of the Fund Assets	(120,350)	(123,078)
Net defined benefit liability / (asset)	**76,591**	**72,548**

Comprehensive Income and Expenditure for the year

The amounts recognised in the profit and loss statement are:	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Service Cost	11,031	6,950
Net interest on the defined liability (asset)	1,472	1,491
Administration expenses	70	72
Total Loss / (profit)	**12,573**	**8,513**

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

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Opening defined benefit obligation	147,708	196,941
Current service cost	5,485	6,926
Interest cost	2,966	3,790
Change in financial assumptions	33,952	(8,977)
Change in demographic assumptions	(1,869)	-
Experience loss / (gain) on defined benefit obligation	(2,419)	493
Liabilities assumed / (extinguished) on settlements	14,969	-
Estimated benefits paid net of transfers in	(4,975)	(4,502)
Past service costs, including curtailment	332	24
Contribution by scheme participants and other employers	792	931
	196,941	**195,626**

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

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Opening fair value of scheme assets	84,773	120,350
Interest on assets	1,494	2,299
Return on assets, less interest	24,991	229
Actuarial gains / (losses)	-	-
Administration Expenses	(70)	(72)
Contributions from employer including unfunded	3,590	3,843
Contributions by scheme participants	792	931
Estimated benefits paid plus unfunded net of transfers	(4,975)	(4,502)
Settlement prices received / (paid)	9,755	-
	120,350	**123,078**

Re-measurement of net assets (defined liability)

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Return on fund assets in excess of interest	24,991	229
Other actuarial gains / (losses) on assets	-	-
Change in financial assumptions	(33,952)	8,977
Change in demographic assumptions	1,869	-
Experience loss (gain) on defined benefit obligation	2,419	(493)
	(4,673)	**8,713**

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.

The significant assumptions used by the actuary have been:

Statistical assumptions	2020/21	2021/22
Mortality assumption		
Longevity at 65 for current pensioners		
-men	21.6 yrs	21.6 yrs
-women	23.6 yrs	23.7 yrs
Longevity at 65 for future pensioners		
-men	22.9 yrs	23.0 yrs
-women	25.1 yrs	25.1 yrs
Rate of inflation - CPI	2.80%	3.20%
Rate of increase in salaries	3.80%	4.20%
Rate of increase in pensions	2.80%	3.20%
Rate for discounting scheme liabilities	2.00%	2.60%

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	192,020	195,626	199,303
Projected Service Cost	5,896	6,103	6,316
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	195,966	195,626	195,290
Projected Service Cost	6,106	6,103	6,099
Adjustment to Pension increases and deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	198,939	195,626	192,374
Projected Service Cost	6,315	6,103	5,897
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	204,962	195,626	186,753
Projected Service Cost	6,353	6,103	5,861

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 (14%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 12% 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 2023	Year to 31-Mar-23 £000s
Service cost	6,103
Net Interest and defined liability / (asset)	1,836
Administration Expenses	72
Total loss / (profit)	**8,011**
Employer Contributions	**3,865**

The weighted average duration of the defined benefit obligation for scheme members is 19 years 2021/22 (19 years 2020/21).

30. Usable Reserves

	2020/21 £000s	2021/22 £000s
General Fund Reserve	(3,822)	(6,008)
Earmarked Reserve	(23,573)	(20,969)
Housing Revenue Reserve	(12,037)	(10,065)
Major Repair Reserve	(3,271)	-
Capital Receipt Reserve	(8,436)	(9,069)
Capital Grants Unapplied	(5,195)	(7,923)
Total	**(56,334)**	**(54,034)**

31. Unusable Reserves

Unusable Reserves	2020/21 £000s	2021/22 £000s
Revaluation Reserve	(81,934)	(126,365)
Pooled Investment Funds Adjustment Account	(204)	(1,010)
Capital Adjustment Account	(138,158)	(139,544)
Financial Instruments Adjustment Account	13	25
Deferred Capital Receipts reserve	(129)	(119)
Collection Fund Adjustment Account	5,100	3,407
Pensions Reserve	76,591	72,548
Accumulated Absences Account	593	507
	(138,128)	**(190,551)**

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	2020/21		2021/22	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(55,508)**		**(81,934)**
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(28,257)		(45,394)
Difference between fair value depreciation and historic cost depreciation	908		706	
Revaluation balances on assets sold or scrapped	923		257	
Amount written off to the Capital Adjustment Account		1,831		963
Balance as at 31 March		**(81,934)**		**(126,365)**

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.

Pooled Investment Funds Adjutsment Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
Balance at 1 April		**876**		**(204)**
Transfer from Available for Sale Reserve		-		-
Upward revaluation of investments	(1,080)		(806)	
Downward revaluation of investments	-		-	
		(1,080)		(806)
Balance as at 31 March		**(204)**		**(1,010)**

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.

Capital Adjustment Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(137,821)**		**(138,158)**
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	8,973		13,088	
Revaluation (gains)/losses on Property, Plant and Equipment	1,506		1,059	
Amortisation of intangible assets	27		11	
Revenue expenditure funded from capital under statute	2,094		1,463	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,364		966	
Capital debtors written down	1,068		775	
Equity Valuation (gains)/losses	(88)			
		14,944		**17,362**
Adjusting amounts written out of the Revaluation Reserve		(1,832)		(962)
Net written out amount of the cost of non-current assets consumed in the year		**13,112**		**16,400**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,336)		(1,779)	
Use of the Major Repairs Reserve to finance new capital expenditure	(3,965)		(5,679)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(1,802)		(3,438)	
Application of grants to capital financing from the capital Grants Unapplied Account	(1,118)		(2,187)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(775)		(1,211)	
Capital expenditure charged against the General Fund and HRA balances	(6,159)		(5,220)	
		(16,155)		**(19,514)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**2,706**		**1,728**
Balance as at 31 March		**(138,158)**		**(139,544)**

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	**2020/21**		**2021/22**	
	£000s	**£000s**	**£000s**	**£000s**
Balance at 1 April		**39**		**13**
Repaid renovation advances	-		-	
Amortised interest on renovation advances	(26)		12	
Net write down deferred discounts to revenue	-	(26)	-	12
Balance as at 31 March		**13**		**25**

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	**2020/21**		**2021/22**	
	£000s	**£000s**	**£000s**	**£000s**
Balance at 1 April		**(137)**		**(129)**
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	8		10	
Gain on sale of assets	-	8	-	10
Balance as at 31 March		**(129)**		**(119)**

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.

	2020/21 £000s	2021/22 £000s
Balance at 1 April	**1,387**	**5,100**
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	3,713	(1,693)
Balance as at 31 March	**5,100**	**3,407**

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.

	2020/21 £000s	2021/22 £000s
Balance at 1 April	**62,935**	**76,591**
Remeasurement of Net defined Liability	4,673	(8,713)
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	12,573	8,513
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,590)	(3,843)
Balance as at 31 March	**76,591**	**72,548**

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	2020/21		2021/22	
	£000s	£000s	£000s	£000s
Balance at 1 April		**221**		**593**
Settlement or cancellation of accrual made at the end of the preceding year	(221)		(593)	
Amounts accrued at the end of the current year	593		507	
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		**372**		**(86)**
Balance as at 31 March		**593**		**507**

32. 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	**2020/21 £000s**	**2021/22 £000s**
Opening Capital Financing Requirement	117,358	126,944
Capital Investment		
Property, Plant and Equipment	13,788	18,751
Heritage assets	-	
Investment Properties	5,645	2,879
Intangible assets	145	38
Loans to and equity in subsidiary	2,080	1,040
Loans to and equity in LLP	1,250	1,250
Other loans	640	344
Capital Debtors - prepayments	100	100
Revenue expenditure funded from capital under statute	2,094	1,463
Sources of Finance		
Capital Receipts	(2,336)	(1,778)
Government grants and other contributions	(2,920)	(5,632)
Sums set aside from revenue:		
Direct Revenue Contributions	(10,125)	(10,899)
Previous Year Financing Adjustment	-	(112)
Revenue provision for debt repayment	(775)	(1,211)
Closing Capital Financing Requirement	**126,944**	**133,177**
Increase in underlying need to borrow (unsupported by Government financial assistance)	10,362	7,618
Revenue provision for debt repayment	(775)	(1,211)
Other adjustments	-	(174)
Increase / (decrease) in Capital Financing Requirement	**9,587**	**6,233**

33. 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 2021.

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.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Department for Levelling Up, Housing and 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: Overview

The Council is exposed to credit risk on the following categories of financial assets and commitments:

Exposure Category	31/03/2021 £000s	31/03/2022 £000s
Treasury Investments	18,824	16,111
Trade Receivables	4,029	4,183
Lease Receivables	128	119
Service Loans	5,676	5,491
Service Loan Commitments	2,470	2,470
Total Credit Risk Exposure	**31,128**	**28,374**

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 applies. 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-21		31-Mar-22	
	Long-term	Short-term	Long-term	Short-term
	£000s	£000s	£000s	£000s
AAA	-	3,620		15,135
Unrated pooled funds	15,204	-	16,105	
Total Investments	**15,204**	**3,620**	**16,105**	**15,135**

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 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 £47k. 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
Opening Allowance 01/04/2021	89
Change in risk	(43)
Closing Allowance 31/03/2022	**46**

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 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. 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:

	Discounted (Principal)		Undiscounted (Principal plus interest)	
Time to maturity	**31-Mar-21 £000s**	**31-Mar-22 £000s**	**31-Mar-21 £000s**	**31-Mar-22 £000s**
Less than 1 year	6,800	40,500	8,844	42,647
1 to 2 years	25,000	14,000	26,920	15,739
2 to 5 years	12,001	12,001	16,642	16,304
5 to 10 years	20,012	16,012	25,375	20,746
10 to 20 years	2,001	2,001	8,278	8,182
20 to 40 years	13,141	13,141	18,357	17,763
Over 40 years	-	-	-	-
Total	**78,955**	**97,655**	**104,416**	**121,381**

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 expected treasury operations, including an expectation of interest rate movements. An upper limit of £164,000 on the 12 month revenue impact of a 1% rise and £185,000 of a 1% fall in interest rates was set for 2021/22

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2022 would be:

	£000s
Increase in interest payable on variable rate borrowings	100
Increase in interest receivable on variable rate investments	(180)
Impact on Comprehensive Income and Expenditure	**(80)**
Decrease in fair value of loans and receivables and bonds	(48)
Decrease in fair value of fixed rate borrowings	(5,098)

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	-	-	(294)
Diversified Income Funds	(166)	(161)	(33)
Total	**(166)**	**(161)**	**(327)**

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.

34. 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-21	New Contributions	Amounts Applied	Closing Balance 31-Mar-22
£000s	£000s	£000s	£000s
(2,364)	(1,261)	924	(2,701)

The balances at 31 March 2021 are held within the following areas of the balance sheet:

	2020/21 £000s	2021/22 £000s
Current liabilities:		
Short term creditors – Depositors	(1,249)	(2,339)
Capital grants received in advance – current	(65)	(65)
Reserves:		
Capital grants unapplied reserve	(1,050)	(297)
	(2,364)	**(2,701)**

Notes Supporting the Cash Flow Statement

35. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2020/21 £000s		2021/22 £000s
241	Interest received	231
(1,981)	Interest paid	(1,865)
645	Investment income	643

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2020/21 £000s		2021/22 £000s
4,842	Depreciation and impairment	4,610
12,120	Impairment and downward revaluations	6,710
27	Amortisation	11
(81)	Change in impairment for bad debts	(43)
3,790	Increase/(decrease) in creditors	(2,312)
(689)	(Increase)/decrease in debtors	(5,308)
7	(Increase)/decrease in inventories	(1)
8,983	Movement in pension liability	4,670
(3,415)	Movement in investment property values	1,809
1,364	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	966
(1,271)	Other non-cash items charged to the net surplus or deficit on the provision of services	1,883
25,677		**12,994**

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2020/21 £000s		2021/22 £000s
(3,763)	Capital grants credited to the surplus or deficit on the provision of services	(8,711)
(2,126)	Proceeds from the sale of property, plant and equipment	(1,803)
(76)	Any other items for which the cash effects are investing or financing cash flows	-
(5,965)		**(10,514)**

36. Cash Flow Statement – Investing Activities

2020/21 £000s		2021/22 £000s
(17,902)	Purchase of property, plant & equipment, investment property and intangible assets	(22,165)
(3,330)	Purchase of short-term and long-term investments	(1,040)
(740)	Other payments for investing activities	(1,687)
2,134	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,803
3,505	Proceeds from investments	-
5,578	Other receipts from investing activities	11,089
(10,755)	**Net cash flows from investing activities**	**(12,000)**

37. Cash Flow Statement – Financing Activities

2020/21 £000s		2021/22 £000s
20,000	Cash receipts of short- and long-term borrowing	25,000
(31,300)	Repayments of short- and long-term borrowing	(6,300)
4,767	Other payments for financing activities	7,215
(6,533)	**Net cash flows from financing activities**	**25,915**

Other Notes

38. 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 38 on page 93.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2021/22 is set out in note 12 (page 53). 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 2021/22, other than those disclosed in note 13 (pages 54-55).

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 39 (page 94). Payment of £579k was made to the Charity in respect of Special Expenses and £42k in respect of a loan. The Council received £56k from the Charity in respect of loan repayments. Balances due to/from the Charity at 31st March 2022 are £339k and £509k respectively.

The Council has three subsidiaries; wholly owned Oportunitas Limited, a company that commenced trading in 2014/15; wholly owned Otterpool Park Development Company Ltd (OPDCL); and Otterpool Park LLP (OPLLP) of which the Council owns 99.9%. OPLLP, set up by the Council to deliver its objectives for the Otterpool Park Garden Town, was incorporated on 15th August 2019 and FHDC and OPDCL 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 109-118.

Payment of £1.0m was made in 2021/22 to Oportunitas Limited in respect of share purchases. The Council received £250k from Oportunitas in respect of loan repayments, £63k in respect of services supplied to it and £5k in respect of Council Tax payments. A balance of £30k is due from Oportunitas Limited at 31st March 2022.

The Council also has charges over all properties owned by Oportunitas Limited.

Payment of £1.3m was made in 2021/22 to OPLLP in respect of a company loan and £63k in respect of rents and commission. The Council received £116k from OPLLP in respect of property lease costs and £264k in respect of services supplied to it. A balance of £34k is due from OPLLP at 31st March 2022.

Payment of £9k was made in 2021/22 to OPDCL in respect of a contribution towards operating costs. There were no payments received from OPDCL and no balances outstanding to/from OPDCL at 31st March 2022.

The Council is in a partnership with East Kent Spatial Development Company (EKSDC) to deliver a business hub at Mountfield Road Industrial Estate, New Romney. Payments totalling £910k were made in 2021/22 to EKSDC in respect of Stage 1 of the project. There was a nil balance due to/from EKSDC at 31st March 2022.

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	**2020/21 £000s**	**2021/22 £000s**
Amounts due to Central Government	15,455	11,921
Amounts due to East Kent Spatial Development Company	438	-
Amount due to Oportunitas Limited	1	1
Amount due to Folkestone Parks Charity	215	339
Amounts due from Central Government	5,924	4,375
Amounts due from Kent County Council	3,300	3,415
Amount due from Oportunitas Limited	4,193	4,207
Amount due from Folkestone Parks Charity	524	509

39. 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 £339k of investments and a £4k overdraft on behalf of the charity.

Funds for which the Executive of the Council act as sole trustee:

2020/21					2021/22			
Income £000s	Expenditure £000s	Assets £000s	Liabilities £000s		Income £000s	Expenditure £000s	Assets £000s	Liabilities £000s
(707)	707	5,140	(3,349)	Folkestone Parks and Pleasure Grounds Charity	(943)	943	5,429	(3,395)

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 £579k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£509k 2020/21).

Income to the Charity therefore includes a contribution of £579k from the Council (£509k in 2020/21). 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.

40. Interests in Companies and Other Entities

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 2,515 shares in the company at a cost of £4.9m and has loans outstanding of £4.2m from it.

Company turnover was £351k in 2021/22 (£275k 2020/21). Oportunitas made a loss on ordinary activities of £76k in 2021/22 (loss of £85k in 2020/21*). Its holdings in investment property was £10.0m at 31st March 2022 (£7.7m 31/03/2021).

*The 2020/21 comparatives have been restated following a post-audit adjustment to Oportunitas accounts.

Otterpool Park LLP

The Council owns 99.9% of OPLLP, 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 £143k in 2021/22 (£119k 2020/21). OPLLP made an operating loss of £635k in 2021/22 (£61k in 2020/21). It held tangible assets of £41k at 31st March 2022 (£28k 31/03/2021).

Otterpool Park Development Company LLP

The Council wholly owns OPDCL, a company set up to deliver its objectives for the Otterpool Park Garden Town and a member of OPLLP.

Company turnover was £NIL in 2021/22 (£NIL 2020/21) and made an operating profit of £1k in 2021/22 (£NIL 2020/21).

41. The Council Acting as Agent

In 2021/22 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	Opening Balance 01-Apr-21 £000s	New Grants £000s	Expended £000s	Closing Balance 31-Mar-22 £000s	Balance Sheet Analysis
Test & Trace Support Payment (Self-Isolation)	Payments to those on low incomes whilst self-isolating in line with Government guidelines	125	79	(305)	(101)	Debtor
Business Rates Grant Schemes	Payments to business ratepayers for periods of enforced closure by Government regulations	5,864	9,307	(14,811)	360	Creditor
Council Tax Energy Rebate Scheme	Payments to households to help with the cost of rising energy bills	-	5,991	-	5,991	Creditor
		5,989	**15,377**	**(15,116)**	**6,250**	

42. 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.

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 and Dover District Council are seeking to claim additional costs and contract penalties from Veolia related to service failures in the joint Waste Management and Recycling Contract arising from the route optimisation project in 2022. The claim comprises of additional staffing costs, postage and printing costs, deferred contract costs during the suspension of the garden waste collection, garden waste subscription rebate costs and contract penalties. The estimated total is £450k. The claim is disputed by Veolia and legal options are being considered including a negotiated settlement.

43. 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 26. That date was 23rd January 2023. Events after the balance sheet date (31st March 2022) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31st March 2022, 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 2022.

Housing Revenue Account

Folkestone & Hythe District Council

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

2020/21 £000s		2021/22 £000s
	Income	
(14,944)	Dwelling Rents (Gross)	(15,366)
(279)	Non dwelling rents (Gross)	(280)
(1,049)	Charges for services and facilities	(1,017)
(52)	Contributions towards expenditure	(52)
-	Capital Grants and Contributions	(1,989)
(16,324)		**(18,704)**
	Expenditure	
3,826	Repairs and maintenance	3,959
10,292	Supervision and management	6,898
21	Rents, rates, taxes and other charges	20
6,887	Depreciation and impairment of non-current assets (HRA Note 6)	10,668
1,828	Exceptional item – valuation change	(1,469)
25	Debt management costs	24
95	Decrease in bad debt provision	(36)
22,974		**20,064**
6,650	**Net (surplus)/deficit of HRA Services as included in the whole authority CIES**	**1,360**
156	HRA services share of Corporate and Democratic Core	160
6,806	**Net (surplus)/deficit of HRA services**	**1,520**
(277)	(Gain)/loss on sale of HRA non-current assets	(762)
1,546	Interest payable and similar charges	1,520
(18)	Interest and investment income	(14)
164	Net interest on the net defined liability (HRA Note 9)	255
8,221	**(Surplus)/Deficit for the year on HRA Services**	**2,519**

Movement on the Housing Revenue Account Statement

2020/21 £000s		2021/22 £000s
8,221	Deficit on the HRA Income and Expenditure Statement	2,519
(6,132)	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (HRA Note 8)	(4,794)
277	Gain or (loss) on sale of HRA non-current assets	762
2,966	Capital expenditure funded by the HRA	4,287
(4,894)	HRA share of contributions to or from the Pensions Reserve (HRA Note 9)	(800)
438	**Net (increase) or decrease before transfers to or from Reserves**	**1,974**
-	Transfer from the Major Repairs Reserve	-
438	**(Increase) or Decrease in year on the HRA**	**1,974**
(12,475)	Balance on the HRA at the end of the previous reporting period	(12,037)
438	(Increase) or Decrease in year on the HRA (as shown above)	1,974
(12,037)	**Balance on the HRA at the end of the current reporting period**	**(10,063)**

1. Housing Assets

At 31st March 2022, the Council was responsible for managing 3,381 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows: 1,872
Flats and Bedsits: 1,509

The change in the stock can be summarised as follows:

Stock	2020/21	2021/22
Stock at 1 April	3,377	3,388
Acquisitions	17	7
Sales	(6)	(14)
Stock at 31 March	**3,388**	**3,381**

The Balance Sheet value was as follows:

	2020/21 £000s	2021/22 £000s
Dwellings	185,603	220,220
Other Land and Buildings	5,281	6,040
Infrastructure	981	966
Vehicles, Plant, Furniture and Equipment	142	124
Total Operational Assets	**192,007**	**227,350**
Assets under construction	676	1,559
Total Non Operational Assets	**676**	**1,559**
Total Assets	**192,683**	**228,909**

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1st April 2021 was £559,215,000. 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

	2020/21 £000s	2021/22 £000s
Balance on Major Repairs Reserve as at 1 April	(4,595)	(3,271)
Depreciation and impairment of non-current assets	(2,641)	(2,408)
Capital expenditure on land, houses and other property within the HRA	3,965	5,679
Balance on the Major Repairs Reserve as at 31 March	**(3,271)**	**-**

4. Capital Expenditure on Land, Houses and Other Property within the HRA

	2020/21 £000s	2021/22 £000s
Houses	7,953	11,044
Other Property	174	76
Intangible Assets	-	16
	8,127	**11,136**

5. Capital Financing

The capital expenditure detailed in Note 4 above was financed as follows:

	2020/21 £000s	2021/22 £000s
Capital receipts	1,196	1,169
Revenue	2,966	4,288
Major Repairs Reserve	3,965	5,679
	8,127	**11,136**

A summary of HRA capital receipts during the year is given below:

	2020/21 £000s	2021/22 £000s
Houses and Flats	568	1,571
	568	**1,571**

6. Depreciation, Impairment and Valuation on Non-Current Assets

2020/21 Revaluation £000s	2020/21 Depreciation £000s	2020/21 Impairment £000s		2021/22 Revaluation £000s	2021/22 Depreciation £000s	2021/22 Impairment £000s
-	-	-	Land			
(1,120)	2,401	4,255	Dwellings	1,315	2,263	8,197
-	132	(9)	Other Land and Buildings	154	36	63
-	80	-	Infrastructure	-	81	-
-	28	-	Vehicles, Plant, Furniture and Equipment	-	28	-
(1,120)	**2,641**	**4,246**		**1,469**	**2,408**	**8,260**

The revaluation gain is a reversal of previous revaluation losses recognised through the net cost of HRA services.

Additionally in 2021/22 £35.21m was posted to the Revaluation Reserve (£20.92m 2020/21) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

7. Rent Arrears

	31-Mar-21 £000s	31-Mar-22 £000s
Gross rent arrears	575	505
Current tenant arrears (excluding former tenants)	314	278
Provision for doubtful debts	216	182

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.

8. Difference between any other items of Income and Expenditure

	2020/21 £000s	2021/22 £000s
HRA impairment-capital expenditure not adding value	(4,171)	(8,260)
Net valuation changes	(1,550)	1,470
Other movements	(352)	-
Other changes	(59)	-
	(6,132)	**(6,790)**

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.

2020/21 £000s		2021/22 £000s
620	Current Service Cost	1,197
164	Net interest on net defined liability	255
784	Net charge to the HRA Income and Expenditure Statement	**1,452**
(384)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(800)
400		**652**
400	Employer Contributions	652
400	Actual amounts charged against the HRA balance for pensions	**652**

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 £1.52m (£1.55m 2020/21).

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 £7k (£11k 2020/21).

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.

2020/21 Council Tax £000s	2020/21 Business Rates £000s	2020/21 Total £000s		2021/22 Council Tax £000s	2021/22 Business Rates £000s	2021/22 Total £000s
			Amounts required by statute to be credited to the Collection			
(75,539)		(75,539)	Council Tax (Note 1)	(81,137)		(81,137)
16		16	Council Tax benefit	8		8
(1,158)		(1,158)	Council Tax S13A 1(C) Discounts	(68)		(68)
	(15,276)	(15,276)	Business Rates income (Note 2)		(19,319)	(19,319)
	550	550	Business Rates transitional protection		263	263
(76,681)	**(14,726)**	**(91,407)**	**Total Income**	**(81,197)**	**(19,056)**	**(100,253)**
			Amounts required by statute to be debited to the Collection			
			Council tax precepts and demands:			
52,846		52,846	Kent County Council	54,601		54,601
7,945		7,945	Kent Police and Crime Commissioner	8,396		8,396
3,101		3,101	Kent and Medway Fire and Rescue	3,110		3,110
13,045		13,045	Folkestone & Hythe District Council	13,128		13,128
(447)		(447)	Surplus/(deficit) distribution	(1,132)		(1,132)
357		357	Council Tax bad debts written off	302		302
264		264	(Decrease)/Increase in provision for Council Tax bad debts	274		274
			Payment of Business Rates			
	143	143	Cost of Business Rates collection		144	144
			Share of Business Rates income:			
	13,709	13,709	Central Government (central share)		14,755	14,755
	2,467	2,467	Kent County Council		2,656	2,656
	274	274	Kent and Medway Fire and Rescue		295	295
	10,967	10,967	Folkestone & Hythe District Council		11,804	11,804
	(3,966)	(3,966)	Surplus/(deficit) distribution		(13,174)	(13,174)
	153	153	Business Rates bad debts written off		90	90
	219	219	(Decrease)/Increase in provision for Business Rates bad debts		5	5
	(185)	(185)	(Decrease)/Increase in provision for Business Rates appeals		(666)	(666)
77,111	**23,781**	**100,892**	**Total Expenditure**	**78,679**	**15,909**	**94,588**
430	9,055	9,485	**(SURPLUS)/DEFICIT FOR THE YEAR**	(2,518)	(3,147)	(5,665)
450	3,275	3,725	(Surplus)/Deficit brought forward	880	12,330	13,210
880	12,330	13,210	(Surplus)/Deficit carried forward	(1,638)	9,183	7,545

1. Council Tax

The average council tax at Band D set by the preceptors was as follows:

2020/21 £		2021/22 £
1,351.26	Kent County Council	1,418.76
203.15	Kent Police Commissioner	218.15
79.29	Kent Fire and Rescue Service	80.82
268.38	Folkestone & Hythe District Council (including Special Expenses charged on Folkestone)	273.72
65.17	Town and Parish Councils	67.41
1,967.25		**2,058.86**

The amount of income generated in 2021/22 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,141	2,761	(5,684)
B	8,917	6,936	(14,279)
C	11,576	10,289	(21,185)
D	7,226	7,226	(14,877)
E	4,720	5,769	(11,877)
F	2,549	3,682	(7,581)
G	1,782	2,971	(6,116)
H	64	128	(264)
	40,975	39,762	**(81,863)**
	Contributions from the Ministry of Defence in lieu of council tax		(609)
	In year adjustments		1,335
	Income collectable from council tax payers		**(81,137)**

The 2021/22 tax base approved by Council was 38,485. 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 2021/22 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%).

2020/21 £000s		2021/22 £000s
77,358	Non domestic rateable value as at 31 March	72,969
49.9p	Non-domestic rate multiplier	49.9p
(38,602)	**NNDR income before allowances and other**	**(36,412)**
23,326	Allowances, reduced assessments and other adjustments, including small business rate relief supplement & Covid reliefs	17,093
(15,276)	**Income collectable from business rate payers**	**(19,319)**

The non-domestic rate multiplier for 2021/22 was 49.9p for qualifying properties of less than £51,000 rateable value and 51.2p for all others (2020/21 49.9p and 51.2p respectively).

Group Accounts

GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	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
2021/22**										
Balance at 31 March 2021	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**	**(371)**	**(194,833)**
Movement in reserves during 2021/22										
Total Comprehensive Income and Expenditure	1,467	2,517	-	-	-	**3,984**	(54,107)	**(50,123)**	173	**(49,950)**
Adjustments between accounting basis and funding basis under regulations	(1,049)	(545)	(633)	3,271	(2,728)	**(1,684)**	**1,684**	**-**	-	**-**
Increase or Decrease in 2021/22	**418**	**1,972**	**(633)**	**3,271**	**(2,728)**	**2,300**	**(52,423)**	**(50,123)**	**173**	**(49,950)**
Balance at 31st March 2022 carried forward	**(26,977)**	**(10,065)**	**(9,069)**	**-**	**(7,923)**	**(54,034)**	**(190,551)**	**(244,585)**	**(198)**	**(244,783)**
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*	2,452	8,221	-	-	-	**10,673**	(23,583)	**(12,910)**	(208)	**(13,118)**
Adjustments between accounting basis and funding basis under regulations	(5,856)	(7,783)	(305)	1,324	(843)	**(13,463)**	13,463	**-**	-	**-**
Increase or Decrease in 2020/21	**(3,404)**	**438**	**(305)**	**1,324**	**(843)**	**(2,790)**	**(10,120)**	**(12,910)**	**(208)**	**(13,118)**
Balance at 31st March 2021 carried forward	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**	**(371)**	**(194,833)**

*2020/21 comparatives restated following post-audit results for Oportunitas accounts

**2021/22 includes group results for Otterpool Park Development Company Ltd

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2020/21 Gross Expenditure £000s	2020/21 Income £000s	2020/21 Net Expenditure £000s		2021/22 Gross Expenditure £000s	2021/22 Income £000s	2021/22 Net Expenditure £000s
			Continuing Operations			
1,198	(121)	1,078	Leadership Support	1,271	(306)	966
2,922	(354)	2,568	Governance & Law	3,275	(386)	2,889
900	(213)	687	Human Resources	845	(128)	717
44,490	(37,768)	6,722	Finance Customer & Support	37,255	(31,643)	5,612
851	(17)	834	Strategic Development	591	(721)	(130)
1,784	(935)	849	Economic Development	1,838	(675)	1,164
1,621	(1,337)	284	Planning	1,697	(1,288)	409
9,420	(5,234)	4,186	Estates & Operations	9,686	(6,264)	3,422
4,235	(4,085)	150	Housing	5,584	(6,004)	(420)
8,709	(2,700)	6,009	Customer Case Regulatory & Communities	9,060	(3,111)	5,949
31	-	31	Transition & Transformation	8	-	8
23,323	(16,517)	6,806	Local Authority Housing (HRA)	20,384	(18,866)	1,517
99,484	**(69,280)**	**30,204**	**(Surplus)/Deficit on Continuing Operations**	**91,496**	**(69,392)**	**22,103**
3,381	(852)	2,529	Other operating expenditure	3,297	(837)	2,460
4,779	(1,926)	2,854	Financing and investment income and expenditure	6,046	(342)	5,704
6,717	(31,494)	(24,777)	Taxation and non-specific grant income	6,784	(32,157)	(25,373)
114,361	**(103,552)**	**10,811**	**(Surplus) or Deficit on Provision of Services**	**107,622**	**(102,727)**	**4,894**
-	**-**	**(28,600)**	(Surplus) or deficit on revaluation of non-current assets (Note 30)	**-**	**-**	**(46,132)**
-	**-**	**4,673**	Re-measurement of net defined liability (Note 29)	**-**	**-**	**(8,713)**
-	**-**	**(23,927)**	**Other Comprehensive Income and Expenditure**	**-**	**-**	**(54,845)**
-	**-**	**(13,118)**	**TOTAL Comprehensive Income and Expenditure**	**-**	**-**	**(49,951)**

*2020/21 comparatives restated following post-audit results for Oportunitas accounts
**2021/22 includes group results for Otterpool Park Development Company Ltd

Restated 2020/21* £000s		Note	2021/22** £000s
	Non current assets		
185,603	Council dwellings		220,220
60,794	Property, plant and equipment		73,266
2,998	Heritage Assets		2,998
91,858	Investment property	2	100,295
179	Intangible assets		206
14,803	Long term investments	3	12,803
3,666	Long term debtors	4	3,560
359,901	**Long term assets**		**413,348**
359	Inventories	5	2,102
17,442	Short term debtors	6	15,455
4,132	Cash and cash equivalents	7	14,791
21,933	**Current assets**		**32,347**
(6,902)	Short term borrowing		(40,602)
(27,503)	Short term creditors		(25,198)
(1,447)	Grants receipts in advance - capital		(3,089)
(2,277)	Current Provisions		(2,011)
(38,128)	**Current liabilities**		**(70,900)**
(72,155)	Long term borrowing		(57,155)
(76,591)	Other long term liabilities		(72,548)
(126)	Non-current provisions		(309)
(148,872)	**Long term liabilities**		**(130,012)**
194,833	**Net assets**		**244,783**
(56,705)	Usable reserves		(54,232)
(138,128)	Unusable reserves		(190,551)
(194,833)	**Total Reserves**		**(244,783)**

*2020/21 comparatives restated following post-audit results for Oportunitas accounts
**2021/22 includes group results for Otterpool Park Development Company Ltd

2020/21 £000s		2021/22 £000s
(10,809)	Net surplus or (deficit) on the provision of services	(4,836)
26,621	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	12,926
(5,965)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(10,514)
9,847	**Net cash flow from operating activities**	**(2,424)**
(9,958)	**Net cash flow from investing activities (Group Note 7)**	**(12,832)**
(6,533)	**Net cash flow from financing activities**	**25,914**
(6,644)	**Net increase or decrease in cash and cash equivalents**	**10,658**
10,776	Cash and cash equivalents at the beginning of the reporting period	4,132
4,132	**Cash and cash equivalents at the end of the reporting period**	**14,790**

*2020/21 comparatives restated following post-audit results for Oportunitas accounts
**2021/22 includes group results for Otterpool Park Development Company Ltd

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:

	2020/21* £000s	2021/22 £000s
Cost or Valuation		
At 1 April	80,773	36,094
Additions – acquisitions	8,148	4,726
Reclassification to Capital Debtor	(805)	-
Net gain/loss from fv adjustments	3,758	(1,072)
Impairment	(15)	(111)
Reclassification to PPE- Surplus Asset	(55,764)	-
At 31 March	**36,094**	**39,637**

*2020/21 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 2022 are as follows:

2021/22 Recurring fair value measurements using:	Other significant observable inputs (Level 2)	Fair value at 31-Mar-22
	£000s	£000s
Residential Units	17,976	17,976
Agricultural Land	2,885	2,885
Commercial Units	18,776	18,776
Total Investment Properties	**39,637**	**39,637**

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	2020/21	2021/22
	£000s	£000s
Bond, equity & property funds	15,204	16,105
Changes in FV of equity investments in companies	(401)	(3,301)
	14,803	**12,804**

Note 4 – Long Term Debtors

Long Term Debtors	2020/21*	2021/22
	£000s	£000s
Expected Credit Loss (Loans to Companies)	(89)	(46)
Soft Loans	2,019	1,797
Other Loans	944	927
Capital Prepayment (Otterpool Land Options)	673	773
Lease Receivables	119	109
	3,666	**3,560**

*Prior year comparatives restated to show Expected Credit Loss

Note 5 – Stock and WIP

	2020/21 £000s	2021/22 £000s
Stock	8	9
Cost Capitalisation	351	2,093
	359	**2,102**

Note 6 – Short Term Debtors

Short Term Debtors	**2020/21*** **£000s**	**2021/22** **£000s**
Trade Receivables	4,029	4,183
Receivables from Related Parties	9,259	7,742
Prepayments	1,371	791
Other Receivables	4,670	4,579
	19,329	**17,294**
Impairment of debt		
Trade Receivables	(938)	(993)
Other Receivables	(949)	(847)
Total	**(1,887)**	**(1,840)**
	17,442	**15,455**

*Prior year comparatives restated

Note 6 – Cash and Cash Equivalents

Cash and Cash Equivalents	**2020/21** **£000s**	**2021/22** **£000s**
Bank Accounts	512	(344)
Money Market Funds	3,620	15,135
	4,132	**14,791**

Note 7 – Cash Flow Statement – Investing Activities

2020/21 £000s		2021/22 £000s
(20,435)	Purchase of property, plant & equipment, investment property and intangible assets	(24,037)
-	Purchase of short-term and long-term investments	-
(740)	Other payments for investing activities	(1,687)
2,134	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,803
3,505	Proceeds from investments	-
5,578	Other receipts from investing activities	11,089
(9,958)	**Net cash flows from investing activities**	**(12,832)**

Note 8 – Financial Instruments

	Long Term		Short Term	
Financial Liabilities	**31-Mar-21 £000s**	**31-Mar-22 £000s**	**31-Mar-21 £000s**	**31-Mar-22 £000s**
Loans amortised cost:				
- Principal sum borrowed	(72,155)	(57,155)	(6,800)	(40,500)
- Accrued interest	-	-	(102)	(102)
Total Borrowing	**(72,155)**	**(57,155)**	**(6,902)**	**(40,602)**
Liabilities at amortised cost:				
- Trade payables	-	-	(4,717)	(4,195)
Included in Creditors	**-**	**-**	**(4,717)**	**(4,195)**
Total Financial Liabilities	**(72,155)**	**(57,155)**	**(11,619)**	**(44,796)**

	Long Term		Short Term	
Financial Assets	**31-Mar-21 £000s**	**31-Mar-22 £000s**	**31-Mar-21 £000s**	**31-Mar-22 £000s**
At fair value through profit & loss:				
- Fair value	14,803	12,803	-	-
Total investments	**14,803**	**12,803**	**-**	**-**
At amortised cost:				
- Principal	-	-	512	(344)
At fair value through profit & loss:				
- Fair value	-	-	3,620	15,135
Total Cash & Cash Equivalents	**-**	**-**	**4,132**	**14,791**
At amortised cost:	-	-	-	-
- Trade receivables*	-	-	2,819	5,358
- Lease receivables*	119	109	9	10
- Loans made for service purposes*	2,962	1,383	540	357
- Loss allowance Expected Credit Loss*	-	-	(193)	(55)
Included in Debtors	**3,081**	**1,492**	**3,175**	**5,670**
Total Financial Assets	**17,884**	**14,295**	**7,307**	**20,461**

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

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:

- A. Behave with integrity
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

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 2022, and up to the date of approval of the annual report and statement of accounts.

Table 1: Overview of the Council's governance framework

<table>
<tr><td colspan="3"><u>Cabinet</u>
Responsible for:
• 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.</td></tr>
<tr><td><u>Overview & Scrutiny</u>
Responsible for:
• 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.</td><td><u>Council</u>
Responsible for:
• 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.</td><td><u>Audit and Governance</u>
Responsible for:
• 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.</td></tr>
</table>

Finance and Performance Sub Committee Responsible for: • 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.		

Decision Making

- 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.

Risk Management

- 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.

Statutory Chief Officers

- **Head of Paid Service:** This role resides with the Chief Executive and 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 Offer, 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:
  - 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 to review and strengthen the governance structure of the Council. This work, which remains ongoing, made in-year improvements in the functioning of the Overview & Scrutiny Committee. During the year assistance from external specialist expertise was given from Bevan Brittan, the Local Government Association and from the Centre for Governance and Scrutiny. Best practice elsewhere was considered and in October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in strategy and policy development, and in decision making by:

- Focusing meetings of the Overview and Scrutiny Committee on critical council activities.
- Creating a dedicated finance and performance sub-group to meet quarterly.
- Developing a prioritised committee work plan to include about 12 clearly scoped topics by OSC Members, allowing for detailed consideration of the most significant matters facing the council and considering no more than two of those topics per meeting, in general.
- Ensuring work plan topics have clear lines of enquiry, questions, and to draw on external expertise as necessary.
- Members leading the items at Scrutiny meetings, with relevant portfolio holders in attendance.
- Introducing an established Cabinet and Overview and Scrutiny Protocol to clarify relationships between the two and to help ensure the smooth conduct of Scrutiny work, which was adopted by both groups in October 2020.

In February 2022, full council received a progress update on the work undertaken to review the governance arrangements of the council (report ref: A/21/22). The report highlighted the work achieved so far against a set of goals agreed by members for governance change – Inclusiveness, Representation, Accountability, Effective Scrutiny, Efficiency and Transparency. A further decision on any changes to the council's governance arrangements was then considered at full council in May 2022, and members decided not to make changes to the current governance arrangements (report ref A/22/07).

In addition to the improvements implemented with the Overview & Scrutiny Committee, it should be noted that:

- In December 2019, members of Full Council approved a recommendation made by the Audit and Governance committee to appoint an independent member to that committee in line with the updated 2018 CIPFA Practical Guidance for Local Authorities and Police (Report ref: A/19/20). The guidance recognises that the recruitment of independent members is undertaken to bring additional knowledge and expertise to the committee, reinforce political neutrality as well as maintain continuity of committee membership where it is affected by the electoral cycle. The position for an independent member of the Audit and Governance committee was advertised during the year and was successfully appointed at a Special meeting of the Audit and Governance Committee held on the 24 November 2020.

- 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. The political composition of executive has continued to remain the same during the 2021/22 year.

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 (report ref: A/20/10). 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:

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.

3.6 In order to support the delivery of the corporate plan priorities illustrated above, work has been undertaken during the year with directors, chief officers and their service leads to develop a Corporate Action Plan that documents a series of high level actions under each of the four corporate service ambitions that the Council will work towards achieving during the three year period to 2024. A draft of the Corporate Action Plan was presented to the Overview & Scrutiny Committee for consideration in September 2021 before being approved at Cabinet in October 2021 (Report ref: C/21/40).

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, and keep under review, 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.

During the 2021/22 year the council has also undertaken a number of unexpected activities, such as awarding an Energy Tax Rebate and responding to the support for Ukraine etc., and these additional activities have been undertaken by the council's existing teams with relevant reports being provided to Members so that appropriate governance controls are in place with Member oversight.

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.

3.10 Folkestone and Hythe District Council as a public funded organisation is fully committed to principles of openness and accountability and has clearly articulated this as a Guiding Principle in its Corporate Plan. In line with the Transparency Code, the Council continues to publish on its website a series of data sets and information including;

- Senior Staff Salaries
- Organisational Structure Chart
- Payment to suppliers (over the value £250)
- Purchase Orders (£5,000 and over)

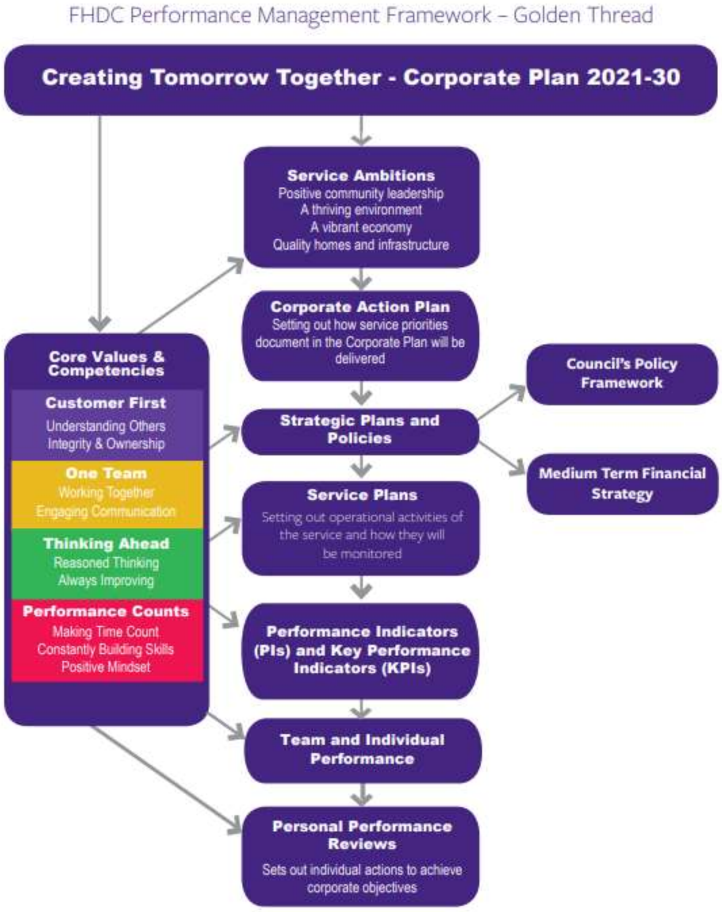
- Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
- Grants to Voluntary, Community and Social Enterprise Organisations
- Parking Accounts
- Local Authority Land Assets
- Fraud - Information relating to the work we do countering fraud
- Trade Union Facility Time

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. This matter is kept under review and a revised version of framework was considered by the Overview & Scrutiny Committee in June 2021 and approved by Cabinet in July 2021 (Report ref: C/21/25).

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 publicly 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 2021, 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 2 compliance plusses as part of his latest inspection bringing the overall number awarded to 17.

Risk

3.15 The Council's Risk Management Strategy (Adopted by Cabinet in March 2022, report ref: C/21/95) 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. This is a dynamic process with progress made against any required action in relation to the risks being reported to the council's Corporate Leadership Team on a regular basis for review and action.

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. The latest edition of the Risk Policy and Strategy and Corporate Risk Register was considered by the Audit & Governance Committee on 16th March 2022 and then approved by Cabinet on 23rd March 2022 (Report ref: C/21/95).

3.18 Diagram 2 below provides an overview of the updated 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

Risk Policy and Strategy
- Annual Review by CLT
- Annual Review by Cabinet
- Annual Review by Audit & Governance Committee

Corporate Risk Register
- Quarterly review by CLT
- Quarterly Review by Audit & Governance Committee
- Annual Review by Cabinet
- Emerging/Changing risks highlighted by Directors and Chief Officers

Operational Risk Registers
- Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors
- Key Risks discussed at Portfolio Holder meetings.

Partnership Risk Registers
- Ongoing – maintained and reviewed regularly by Partnership lead
- Key risks discussed at Partnership Meetings
- Annual review by CLT
- Inclusion where relevant in Corporate Risk Register
- Project Risk

Project Risk Registers
- Ongoing – maintained and reviewed regularly by Project Managers and CO / ADs
- Key risks discussed at Portfolio Holder/Project Sponsor Meetings
- Annual review by CLT of escalated risks
- Annual review of key project risks by Cabinet and Audit & Governance Committee
- Inclusion where relevant in Corporate Risk Register

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 2021/22 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial management of their service areas within the council, which includes accurate forecasting and the effective monitoring of financial performance against budget considered throughout the year.

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 October 2021and expresses the aims and objectives of various plans and strategies in financial terms over a four year period ending 31st March 2026. The MTFS is a key element of sound corporate governance and financial management which is reviewed and agreed by Members on a regular basis.

3.22 In addition, the Finance & Performance Subcommittee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2021/22 financial year at its meeting on 12th January 2021; Cabinet endorsed this at its subsequent meeting (report ref: C/20/64). A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting on 18th January 2022 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 Council's service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. Full Council adopted the relevant strategies for 2021/22 on 24 February 2021 (report references: C/20/72 & C/20/74).

3.24 Regular budget monitoring took place in 2021/22 in order to manage the council's net revenue budget. Regular meetings were held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to continue to have an additional focus on the council's revenue budget monitoring during 2021/22 due to the unprecedented impacts of the pandemic on council finances.

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. The level of reserves currently held has been endorsed and reported by the S151 Officer as adequate and in line with the council's Reserves Policy.

3.26 During the very latter stages of the 2021/22 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. Both a disciplinary investigation and Internal Audit review were commissioned to identify the extent of the non-compliance and make recommendations for improvement of the control environment. These are now well progressed and anticipated to be concluded by the Autumn. Further to those issues arising further matters relating to financial transactions within the Operations service area were identified and are also subject to ongoing disciplinary and audit reviews. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. All bar one of these irregularities was identified through the Council's own assurance and control procedures undertaken by its staff or EKAP. At the time of preparing this Statement, all of these matters are the subject of thorough investigation by EKAP and the necessary appropriate reports will be made to the Audit and Governance Committee, and appropriate reference will be made in the 2022/23 Annual Governance Statement.

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 improving service delivery, the ongoing requirements to address the demand for and scale of services, and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with other public bodies and local agencies, including identification of shared service opportunities where appropriate.

3.28 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. The Partnership Policy is currently undergoing review and will be presented for member consideration in late 2022.

Internal and External Audit

Internal Audit

3.29 The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the S151 Officer, the Director – Corporate Services. They operate under a Charter, which defines their relationship with officers, and the Audit and Governance Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.

3.30 Internal Audit has responsibility to:

- Report on the level of assurance in respect of the Council's internal control systems; and
- Provide an overall independent annual Opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.

3.31 The overall opinion of the System of Internal Controls in operation throughout 2021-22 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July 2022:

- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance and Audit if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.

- As at 31 March 2022 the Internal Auditors completed 342.42 days of review equating to 97.83% of planned completion.

- The EKAP undertakes 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 2021-22.

- In March 2020 EKAP considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four S151 Officers acting as the EKAP Client Officer Group continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.

- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.

External Audit

3.32 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.

3.33 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.

3.34 The 2020/21 draft Audit Findings Report has been issued, however the audit is yet to conclude due to a national issue regarding infrastructure assets, which advice from CiPFA is awaited. Grant Thornton have indicated that they expect to give an unqualified opinion on the Council's financial statements. 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

3.35 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; and
- invoke disciplinary proceedings and further action as appropriate.

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 has now been reviewed and updated by the S151 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.

3.37 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; and
- is about to make an unlawful entry in the authority's accounts.

3.38 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; and
- 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 specialist advice when appropriate on some of our large projects, including Otterpool Park and Princes Parade.

5. HOUSING SERVICE

5.1 In August 2021 the Regulator of Social Housing removed the regulatory notice for health and safety non-compliance, stating that our performance 'satisfactorily addressed the areas of non-compliance which led to the publication of the notice in September 2019'. The Housing Service has attained and reported full compliance on the six key areas of; fire, water, electrical safety, asbestos and lifts. We continue to monitor an extensive set of KPIs, reported monthly to the Housing Leadership Team. Data is scrutinised quarterly by the Corporate Leadership Team (CLT) and the Strategic Tenants Advisory Panel (STAP) and published on the Council's website.

The Housing Service is embedding an internal governance process focused on continuous service improvement. The team is responding to new legislation, i.e. the Charter for Social Housing Residents (White paper), by introducing a Tenant Engagement Strategy which included setting up Strategic Tenant Advisory Panel as the senior level tenant-led scrutiny panel that contributes to the way the council monitors and delivers service improvement. In response to changes in the Regulator of Social Housing consumer standards, we are using the new Tenant Satisfaction Measures to undertake an extensive STAR (Survey of Tenants and Residents) satisfaction survey in May. The council is also now improving benchmarking capabilities through HouseMark (industry leaders for the housing sector) to ensure the provision of a good, cost-effective and financially viable service. This will include new measures for building health and safety in the coming year.

6. OTTERPOOL PARK LLP

6.1 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 and in due course financial return to the council. The main documents and mechanisms governing the relationship between the Council and the LLP are:

- The Members' (or Owners') Agreement approved on 27 May 2020;
- A single overarching Strategic Land Agreement;
- Related agreements including the Phased Delivery Strategy 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

- 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).

6.2 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 report ref C/20/02).

6.3 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan included a draft vision document which set out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document drew on a range of Council documents, primarily the Charter for Otterpool Park (report ref C/17/49). 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.", (report ref A/19/17).

6.4 The first annual update on the Business Plan was considered during the year by the Overview and Scrutiny Committee in December 2021 before being considered at Cabinet in January 2022 (Report ref C/21/70). The report sets out a number of updates to sections of the business plan including Section 4: Legal and Governance summarised below:

Actions in 2021 have included amendments to the scheme of delegations and the approval of a staff handbook containing the human resources policies of the LLP. A Strategic Land Agreement and the method of procuring the on-site wastewater treatment works also secured Board approval. The Cabinet of the Council resolved that the Council should enter into the Strategic Land Agreement with the LLP and the Agreement will be completed shortly.

Supported by the new Head of Finance, the Board will continue to keep track of the LLP's financial performance and it will also consider Phase Delivery Strategies.

Proposals for long-term governance and stewardship of community assets will be prepared for Board and Council approval in the New Year.

6.5 A new Assurance Framework has been established during the year by the Council's Statutory Officers, which will support the delivery of the Otterpool Park LLP business plan. The framework is designed to guide the consideration of corporate governance and matters arising and will be reported to Members as required. The framework is scheduled for review on a 6 monthly basis to ensure it is aligned with the Otterpool Park LLP business plan and Council decisions.

7. CONCLUSION

7.1 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 2022 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 of the framework requiring attention.

However, during the very latter stages of the 2021/22 year, the senior team was made aware of potential breaches of the council's Financial Procedure Rules and Contract Standing Orders. These matters were highlighted, largely, through regular routine checks made by the procurement and finance teams. At the time of preparing this Statement, these matters are the subject of thorough investigation by EKAP and the necessary appropriate reports will be made to the Audit and Governance Committee, and appropriate reference will be made in the 2022/23 Annual Governance Statement.

7.2 Set out in Appendix 1 is the current action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements. This action plan will be kept under review through the year and updated as appropriate.

7.3 The findings of the annual review of the governance framework were reported to Members of the Audit and Governance Committee on 28th July 2022.

Signed

Cllr David Monk
Leader of the Council

Date: 28 July 2022

Signed

Dr Susan Priest

Head of Paid Service

Appendix 1 - Action plan for improvement following review of effectiveness of governance arrangements 2022/23

	Action	Who	Date
1	**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 Directors, Assistant Directors/Chief Officers and internal audit's opinion report.	Monitoring Officer	May 2023
2	**Governance Arrangements** To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.	Monitoring Officer	March 2023
3	**Data Retention Policy and General Data Protection Regulation** To keep under review, the Data retention policy and the new General Data Protection Policy ensuring Officers and Members of the council are aware of their responsibilities.	Monitoring Officer	March 2023
4	**Review of the Overview & Scrutiny Committee function** To keep under review the governance and working arrangements of the committee.	Monitoring Officer	Ongoing
5	**Financial Management Code** Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.	Chief Financial Services Officer & Monitoring Officer	December 2022
7	**Otterpool Park Governance Arrangements** Periodically review the assurance framework and governance arrangements between FHDC and Otterpool Park LLP to ensure they reflect the needs of the Council.	S151/ Monitoring Officer	Autumn 2022
8	**Development of the new Programme Management Office Function:** To implement and develop a programme management office approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects.	**Programme Management Lead Specialist**	March 2023
9.	**Review of the Partnership Policy** To review and update the Council's Partnership Policy to ensure it's reflective of current working practices.	**Performance & Improvement Specialist**	October 2023

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.

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

Folkestone
& Hythe
District Council

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Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

Folkestone & Hythe District Council

5
March 2023

Dear Sirs,

Folkestone & Hythe District Council
Financial Statements for the year ended 31 March 2022

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 2022 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 2021/22 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 2021/22 ("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.

xviii. 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 15 March 2023.

Yours faithfully

Name Charlotte Spendley

Position Director Corporate Services & S151 Officer

Date: 15th March 2023

Name: Councillor Ann Berry

Position: Chairman of the Audit and Governance Committee

Date: 15th March 2023

Signed on behalf of the Council

This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/27**

To:	**Audit and Governance**
Date:	**15 March 2023**
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 quarter 3 of 22/23 (1 October to 31 December 2022).

RECOMMENDATIONS:

1. To receive and note report AuG/22/27.

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 October to 31 December 2022, there were a total of 2 complaints.

These can be categorised as follows:

	1 October to 31 December
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:

	Q3
Public statements including social media / website / internet / email comment	2
Unacceptable Conduct at Council/Committee	0
Conflict of interest	0
Breach of Member/officer protocol	0
Breach of data protection rules	0
Other/miscellaneous	0

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.

For the complaints referred to above both the complaints were not deemed to be breaches of the Code of Conduct. No investigations have been conducted during the period of 1 October to 31 December 2022.

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@folkestone-hythe.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 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/31**

To: **Audit and Governance**
Date: **15 March 2023**
Status: **Non Executive**
Responsible Officer: **Amandeep Khroud, Assistant Director, Governance and Law**

SUBJECT: **ANNUAL REPORT - MAINTAINING ETHICAL STANDARDS**

SUMMARY: This annual report to the Audit and Performance Committee is submitted in accordance with the Committee's term of reference as follows:

"To receive an annual report on the District Council's ethical governance arrangements".

One of the roles of the council's Monitoring Officer is to advance good governance and ensure the highest standards of ethical behaviour are maintained through the effective discharge of their statutory duties.

RECOMMENDATIONS:
1. **To receive and note report AUG/22/31.**

1. INTRODUCTION

1.1 The introduction of the Local Government Act 2000 brought about an increased focus by the Government and local authorities on the issue of ethics and Ethical Governance.

1.2 Ethical governance, also known as the ethical framework, refers to the processes, procedures, culture and values which ensure high standards of behaviour. Ethical governance' lies at the very heart of the way in which an organisation is run, how its business is transacted and how its decisions are taken.

2. CODE OF CONDUCT COMPLAINTS

2.1 Folkestone and Hythe District Council's code of conduct sets out the rules about the behaviour of Members and covers all councillors and co-opted members and requires them, for example, to treat others with respect, not to use their position for personal gain and to register their interests.

2.2 The code of conduct is based around seven general principles of conduct. These are:

- Selflessness (doing things for others rather than personal benefit),
- Integrity,
- Objectivity (not being biased),
- Accountability (being responsible),
- Openness,
- Honesty and
- Leadership

2.3 Training on the code was included in the District Councillor's Member Induction programme after the May 2019 elections.

- During the financial year 22/23, 5 complaints were received relating to district and parish Councillors, compared with 6 in 21/22, 17 in 20/21 and 16 in 19/20.
- During 22/23, 2complaints related to district councillors, and 3 related to parish Cllrs. The breakdown of themes are set out below:

Public statements including social media / website / internet / email comment	2
Unacceptable Conduct at Council/Committee	2
Conflict of interest	0
Breach of Member/officer protocol	1
Breach of data protection rules	0
Other/miscellaneous	0

- No investigations were conducted in 22/23.

3. REGISTER OF INTEREST

3.1 Elected and co-opted members are required to give written notification to the Monitoring Officer of any disclosable pecuniary interests and other registerable interests to be included in the Council's statutory Register of Interests within 28 days of election or appointment, and to update their declarations as appropriate by notifying any amendments or new interests within 28 days of becoming aware of them. This register of interest and individual members' declarations of interest can be inspected at any time on the Council's website through the mod.gov system.

- No dispensations were granted by the Audit and Governance Committee to District Councillors during 2022/23.
- All elected Members of the Council and all Town and Parish Councils have completed and submitted their Register of Interest forms.

4. WHITSTLEBLOWING

4.1 The whistleblowing policy was reviewed in 2022 and is available on the council's intranet. Officers received whistleblowing training in October 2021. In January 2023, officers also received training in Fraud awareness, and contract standing orders.

4.2 There were no incidences of whistleblowing in 2022/23.

2. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

2.1 Legal Officer's Comments

The legal issues are covered in the main body of the report.

2.2 Finance Officer's Comments

There are no financial implications arising from this report.

2.3 Diversities and Equalities Implications

This report does not directly have any diversity and equality implications.

3. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Amandeep Khroud
Telephone: 01303 853253
Email: amandeep.khroud@folkestone-hythe.gov.uk

Background papers:

Code of conduct

This report will be made public on 7 March 2023

Report number **AuG/22/28**

To: Audit and Governance Committee
Date: 15 March 2023
Status: Non-executive decision
Head of Service: Amandeep Khroud – Assistant Director Governance Law and Service Delivery

SUBJECT: ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE

SUMMARY: This report summarises the achievements of the Audit and Governance Committee against the terms of reference for the period 1 April 2022 to 31 March 2023 and details the impact that it has made on the overall system of internal control in operation.

REASONS FOR RECOMMENDATION:
The Audit and Governance Committee is asked to agree the recommendation below to ensure that the Audit and Governance Committee is fulfilling its duties and performing effectively. This report sets out the steps it has taken to ensure the effectiveness of its work. This report will then be presented to Full Council for their information.

RECOMMENDATIONS:

1. **To receive and note report AuG/22/28.**

1. INTRODUCTION

1.1 The purposes of the Council's Audit and Governance Committee are outlined in the constitution.

1.2 Listed below are the terms of reference for the Audit part of the Committee:

a) Review and approve the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.
b) To consider the Head of Internal Audit's annual report and opinion on the Council's corporate governance arrangements.
c) To conduct reviews of the effectiveness of the Council's system of internal audit.
d) Be satisfied that the authority's assurance statement, including the annual governance statement, properly reflects the risk environment and any actions required to improve it.
e) Approve (but not direct) internal audit's strategy, plan and monitor performance.
f) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken, where necessary.
g) Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, and seek assurance that action is being taken to mitigate those risks identified.
h) To make recommendations to Council on Contract Standing Orders.
i) To make recommendations to Council on the Financial Procedure Rules.
j) To maintain an overview of the Council's Whistle-blowing Policy.

1.3 The Audit and Governance Committee seeks to ensure it has effective communication with the authority, which includes the Executive, the Council's statutory officers, the Head of Internal Audit, the external auditor and other stakeholders. This is mainly achieved through the work of the Committee, but is further enhanced by the submission of this annual report to the Council's annual meeting.

2. ANNUAL REPORT

2.1 This report summarises the work of the Audit and Governance Committee over the past year and concludes that it has received clear, concise and relevant information, has received appropriate training on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee.

2.2 Members of the Audit and Governance Committee seek to robustly challenge any weaknesses in the reports from auditors and officers. In particular we will continue to ask senior officers to attend meetings to outline and identify risks within their service areas; how they are mitigating those risks; and meeting their responsibilities.

2.3 The Audit and Governance Committee is assured on the integrity of data held in the financial statements. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The members of the Committee receive specific training which gives them the skills required to carry out these functions effectively.

2.5 The work of the Internal and External Audit provides detailed assurance on the reliability and integrity of the information held in the financial statements.

2.6 The Director - Corporate Services, external audit and internal audit together support the Committee in forming their opinion of the financial statements, enabling the Committee to agree to sign them off in accordance with regulations.

2.7 The Committee receives a regular report on agreed actions from the annual governance assurance process. The Committee is able to request senior officers and, where necessary, the relevant Cabinet member to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.

2.8 The Committee considers the effectiveness of internal audit by reviewing the annual assessment of the Director – Corporate Services, the view of external audit and the quality of reports, actions and follow up through the quarterly reports submitted throughout the year to Committee.

2.9 During the year the committee has considered a large number of reports including:

- Regular detailed updates from the East Kent Audit Partnership (EKAP), the Council's internal auditors
- Regular detailed updates from Grant Thornton, the Council's external auditors
- Grant Thornton Risk Assessment work
- Accounting Policies
- The annual Statement of Accounts
- Annual Governance Statement
- Annual Governance Statement actions update
- Review of Corporate Risk Register
- Review of Risk Management Policy
- Auditor's Annual Report
- Audit Findings for Folkestone and Hythe District Council
- Quarterly Code of Conduct Complaints
- Appointment of External Auditor
- Maintaining Ethical Standards

3. GOVERNANCE

3.1 Listed below are the terms of reference for the Governance part of the Committee:

a) To promote and maintain high standards of conduct by members and co-opted members of Folkestone and Hythe District Council and to make recommendations to Council on improving standards.
b) To advise and assist parish/town councils, and parish/town councillors, to maintain high standards of conduct and to make recommendations to parish/town councils on improving standards.
c) To advise the District Council on the adoption of, or revisions to, its Code of Conduct.
d) To advise, train, or arrange to train, district members, co-opted members and parish/town councillors on matters relating to the Code of Conduct.
e) To assist the district councillors, co-opted members and parish/town councillors to observe their respective Codes of Conduct.
f) To monitor and assess the operation and effectiveness for dealing with the Code of Conduct and to review and manage the arrangements for dealing with Code of Conduct complaints.
g) To advise on local ethical governance protocols and procedures.
h) To maintain oversight of the District Council's arrangements for dealing with Code of Conduct complaints.
i) To act as an advisory body in respect of any ethical governance matter.
j) To monitor and review the procedures for the Register of Members' Interests and declaring gifts and hospitality.
k) 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.
l) To receive an annual report on the District Council's ethical governance arrangements.
m) To make recommendations to Council on the appointment of an Independent Person(s) under S28 of the Localism Act 2011.
n) To grant dispensations pursuant to Section 33(2) of the Localism Act 2011 and paragraph 8 of the adopted Code of Conduct where:

- so many members of the decision-making body have Disclosable Pecuniary Interests in a matter, that it would impede the transaction of the business; or
- without a dispensation, no member of the executive would be able to participate on a particular item of business;
- without a dispensation, the representation of different political groups, on the body transacting the business, would be so upset as to alter the outcome of any voting on the matter;
- that the authority considers that the dispensation is in the interests of persons living in the area; or
- where the committee considers that it is otherwise appropriate to grant a dispensation.

4. COMPLAINTS

- During the financial year 22/23, 5 complaints were received relating to district and parish Councillors.

5. WHISTLEBLOWING

5.1 During the financial year 22/23, there have been no incidents of Whistleblowing.

6. LEGAL, FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

6.1 Legal officer's comments (AK)

There are no legal issues arising out of this report.

6.2 Finance officer's Comments

There are no financial issues directly arising out of this report.

6.3 Diversities and equalities implications (AK)

This report does not directly have any diversity and equality implications.

7. 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
Tel: 01303 853253
E-mail: Amandeep.khroud@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report: None

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Agenda Item 9

This Report will be Made public on 7 March 2023

Report **AuG/22/29**

To: Audit & Governance
Date: 15 March 2023
Head of service: Charlotte Spendley, Director – Corporate Services – Section 151 Officer

SUBJECT: REVIEW OF CORPORATE RISK REGISTER

SUMMARY: This report provides an update to the Corporate Risk Register.

REASONS FOR RECOMMENDATIONS:
It is essential that the Committee regularly review the Corporate Risk Register to consider progress made against agreed actions, and consider the key risks faced by the organisation.

RECOMMENDATIONS:
1. **To receive and note report AuG/22/29.**
2. **To receive and note the updated Corporate Risk Register.**

1. BACKGROUND

1.1 The Risk Management Policy and Strategy was last agreed by Cabinet in March 2022.

1.2 An update and revision of the Risk Management Policy and Strategy is also included on this agenda.

1.3 Effective risk management is a key framework in the management of a complex organisation such as Folkestone & Hythe District Council. The strategy seeks to provide Members and officers with a clear framework to work within, as well as supporting the development of a risk management culture within the Council.

2. UPDATE TO CORPORATE RISK REGISTER

2.1 The updated Corporate Risk Register has been appended in full to this report (Appendix 1). For ease of reference the changes to the Risk Register have been highlighted (red). Additionally, the Risk Matrix, which is a pictorial snapshot of the current level of risks faced by the Council, is provided at Appendix 2 (with changes identified in italics).

2.2 The current Corporate Risk Register identifies 16 risks, which can be categorised as 1 moderate, 6 high and 9 extreme level risks. Compared to the December 2022 matrix which indicated 5 high and 8 extreme level risks.

2.3 The key changes made include:

Three new risks have been identified for:

•	C14 – Levelling up Fund. The award of Levelling up Funding is very good news. However, it does involve complex, high value projects that will be a challenge to deliver on time.
•	C15 – Sports and Leisure Provision. This risk captures concerns about the future provision of leisure facilities in the district in view of issues with the proposed leisure centre at Princes Parade, the pool at Hythe and the Folkestone Sports Centre Trust.
•	C16 – Fraud and Corruption. This risk has been drafted in response to a recommendation from Internal Audit and reflects the need for fraud and corruption to be recognised as a significant corporate risk.

Two risks have updated ratings:

•	C1 – Organisational Capacity. This has been re-rated from a high (9) to an extreme risk (12). This reflects the high level of concern across several service areas and the significant work necessary to address these issues.

•	C6 – Cost of Living. This has been re-rated from an extreme (12) to a high risk (9). This is due to the level of resilience shown by council services in responding to the cost of living crisis.

Additionally, a number of risks have been updated to reflect changes since December 2022.

3. SUMMARY & NEXT STEPS

3.1 The Risk Register has undergone a comprehensive review in line with the guidance in the Risk Management Policy and Strategy. The Risk Register will continue to be monitored and updated and will be reported to the next Audit and Governance Committee. The Risk Register continues to be a fluid document that will see risks re-scored to reflect changes in circumstances.

3.2 There are a number of changes both in terms of scoring and in actions that reflect the work ongoing in respect of the identified risks for the organisation.

3.3 The external auditor has recommended the inclusion of two extra columns in the Risk Register to cover key controls or sources of assurance and the direction of travel. These items will be discussed at the next meeting of the Risk Management Group and the Risk Register will be expanded to comply with the recommendation.

4. RISK MANAGEMENT ISSUES

4.1

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to have a current Risk Management Policy & Strategy in place will cause inconsistencies in approach across the Council	Medium	Low	Policy & Strategy document is in place, relevant officers consulted, and organisation wide training delivered. Work is ongoing to ensure all aspects of risk are managed in line with the framework.
Failure to manage risks effectively could affect the Council's ability to deliver effectively on its Corporate Plan objectives, impact upon its deployment of resources or	High	Low	An up to date strategy framework is in place, training delivered and regular reporting occurring to both CLT and Audit & Governance Committee. CLT have also given a commitment to

impact upon its reputation			continue to develop the attitude towards Risk Management within the organisation.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal Officer's Comments (AK)

There are no legal implications arising directly from this report

Finance Officer's Comments (CS)

There are no direct financial implications from this report.

Diversities and Equalities Implications (CS)

There are no direct implications 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

Bob Palmer, Interim Assistant Director – Corporate Services
Telephone: 07933 172374
Email: robert.palmer@folkestone-hythe.gov.uk

Charlotte Spendley, Director – Corporate Services
Telephone: 07935 517986
Email: charlotte.spendley@folkestone-hythe.gov.uk

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

Appendices:
Appendix 1: Corporate Risk Register
Appendix 2: Risk Matrix

Corporate Risk Register

						Current Score						Target Score		
Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Likelihood	Impact	Total	Mitigation scheme	Proposed Actions	Timeframe	Likelihood	Impact	Total
All Priorities	C1	Organisational Capacity	Susan Priest (Chief Exec); Cllr David Monk (Leader)	Diverse political make-up of Council with range of Council motions to manage. Limited capacity, challenging recruitment market & shortage of many specialist skills available in key fields such as Development Control, Climate Change, Strategic Development, Environmental Health, Finance & Building Control. Particular concern over Building Control with key staff due to retire. Workforce pressures remain high for key contractors such as Veolia and Mears, and in seasonal roles for Grounds Maintenance. Reputational risk exposure if not sufficiently managed.	Capacity proposals agreed by Cabinet in 2021 to address strategic projects capacity. Agile working introduced to attract skilled workforce. Succession planning being undertaken by Organisational Development (OD) for all Directorates. New grow our own initiative. Use of specialist recruiters to target hard to fill roles and interim resource to fill key roles. Targeted service reviews taking place to consider future delivery options where gaps are emerging. Widened span of control for some Chief Officers to cover gaps.	3	~~3~~ 4	~~9~~ 12	Treat	Ongoing work of OD focusing on succession planning, will now work closely with services to prevent gaps arising from retirements. Work with key contractors to gain further assurance on Business Continuity Plans. Additional promotional work with local schools, universities and local job fairs to highlight entry points / range of career opportunities within the council. Workforce development strategy and plan to be developed alongside an updated People Strategy. Apprenticeship levy provides opportunities to recruit and also retain staff in specialist areas. Taking Stock work will highlight areas of concern for further consideration of actions. Review of market supplements that may be needed to attract away / prevent staff from joining the private sector. Enhanced monitoring of sickness to be undertaken so any increase in staff absences is apparent and can be effectively managed.	Ongoing	2	2	**4**
SA 4: Quality homes and infrastructure	C2	Otterpool Park development	Ewan Green (Director of Place); Cllr David Monk (Leader)	Delivery of a new Garden Town which will present complex planning issues, requirement for robust stewardship and governance arrangements, management of financial exposure risks and require new connections to be established with key partners to enable the scale and complexity of delivery. The project involves significant amounts of borrowing and further increases in interest rates would impact on the development.	LLP established and Board appointed, Business Plan for 2021-2026 considered and update agreed January 2022. Framework for updated Business Plan considered by O&S in November 22. Budget commitment made within MTCP. Regular Owners Committee Meetings. Internal Corporate Oversight Group established. Core Strategy adopted March 2022. Paper agreed by Cabinet on appropriate separation of duties for Members and Officers. Strategic Land Agreement concluded. Agreement from Cabinet to establish a Stewardship Vehicle and explore a Collaboration Agreement with Homes England.	3	3	**9**	Treat	Funding Agreements to be concluded and agreed in line with delegations. Planning Permission to be considered. Phased Delivery Strategy being developed alongside updated Business Plan. Further work on financial framework for Stewardship Vehicle underway. Negotiations for a collaboration with Homes England underway. Review of CIL underway.	Planning Permission Q2 2023 S106 Q1 2024	2	3	**6**

Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score			Mitigation scheme	Proposed Actions	Timeframe	Target Score		
						Likelihood	Impact	Total				Likelihood	Impact	Total
All Priorities	C3	Medium Term Financial Strategy Uncertainty of Future Funding	Charlotte Spendley (S151 Officer); Cllr David Monk (Leader)	Central Government continues to indicate a Fair funding review will be delivered to fundamentally change LG funding. However, continued delays suggest that implementation may not occur until as far forward as 2025/26. Will need to plan within climate of uncertainty. Lack of certainty on Business Rates Localisation and reset and also other funding streams such as the end of New Homes Bonus also brings uncertainty. A 3 year funding settlement was announced from 2022/23, however this settlement means a cash-flat position for 2023/24 and 2024/25. ~~The Council awaits the outcome of the Autumn Statement from the Chancellor of the Exchequer to provide further clarity on the national and local picure for public finance. National economic climate creating significant additional pressures and uncertainty.~~ The Council received the Autumn Statement in November 2022 and its was announced that the Fair Funding Review will now be pushed back to 2025/26. A one year settlement was received in December 2022 for the 2023/24 Budget with the proimse of new policy guidelines for 2024/25 but with no new figures. There is no news on the Business Rates retention scheme reforms. The National economic and financial climates remains pressured and uncertain.	Officers regularly attending briefings on future LG funding. Updated MTFS was considered by O&S/Cabinet/Council in November outlining scale of medium term gap. S151 Officer part of Kent Finance Officers Group. Regular updates provided to Members on the current year position. MTFS position determined following significant modelling and having taken advice from advisors. Member training & senior officer session took place in November covering economic picture and LG Funding.	4	4	**16**	Treat	Officers will continue to attend briefings on LG Funding and brief members. Update to the MTFS ~~to be~~ reported in November, followed by the Budget Strategy update agreed by Cabinet in December. ~~Plans to be drafted for~~ Budget savings targets for Budget Managers for 23/24 cycle of budget now set following MTFS. Update to HRA Business Plan will be made for 2023/24 Specialist advisors engaged to undertake this. A review of inflationary pressures acorss the council underway to assess impact and options.	Ongoing	2	3	**6**
All Priorities	C4	Failure to deliver Strategic Projects due to volume & scale of projects, alongside the council facing increased financial pressures in an uncertain economic climate.	Andy Blaszkowicz (Housing & Operations Director) & Simon Baxter (Chief Officer Development); CLT; Cllr David Godfrey (Housing, & Special Projects)	Ambitious Strategic & Housing development agenda identified of a complex nature presenting planning risks, financial exposure risks and require new connections to be established with key partners to enable delivery e.g.grant funding, joint venture partners. Failure to attract relevant grants including Levelling Up Fund, Brownfield Sites Fund, Homes England etc. and a changed economic climate results in affordability concerns for the council.	Experienced resource within projects team. Work ongoing with Homes England, DLUHC, One Estate etc to secure futher funding. Engaging specialist advice where required. Review of strategic projects undertaken to consider whether to continue or to pause until there is a more favourable economic climate and business cases for investment are strong.	3	3	**9**	Treat	Establishment of PMO approach to roll out consistent principles for managing projects corporately. Finance , Housing & Strategic Projects teams working collaboratively to introduce new housing scheme appraisal system.	Completed initial addressing of capacity, maintain progress	2	2	**4**
All Priorities	C5	Organisational non compliance with constitution requirements, emerging and new legislative and regulatory requirements and associated new burdens	Susan Priest (Chief Exec); Cllr David Monk (Leader)	FHDC operates in a complex regulatory and legislative environment. Risk of challenge over planning decisions (Secretary of State or Judicial Review) could create reputational damage and delay projects, landlord statutory obligations and Regulator of Social Housing, etc. Implications arising from changing legislative and regulatory environment (eg Environment Act 2021, Procurement Act expected Autumn 2023 etc), presents increased risk to authority in meeting the emerging requirements with sufficient resources and skills to fulfil statutory duties and demands. Staff required to be well-trained and aware of associated governance matters, including adherence to processes and procedures. Reputational risk to authority if risk occurs.	Legal support embedded in key project teams. External specialist advice sought where required. Monitoring of potential changes to planning and environmental legislation. Refreshed training and development programmes offered to staff. Governance action plan prepared with progress regularly monitored by CLT. New performance review template prepared to remind managers of the range of governance matters to check.	2	4	**8**	Treat	Continued external advice sought when required. Use of professional specialists (Legal, Finance,Development, Procurement) in key projects. Ongoing monitoring and regular reporting on compliancy built into CLT monitoring reporting for key projects. Internal Audits commissioned to review areas of concern. Refreshed training and support materials available for staff to support ongoing learning and development. Additional resource focused on compliance. Regular review of governance action plan by CLT.	Ongoing	2	2	**4**

Corporate Risk Register

Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score Likelihood	Current Score Impact	Current Score Total	Mitigation scheme	Proposed Actions	Timeframe	Target Score Likelihood	Target Score Impact	Target Score Total
SA1: Positive community leadership	C6	Cost of living pressures put unsustainable demands on council services	Susan Priest (Chief Exec); Cllr David Monk (Leader)	With the current economic situation and unknown further cost of living pressures predicted, communities require ongoing support. Vulnerable residents require appropriate access to services and effective signposting to specialist providers of support.	Well established connections made with a variety of partners including the voluntary community sector and specialist support agencies. Community hubs established for responsive work. Consideration given to the use of available UKSPF funds to support cost of living pressures for residents. Succesful bid made to UK Power Networks for funding to support warm spaces.	~~4~~ 3	3	~~12~~ 9	Treat	Ongoing role of Community Hubs to continue based on value demonstrated through the pandemic. UKSPF ~~proposed~~ being used to target support for cost of living. Following on from the Cost of Living Summit, an information leaflet has been produced and work is being done to record and co-ordinate warm spaces.	Ongoing	3	2	**6**
All Priorities	C7	Failure to deliver Strategic Project - Princes Parade	Andy Blaszkowicz (Housing & Operations Director) & Simon Baxter (Chief Officer Development); CLT; Cllr David Godfrey (Housing, & Special Projects)	~~Failure to secure pre-commenencement conditions and necessary license & contract agreements to achieve planned start on site. Potential JR process relating to residential site affecting cashflow position of scheme. Updated MTFS and wider economic landscape requires revaluation of the scheme.~~ Failure to implement planning permission and secure the £20m + asset value of the Princes Parade site to deliver a Leisure Centre, Commercial and Residential development. Lack of financial and staff resources to effectively deliver the project. Elevated financial risk to the authority with uncertainty surrounding delivery route, potential write off and associated reputational damage.	~~Resource delpoyed to evaluate options for the scheme giving consideration to affordability, deliverability, planning, economic, community considerations. Project spend suspended.~~ Members agreed resources to carry out actions to implement the planning permission (deadline date 17th July 2023.) Clarity on project delivery options (beyond planning matters) including potential sale of site, given priority attention with associated financial implications arising being carefully appraised and considered by members.	4	4	**16**	Treat	~~Portfolio Holder briefings and member decision required on options appraisal.~~ Members to consider next steps once the planning implementation is secured. Review of financial plan for delivery options of the scheme to be carried out with associated financial implications given priority attention.	Ongoing	2	2	**4**
SA2: A thriving environment	C8	Failure to achieve Carbon Neutral ambitions by 2030	Charlotte Spendley (S151 Officer); Cllr Lesley Whybrow (Environment)	Council resolution to committ to reduce the Council's estate and operations to zero net carbon by 2030. Competing demands to be managed and interdependencies to be considered.	Climate and Ecological Working Group established and meeting regularly. Carbon Action Plan agreed. Additional resources secured. Staff & Member training commenced. Impact statements being trialed in Cabinet Papers from July 21 onwards. Social Decarbonisation Funding secured. A Carbon Innovation Lab has been established and has held ~~three~~ five meetings so far. Enhanced communications to maintain high profile on the issue.	4	3	**12**	Treat	Action plan to be delivered and reviewed regularly to ensure actions make the most of the opportunities to reduce carbon emissions from the council's estate and operations. Ongoing work particularly within specialist teams including procurement to create internal frameworks to inform decisions taken and reduce estate emissions. Consultancy services procured to assist in updating Carbon Action Plan. A bid ~~will be~~ has been submitted for the second round of the Social Decarbonisation Fund. Work required on HRA aspects as ambition cannot be funded from exisitng HRA resources (see risk 4 above). Working with a consultant through CI Lab on engagement events to widen participation.	Ongoing	3	2	**6**

Corporate Risk Register

Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score			Mitigation scheme	Proposed Actions	Timeframe	Target Score		
						Likelihood	Impact	Total				Likelihood	Impact	Total
SA4: Quality homes and infrastructure	C9	Housing deliverability Tenant safety - capital programme/ Asset Management Health & Safety, Compliance / retrofit /Net Zero Carbon agenda	Andy Blaszkowicz (Housing & Operations Director); Cllr David Godfrey (Housing) & Gill Butler (Chief Officer, Housing)	Delivery against expectations investment /retrofit social housing (Net Zero Carbon), asset management, meeting legislation - decent homes standards, Health & Safety / building safety as well new consumer standards - Tenant Satisfaction Measures etc. HRA Business Plan viability /against expectation of HRA new build. Resource issues. Risk that we fall short on compliance / legislation which may cause problems with Regulator of Social Housing in 24/25. Also risk that we will have too many properties left to retrofit 2025-30 to EPC 'C' - dependent on Wave 2 decision. Combination of restrictions on rent increases, higher borrowing costs and significant capital works that are unavoidable may call viability of HRA into question over medium term.	Successful Social Housing Decarbonisation Fund Wave 1 bid £2M/£900K (HRA commitment). Some skilled Temp. officers in place to manage SHDF 22/23. Housing Asset Management Strategy commitment to have all homes to Energy Performance Certificate C by 2030. Competing demands from the Net Zero Cabon agenda & meeting Health & Safety /Compliance legislation - will place future retrofit programme at risk - if no Wave 2 funding secured for 23-25 this will leave ~~700 +~~ 800 + properties.	3	4	**12**	Treat	Housing Asset Management Framework in place. Retrofitting /Net Zero Carbon agenda - developing a Housing Carbon Reduction Plan / contract procurement /stock management process in place - planned works module on IT system. Resources - recruiting to vacant posts. HRA Business Plan - to determine priority of spend level of Wave 2 Social Housing Decarbonisation Fund bid.	22/23 -Ongoing	2	3	**6**
SA2: A thriving environment	C10	Waste Collection & Street Cleansing Distruption	Ewan Green (Director of Place); Cllr Stuart Peall (Waste)	Service delivery failure or disruption to contract performance resulting in poor service to our residents, reputational damage, financial costs, impact on clean and attractive environment for residents, visitors and businesses. Possible triggers include - 1. Contractor service failures. 2. Weather disruption. 3. Disruption to transportation routes, fuel supplies and availability of HGV drivers. 4. Industrial action. 5. Pandemic/Covid Absences. 6. Volume of unacceptable littering behaviour 7. Introduction of new burdens and / or unforeseen service requirements arising from the implementation of new Government policy (e.g. Environment Act)	1. Regular monitoring of contract performance by Waste Team. 2. Joint approach with DDC as part of the Waste Partnership. 3. Use of contract performance clauses e.g. performance deductions. 4. Updated Business Continuity Plans. 5. Regular monitoring of contractor resource levels e.g. drivers and crews. 6. Targeted communications about taking home / disposing of waste responsibly. 7. Early impact assessennt of impications of new policy burdens, working with DCC and the Kent Resources Partnership.	3	3	**9**	Treat	Continue the relevant actions as set out in 'Actions In Place'. Targeted communications.	Ongoing	2	2	**4**

Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score			Mitigation scheme	Proposed Actions	Timeframe	Target Score		
						Likelihood	Impact	Total				Likelihood	Impact	Total
All Priorities	C11	Cyber Threat	Charlotte Spendley (Director of Corporate Services); Cllr Ray Field (Transformation, Digital, IT & Customer)	All ICT systems face cyber threats resulting in a number of possible outcomes including but not limited to - prolonged loss of access to FHDC network and key systems potential loss of data prolonged disruption to service delivery data breaches which could result in substantial financial penalties from the ICO	The council has a number of layers of anti virus security both internally and externally (e.g. on the Kent Connects network). All systems and equipment are in support at all times including cloud hosted systems and updated regularly with security patches. There are Acceptable Use and Information Security policies in place which contain incident reporting procedures to provide guidance for staff. The Acceptable Use Policy has been updated in 2023. Staff have to undertake security awareness training on an annual basis. The number of routes by which a virus could enter the network have been curtailed. Backups are held which would enable systems to be rebuilt in the event of a loss of data which are tested annually. The council maintains its compliance with government standards which includes rigorous testing of security and if necessary monitoring remedial actions.	3	4	**12**	Treat / Tolerate	Maintain current position of providing staff ICT equipment needed to carry out their roles. 2023 version of the Acceptable Use Policy reverts to position that work devices are for work purposes only and removes some of the freedom of personal use. Project to redue data held on the network is being developed. This will reduce risk of virus infection spreading, raise awareness of staff of importance of good data management, reduce effort required if restoration necessary. Continue to monitor security systems and solutions and upgrade/renew as priority over other ICT works. Continue to educate users and carry out targeted email campaigns so staff and councillor awareness remains high. Renew the council "Cyber Essentials" accreditation, and enhance if necessary. Continue to migrate systems to the cloud in line with the 2023 ICT Strategy where better security can be provided by vendors on a larger scale and also reduced risk of cross contamination between key systems compared to hosting in local data centre. Council made a bid for DLUHC grant funding for improving cyber security and awarded £125k. A plan is being developed to make best use of this grant.	Ongoing	3	2	**6**
All Priorities	C12	Economic Climate	Charlotte Spendley (Director of Corporate Services); Cllr Lesley Whybrow (Environment)	Due to world-wide economic factors, CPI inflation rates have increased at rapid rates and currently ~~(November 22) CPI sits at 11.1%~~ (December 22) CPI sits at 10.5%. Cost increase pressures for pay, prices and contracts have necessitated price changes to the estimates of future projects and also the council's MTFS projections. These have to be funded and increase pressure on the MTFS funding gap. Inflation likely to drive higher cost demands that may exceed what has been allowed for in the MTFS. The consequence of this is that budget reductions will be required to maintain service levels within cost, and/or projects may have to be delayed or deferred. Inflationary pressures may challenge scheme feasibility. The state of the economy is likely to impact upon collection rates for major income streams including housing rents, council tax and business rates. As a consequence of high inflation, interest rates are also rising which again influences the cost of future projects and the cost of borrowing which can have a material effect on viability of these schemes.	This is being kept under review by CLT and the finance/case management team for existing contracts and any significant cost increases or shortfalls in income will be highlighted to CLT. Further guidance is awaited from Central Government on how Council's will be compensated for inlfationary pressures, for example, will the Business Rates multiplier be increased by CPI rates or will the Council be compensated through the Provisional Local Government settlement. Pay and price negotiations are on-going with suppliers and in respect of pay awards. The Autumn Statement received in November 2022 has confimred that CPI inflation will be used as the basis to compensate Councils for the multiplier cap freeze.	4	3	12	Treat/ Tolerate	To ensure Value for Money in all contracts and projects and mitigate as far as possible to avoid entering into fluctuating value contracts. Inflation assumptions in MTFS have been updated and any impact of additional funding pressures have been projected and the addtional pressures that this may bring to the Council are identified within the funding gap. The Local Government Assoication and other relevant bodies are lobbying Central Government for compensatory adjustment within the Provisional Local Government settlement to help Councils balance their budgets.	Ongoing	3	3	9

Link to Corporate Plan	Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score Likelihood	Current Score Impact	Current Score Total	Mitigation scheme	Proposed Actions	Timeframe	Target Score Likelihood	Target Score Impact	Target Score Total
SA1: Positive community leadership	C13	May 2023 Elections	Susan Priest (Chief Exec & Returning Officer)	Delays to secondary legislation and Electoral Commission Guidance obstructing planning for & delivery of election. May 2023 Elections will be first requiring voter ID and problems may arise with both the software and the ID supplied by electors. Likely to add to requirements for polling stations, additional pressures on staff and need for support from police.	This is being kept under review by the elections lead specialist and liaison ongoing with other authorities and DLUHC.	3	4	12	Treat	Continue to work with electoral and district council networks/LGA to pressure DLUHC to urgently bring forward legislation. Apply similar pressure to Association of Electoral Administrators and Electoral Commission to issue guidance with ample time to implement changes.	May-23	2	3	6
SA4: Quality homes and infrastructure, SA2: A thriving environment	C14	Levelling Up Fund Folkstone	Ewan Green (Director of Place); Cllr Wimble (District Economy)	Delivery of a £22m Levelling Up Programme for Folkstone will present complex project management issues, requirement for robust governance arrangements, management of budget, comprehensive comms and engagement startegy along with strong stakeholder engagement. The project also has a challenging timetable set by DLUHC	The project has started ahead of the funding agreement. FHDC and KCC have procured the design consultant for the highways aspects of the scheme. FHDC have also procured the Folca element of the LUF.	2	4	**8**	Treat	Awaitng detailed Memorandum of Understanding and adminstration requirements from DLUHC. A clear governance structure is proposed. A delivery agreement with KCC is being drafted. A resource structure has also been proposed to ensure strong delivery team is in place to deliver against the challenging timetable. A comprehensive list of Project Management Office documents are being populated and will be managed accordingly	Completed initial addressing of capacity, maintain progress	2	2	**4**
SA1: Positive community leadership	C15	Sports and Leisure Provision in the District	Ewan Green (Director of Place); Cllr Jennifer Hollingsbee (Communities)	The provision of sports and leisure facilities within the district is under pressure from several risk factors. 1. High energy costs have had a significant impact on the leisure sector that have high energy usage notably swimming pools. 2. Wage inflationary pressures have driven up staffing costs. 3. Shortages of trained staff (e.g. lifeguards and training instructors) and its operational impact. 4. The high cost of maintaining often ageing leisure facilities (e.g. Hythe Pool constructed in 1974). 5. The reliance of many community leisure facilities on external funding (e.g. FSCT grant and Sports England funding). 6. The ageing population and increased need for targeted wellbeing programmmes (e.g. obesity) have increased community demand but with no national funding structure.	1. Council funding of local facilities either directly (e.g. Hythe Pool) or through grant support (e.g. FSCT). 2. Worked carried by the Council promoting the Health & Wellbeing agenda and identifying external funding schemes.	4	3	**12**	Treat	1. Replacement for Hythe Swimming Pool. 2. Continued grant support for FSCT. 3. New leisure centre facility planned for Otterpool Park.	3-10 years	2	3	**6**
SA1: Positive community leadership	C16	Fraud and Corruption	Charlotte Spendley (S151 Officer); Amandeep Khroud (Monitoring Officer); Cllr Prater (Portfolio Holder Revenues, Benefits, Fraud & Corruption)	The Council could suffer a loss due to the mis-use of Council assets; potential reputational damage; potential impact of government grants; potential impact on residents and businesses if Council funds or resources are subject to fraud or corrupt practises.	Internal Audit review all key systems vulnerable to fraud and corruption regularly, undertaking appropriate checks and report to management and Audit & Governance Committee. Anti-Fraud, Corruption, Bribery and Whistleblowing Policy in place. Annual staff training available. Dedicated and trained Council Fraud Investigator. Work undertaken to review NFI data which provide additional checks to identify fraudulent claims and identify fraud. Robust system controls tested regularly	3	2	**6**	Treat	Continue to build on use of data analytics including the utilisation of government initiatives and in house resources. A fraud risk assessment should be undertaken to evaluate fraud risks including the development of a fraud action plan. Add to the existing Fraud reporting arrangements to include a summary of all suspicions and outcomes of investigations, and be presented to Corporate Leadership Team and the Audit and Governance Committee on a regular basis. Fraud data published under the Transparency Code 2015 must include all types of fraud suspected, reported and investigated.	Ongoing	2	2	**4**

Appendix 2 **Matrix - Corporate Risk Register - current Score**

Likelihood		Minor (1)	Moderate (2)	Significant (3)	Severe (4)
	Very Likely (4)			**C8 - Carbon Neutral Ambitions** ~~**C6 - Cost of Living**~~ **C12 - Economic Climate** ***C15 - Leisure Provision***	**C3 - MT Financial Strategy Uncertainty** **C7 - Princes Parade**
	Likely (3)		***C16 - Fraud & Corruption***	~~**C1 -Organisational Capacity**~~ **C2 - Otterpool Park** **C4 - Strategic Projects** **C10 - Waste & Street Cleansing** ***C6 Cost of Living***	***C1 -Organisational Capacity*** **C9 - HRA Deliverability** **C11 - Cyber Threat** **C13 - May 2023 Elections**
	Unlikely (2)				**C5 - Legislative and Regulatory Non Compliance** ***C14 - Levelling Up***
	Rare (1)				
		Impact			

Key to colour coding

- extreme risk
- high risk
- moderate risk
- low risk
- very low risk

Items shown in *italics* are new or re-scored risks.

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Agenda Item 10

This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report **AuG/22/30**

To: **Audit & Governance**
Date: **15 March 2023**
Head of service: **Charlotte Spendley, Director – Corporate Services – Section 151 Officer**

SUBJECT: **REVIEW OF RISK MANANGEMENT POLICY & STRATEGY**

SUMMARY: This report presents an updated Risk Management Policy & Strategy for consideration by the Audit & Governance Committee, ahead of its adoption by Cabinet. The Policy & Strategy provides a framework for the management of risk by Officers and Members. There is a separate report on the agenda which provides an update to the Corporate Risk Register.

REASONS FOR RECOMMENDATIONS:
A clear framework as outlined within the Strategy will ensure consistency in approach across the organisation, provide clarity of roles with respect to Risk Management and enable progress towards an embedded Risk Management culture within the organisation.

RECOMMENDATIONS:
1. **To receive and note report AuG/22/30.**
2. **To propose to Cabinet the adoption of the updated Risk Management Policy & Strategy.**

1. BACKGROUND

1.1 The Risk Management Policy and Strategy was last refreshed in March 2022. At that time the strategy was comprehensively reviewed and updated, the current proposed amendments are relatively minor.

1.2 Effective risk management is a key framework in the management of a complex organisation such as Folkestone & Hythe District Council. The strategy seeks to provide Members and officers with a clear framework to work within, as well as supporting the development of a risk management culture within the Council.

1.3 The Financial Procedure Rules state:
"It is the overall responsibility of the Cabinet to approve the Council's Risk Management Policy and Strategy, review it on an annual basis and to promote a culture of risk management awareness throughout the Council."

1.4 Whilst overall responsibility to approve the Policy & Strategy rests with the Cabinet, the Audit & Governance Committee have through their Terms of Reference a duty to "consider the effectiveness of the authority's risk management arrangements".

2. CHANGES TO THE POLICY & STRATEGY

2.1 As stated above, given the previous thorough updating of the Policy, the amendments now being suggested are fairly limited. The proposed document is appended to this report (Appendix 1).

2.2 The first proposed change is on page 9 of the document and relates to the rating of how likely it is that a risk will occur. The current assessment of likelihood is set out below –

Likelihood

Rating	**Score**	**Likelihood Descriptors (Any, not all)**
Very Likely	**4**	• **More than 85% chance of occurrence** • **Regular occurrence** • **Circumstances frequently encountered**
Likely	**3**	• **More than 65% chance of occurrence** • **Likely to occur within next 12 months** • **Circumstances have been encountered**
Unlikely	**2**	• **31%-65% chance of occurrence** • **Likely to happen within next 2 years** • **Circumstances occasionally encountered**
Rare	**1**	• **Less than 30% chance of occurrence** • **Circumstances rarely encountered or never encountered before**

2.3 It is proposed that the definition of Unlikely should change from 31% to 65%, to 31% to 50%. With a consequent change in Likely from more than 65% to more than 50%. The Risk Management Group (RMG) thought the proposed definitions were more appropriate and consistent with how risks on the Corporate Risk Register had been rated.

2.4 The second proposed change to the Policy is to include a paragraph about the RMG. It was felt by the Corporate Leadership Team (CLT) that they were too heavily involved in writing updates to the Corporate Risk Register. The Chief Officers are more directly involved in managing risk and so are better placed to describe and rate both existing and emerging risks. Therefore, it was decided that a RMG should be formed of the Chief Officers and that CLT could then move to exercising oversight rather than direct control of the Corporate Risk Register.

2.5 The RMG had its first meeting in February and the proposed text for inclusion in the Policy (see page 14 of Appendix 1) is given below –

Chief Officers & Assistant Directors meet quarterly as the Risk Management Group (RMG). This group will discuss emerging corporate risks and updates to risks already recorded on the Corporate Risk Register. The proposed amendments and additions will then be sent to CLT for review.

2.6 The final proposed change to the Policy is to include two additional columns in the Risk Register. These additional columns cover key controls or sources of assurance and the direction of travel and have been recommended by the external auditor. The proposed new layout is shown on the final page of the Policy together with the current layout.

2.7 The Strategy and Policy will be tabled to Cabinet for agreement following consideration by Audit and Governance Committee.

3. SUMMARY & NEXT STEPS

3.1 The establishment of a RMG is part of the continued process of embedding Risk Management across the organisation. Further training on risk management awareness and strengthening the value of all risk registers will be provided for officers.

3.2 Subject to any amendments proposed by this Committee, the Risk Management Policy and Strategy and the Corporate Risk Register will receive the annual review by Cabinet on 22 March.

4. RISK MANAGEMENT ISSUES

4.1

Perceived risk	Seriousness	Likelihood	Preventative action
Failure to adopt a Risk Management Policy & Strategy will cause inconsistencies in	High	Low	A revised Policy & Strategy document has been prepared and relevant officers consulted.

approach across the Council			
Failure to have a current Risk Management Policy & Strategy adopted will affect the Councils ability to deliver effectively on its Corporate Plan objectives	High	Low	A revised document has been prepared for adoption that provides for the management of Corporate Plan Objective risks.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

Legal Officer's Comments (AK)

There are no legal implications arising directly from this report

Finance Officer's Comments (CS)

There are no direct financial implications of this report.

Diversities and Equalities Implications (CS)

There are no direct implications of 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

Bob Palmer, Interim Assistant Director – Corporate Services
Telephone: 07933 172374
Email: robert.palmer@folkestone-hythe.gov.uk

Charlotte Spendley, Director – Corporate Services and Section 151 Officer
Telephone: 01303 853420
Email: charlotte.spendley@folkestone-hythe.gov.uk

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

Appendices:
Appendix 1: Risk Management Policy & Strategy

Risk Management Policy & Strategy

March 2023

Section 1 - Risk Management Policy

1. Policy Statement

The Risk Management Policy of Folkestone & Hythe District Council (FHDC) is to adopt best practice in the identification, evaluation, and cost-effective control of risks.

Risk is a factor of every-day life and can never be eliminated completely. FHDC is exposed to risk through threats to service provision, failure to deliver its strategic objectives and from the potential of lost opportunities.

All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.

Ultimately, effective risk management will help ensure the Council maximises its opportunities and minimises the risks it faces, improving our ability to achieve our strategic objectives and have an effective and sound system of governance in place. This framework will be particularly helpful in moving towards a more commercial approach.

2. Objectives

2.1 The council's risk management objectives are to:

- Develop a balanced approach to managing the wide range of business risks facing the Council which may prevent the Council from achieving its strategic objectives.
- Manage risk in accordance with legislation and best practice.
- Embed risk and opportunity management into the culture of the organisation.
- Establish a common understanding of the Council's expectations on risk management with partners, providers and contractors.
- Anticipate and respond quickly to change.
- Minimise the total cost of risk.

2.2 These objectives will be achieved by:

- Establishing a risk management organisational structure to act in an advisory and guiding capacity and which is accessible to all employees.
- Adopt processes, which demonstrate the application of risk management principles across the whole council.
- Providing risk management training as necessary.
- Devise and maintain contingency plans in key risk areas to secure business continuity where there is a potential for an event having a major impact upon the council's ability to function.
- Have a proactive approach to managing and anticipating events before they happen through maintaining effective communication and the active involvement of councillors and officers.
- Monitor arrangements continuously, learning from our mistakes and near misses.

3. Review period

In line with our policy to follow best practice, the Risk Management Policy & Strategy will be reviewed annually, to capture developments in relevant risk management approaches.

Section 2 – Risk Management Strategy

1. Introduction

1.1 Risk management will help identify and deal with key corporate risks facing the organisation in the pursuit of its objectives; it is an essential part of good management, not simply a compliance exercise.

2. What is risk management?

2.1 "It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities." *(A Risk Management Strategy* by the Institute of Risk Management)

2.2 Risk Management is a fundamental part of good management practice for Directors, Assistant Directors, Heads of Service and other managers when planning and setting objectives, assessing adequacy of controls (both financial and service delivery) and monitoring performance. Risk management is a key way in which the Council manages its business. It is essential that risk management is embedded into corporate processes including (but not limited to):

Policy Making and Review	Strategic and Financial Planning
Service Design and Delivery	Performance Management
Change Management and Transformation	Project Management
Business Continuity Planning	Information Management

2.3 Risk management signifies the culture, processes, and structures inherent within the Council that are directed towards the effective management of potential opportunities and threats.

2.4 As well as safeguarding against potential threats and acting as an early warning system, risk management is a useful tool for exploiting opportunities.

3. The benefits of good risk management

3.1 Good risk management supports the achievement of the Council's objectives and has a crucial role to play in ensuring that Folkestone & Hythe District Council is well run. Risk management is about managing the threats that may hinder delivery of our priorities and core services and maximising the opportunities that will help deliver them. It is important that risk management is aligned to the service plans, MTFS, Corporate Plan, policy making, performance management and strategic planning of the organisation.

3.2 The key benefits of a systematic approach to risk management are:

- Protects and enhances the reputation of Folkestone & Hythe District Council

- It provides a framework for future activity to take place in a consistent manner
- Contributes to a more efficient use of capital and resources
- Assists in the protection and enhancement of assets
- Optimises operational efficiency and focus

4. Types of risk – corporate, operational, project and partnership

4.1 Risk is defined as anything that may have an impact on the Council's ability to achieve its objectives. The risks can be internal, external, strategic (or corporate) or those arising from major projects. Risk can be categorised for recording purposes under the following headings:

- **Corporate (Strategic)**
- **Operational (Departmental)**
- **Partnership**
- **Project**

4.2 **Corporate risks**

These are risks that need to be considered when looking at the medium to long term objectives of the Council. Corporate risks would typically be identified and addressed within the Council's Corporate Plan or Medium-Term Financial Strategy (MTFS). A range of external factors or influences need to be considered in the identification of risks and the following sub-categories (this is not an exhaustive list but intended to provide guidance) should be used to assist:

- Political – those associated with a failure to deliver either local or central government policy and how those policies impact on, or influence, the Council and its community.
- Economic – those affecting the ability of the Council to meet its financial commitments such as inflation rates and interest rates, also unemployment rates can directly impact on the community and pose risks to the achievement of the Council's economic priorities.
- Social – those relating to the effects of cultural and demographic changes (language, religion, educational attainment, income level, occupation, family structure) which impact on the Council's ability to achieve its objectives.
- Technological – includes the consequences of internal technological failures on the Council's ability to deliver its objectives and to innovations in technology that can affect the Council and its community, such as increasing expectations of technological solutions to match other sectors.
- Legislative – those associated with current or potential changes in national or European law (as remains appropriate to UK) as well as policies that the Council has itself set.

- Climate Change, Sustainability and Environmental – those relating to environmental impacts of climate change, greenhouse gas emissions, water consumption, flooding, weather related risks, ground conditions and broader sustainability matters.
- Competitive – those affecting the competitiveness of the service (where appropriate) and/or its ability to deliver value for money.
- Customer – those associated with the failure to meet the current and changing needs and expectations of customers, keeping track of customer expectations, and viewing the service through the eyes of the customer.
- Reputation – those relating to public confidence and failure to recruit high calibre staff.

4.3 **Operational risks**

These are generally identified and managed by Assistant Directors, Chief Officers and Service Managers as part of their operational business remit. The key risk areas that they need to manage are:

- Service delivery/performance
- Political/reputation
- Health & Safety
- Technology/Data Protection
- Financial

It is important to think about how the operational risks that managers and staff will encounter in the daily course of their work can be identified and how any changes could undermine the business of the Council. Using the following sub-categories should act as a guide:

- Professional – those associated with the nature of each profession.
- Financial – those associated with financial planning and control and the adequacy of insurance cover.
- Legal – those related to possible breaches of legislation, breach of contract, negligence, etc.
- Physical – those related to fire, security, accident, prevention and health and safety.
- Contractual – those associated with the failure of contractors to deliver services or products to agreed cost and specification.
- Technological – those relating to reliance on operational equipment and electronic data and information.
- Environmental – those relating to pollution, noise, or the energy efficiency of ongoing service operations.
- Human Resources – those relating to staff issues.

4.4 **Partnership risks**

Folkestone & Hythe District Council works with a range of partners to deliver services. It is important that those partners are brought into the risk management framework to ensure that risks to the Council are not overlooked.

Risks are identified and addressed in formal partnership agreements and contracts as appropriate. The primary risks are:

- Financial – failure to understand the potential financial liabilities associated with partnership arrangements.
- Reputation – loss of public confidence.
- Contractual – contract requirements not delivered.
- Legal – failure to understand the potential legal liabilities associated with partnership arrangements.
- Service failure – the associated risk of increased costs.

4.5 **Project risks**

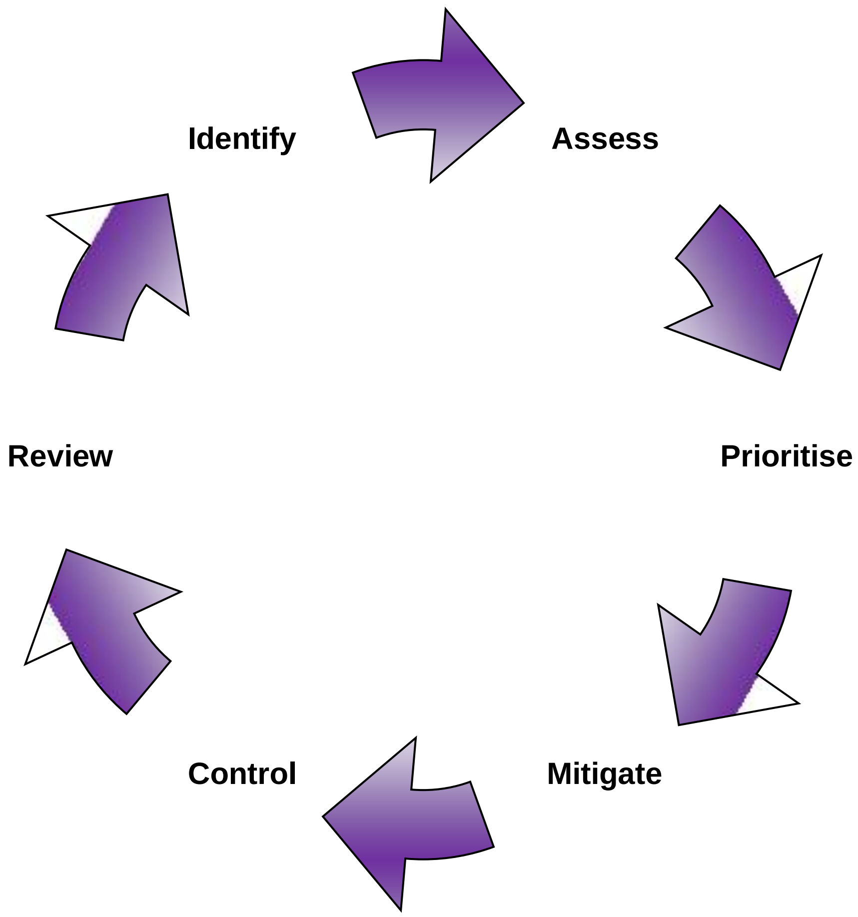
Folkestone & Hythe District Council has several major strategic projects that require risk mapping. These projects will have inherent risks and opportunities. Where the project poses a significant risk or is of strategic importance to the delivery of the Corporate Plan an overall risk should be identified within the corporate risk register. The project itself should have a project risk register that is managed by the Project Lead/ Project Sponsor. The project risk register will typically be compiled by holding workshops with the key stakeholders. The initial risk register will be signed off by the appropriate Project Board and then reported to them on an exceptional basis via the normal project highlight reports.

5. Risk management cycle

5.1 There are several steps in the cycle of identifying and managing risks within the Council. These should be as follows:

- **Identify** – a need to identify the potential risks that may arise if informed decisions are to be made about policies or service delivery methods.
- **Assess** – available data should be used to provide information to help assess the probability of any risk arising or the potential impact on activities undertaken.
- **Prioritise** – action determined on the tolerance and aversion to risk, balanced against the availability of limited resources.
- **Mitigate** – should the risk be terminated, tolerated, treated or transferred.
- **Control** – once the appropriate action is determined for each risk, the process of controlling that risk can commence. This will either involve minimising/eliminating the risk and/or alleviating its potential impact.
- **Review** – risk management needs to be seen as a continuous process. It is essential that the incidence of risk be reviewed to see whether it has changed over time.

5.2 The risk review cycle is captured in the diagram below, which emphasises the need for risk to be embedded as an ongoing process throughout the organisation (diagram 1):



6. Risk identifying, assessing and prioritising

6.1 Risk assessment is about asking:

- What can go wrong?
- What are the opportunities that may be missed?
- What is the likelihood of it going wrong?
- What is the impact should it go wrong?
- What can be done to mitigate the risk?

6.2 This approach can be applied to decisions made every working day, at all levels of the Council. However, to ensure appropriate risk management is embedded throughout the organisation formal risk identification is also necessary to capture the key risks faced and identify appropriate mitigation.

6.3 A risk is broken down into likelihood and impact and each is scored out of four. Likelihood represents the statistical chance of an event taking place. Such events are summarised into four broad headings: rare, unlikely, likely and very likely. Impact represents the expected disruption to the Council and summarised into four broad headings: minor, moderate, significant and severe. These two figures are multiplied together to give the risk score. This is shown in the Risk Scoring Matrix below. The risk scores then provide an overall ranking for each risk.

6.4 Risk Management Matrix

Likelihood					
	Very Likely (4)	**Moderate (4)**	**High (8)**	**Extreme (12)**	**Extreme (16)**
	Likely (3)	**Low (3)**	**Moderate (6)**	**High (9)**	**Extreme (12)**
	Unlikely (2)	**Very low (2)**	**Low (4)**	**Moderate (6)**	**High (8)**
	Rare (1)	**Very low (1)**	**Very low (2)**	**Low (3)**	**Moderate (4)**
		Minor (1)	**Moderate (2)**	**Significant (3)**	**Severe (4)**
	Impact				

6.5 The definitions of likelihood and impact are outlined below, these are intended as guidance:

Likelihood

Rating	Score	Likelihood Descriptors (any, not all)
Very Likely	4	• More than 85% chance of occurrence • Regular occurrence • Circumstances frequently encountered
Likely	3	• More than ~~65~~50% chance of occurrence • Likely to occur within next 12 months • Circumstances have been encountered
Unlikely	2	• 31%-~~65~~50% chance of occurrence • Likely to happen within next 2 years • Circumstances occasionally encountered
Rare	1	• Less than 30% chance of occurrence • Circumstances rarely encountered or never encountered before

Impact

Rating	Score	Impact
Severe	4	• Loss of service for a significant period • Fatality to an employee, service user or other • Failure to meet major corporate objective • Breach of law • Financial loss in excess of £500k
Significant	3	• Financial loss in excess of £250k • Intervention in running a single service area • Significant or disabling injury • Failure to achieve a high-profile major service objective • Breach of contractual arrangement
Moderate	2	• Service interruption • Injury to employee, service user or other • Financial loss between £50k-£250k • Adverse media coverage/ high levels of service user complaints • Failure to achieve a service objective
Minor	1	• Minor service disruption/ short term inconvenience • Financial loss less than £50k • Isolated service user complaints • Failure to achieve a team objective

6.6 The resultant scores from the matrix should be assigned actions as per the following table:

1 – 2 is Very Low Risk	Acceptable risk No further action or additional controls required Only log on risk register if there is a need to document and monitor or there is a likelihood the risk profile will change.
3 and a 4 from a 2x2 are Low Risk	A risk at this level may be acceptable Maintain existing controls if any, no further action or additional controls required
4 – 6 is Moderate Risk	Not normally acceptable Efforts should be made to reduce the risk, provided this is not disproportionate Determine the need for improved control measures
8 – 9 is High Risk	Not acceptable Appropriate action must be taken to manage the risk A number of new control measures may be required
12 – 16 is Extreme Risk	Not acceptable Immediate, urgent action must be taken to manage the risk A number of new control measures will be required

6.7 Once risks have been scored consideration should be given to who is the most appropriate person to own the risk and at what level of the organisation the risk should be managed. The general guidance is that a moderate-high risk rating triggers discussions with management and potential escalation of the risk. It should be noted that risk escalation is not about changing the ownership of the risk; it is about escalating the profile of the risk and raising awareness of the risk at appropriate levels in the organisation. Raising the profile of the risk could be about decision making, resources required to mitigate the risk or that the impact cuts across different perspectives of the organisation, e.g. programme, operational, strategic, and the risk should therefore be assessed from those perspectives if it has not been already. Decisions can then be made on the appropriate mitigating action (see Section 7 below).

7. Mitigating actions to control the risk

7.1 Once a risk has been identified, analysed and profiled, there are four ways, the 4 T's, to control the risk:

- **Treat** – action should be taken to reduce the likelihood of the risk occurring, or the severity (impact) of the consequences if it does. Identify and put in place mitigating actions that reduce the risk to an acceptable level.
- **Transfer** – the risk is transferred, partially or fully, to a third party (e.g. contractual agreement/insurance) to share the risk exposure. This may have a cost attached and whilst the financial risk may be transferred, a reputational risk may remain with the Council. Insurance is not available for everything. Sometimes, while it is possible to transfer the activity to a third party, you can still retain the liability if things go wrong.
- **Tolerate** – some risks can be tolerated without any further action being taken, if both the likelihood and impact of the risk are low. For some risks, no further action may be possible, or the cost may be disproportionate to the potential benefit gained (consideration should be given to a contingency plan for handling the impact if the risk crystallises). It is still important to log and monitor the risk because retaining a risk should always be an informed decision and not retained by default.
- **Terminate** – sometimes a risk is so far outside the risk appetite, or it is assessed as having such a severe impact that you have to stop the activity or function that gave rise to the risk (where possible).

7.2 Risk Appetite

7.2.1 This can be defined as the amount of risk the Council is willing to take in pursuit of its objectives. A well-defined risk appetite means members and officers are clear about which risks are acceptable and which risks should be avoided. Risk appetite should be at the heart of how we do business and sets the tone for the risk culture across the Council.

7.2.2 The Council's approach is to be innovative where it can be and to seek continuous improvement in the identification and delivery of services. It prides itself on having in place robust risk management at all levels across the organisation to encourage a risk cautious/risk aware approach and less of a risk averse approach. Innovation and opportunities are taken within the Directorates whilst managing and addressing the barriers to success of their objectives. It is recognised that the attitude towards risk will differ across the Directorates, from risk aware to risk averse as the Council seeks to operate within a framework of compliance, delivering value for money and strong corporate governance. The Council's risk appetite has to be determined by individual circumstances but for example, for risk on matters of compliance with the law the appetite for risk will be very low.

7.3 If the option is to treat or control the risk, then a decision needs to be made on the best control(s) to put in place. Controls need to be proportionate to the risk and need to give reasonable assurance that the loss will be confined to within an acceptable level for the authority.

8. Risk Monitoring and Review

8.1 Risks are to be monitored according to the level of risk noted on the risk matrix above; this will also dictate the level of management attention required. Service departments are responsible for ensuring all staff know how to identify a risk for monitoring by management.

8.2 Regular monitoring and review must be carried out by the risk owner, however risk should be discussed regularly at team meetings and one to one meetings if appropriate.

8.3 Risks should be reviewed at appropriate intervals and the risk review process should not be overly onerous. As a general rule, risks with a higher risk rating should be reviewed more frequently while risks with a lower risk rating require less attention; however, the risk assessment should be used to decide the most appropriate review period. If the risk profile is low but is expected to be volatile, then it could warrant more frequent review. Conversely, a high rated risk may not be expected to change over a 6-month period so reviewing monthly would be an unnecessary burden. A risk response of tolerate would also indicate that a longer review period could be appropriate.

8.4 Questions to ask during monitoring and review:

- Is the risk still relevant?
- Is there any movement in the score?
- Are the controls still in place and operating effectively?
- Has anything occurred which might change its impact and/or likelihood?
- Have potential opportunities been considered and maximised?
- Have any significant control failures or weaknesses occurred since the last monitoring exercise? If so, does this indicate whether the risk is increasing or decreasing?
- If the risk is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some of the controls?
- Are controls/actions built into appropriate documented action plans?
- Are there any new emerging risks?
- Have any of the existing risks ceased to be an issue and can therefore be closed? If so, complete a final review to identify the reasons for closing

and close the risk and ensure that any relevant lessons learned are documented and or shared as appropriate.

9. The Corporate Risk Register

9.1 The Council's Corporate Risk Register is the core element of the arrangements laid out in this strategy as it represents an articulation and assessment of key risks facing the organisation. As such only the key risks identified in the Council's Corporate Plan and MTFS would typically be included in the Corporate Risk Register. In addition where appropriate emerging or changing operational or partnership risks identified by Chief Officers / Assistant Directors that have a significant bearing on the organisation will be discussed with CLT (Corporate Leadership Team) to determine whether these risks need to be included on the Corporate Risk Register.

9.2 On reviewing the Corporate Risk Register, officers will have reference to both Cabinet reports and decisions taken, as well as reviewing motions and decisions taken by Full Council to ensure all corporate risks are given due consideration and captured in the register if relevant.

10. Operational (Departmental/Service) Risk Registers

10.1 The Operational Risk Registers should be subject to a routine monthly review and rigorous quarterly assessment at the relevant Departmental Management Team meetings.

10.2 A risk identified as 'red' on the risk matrix will need escalating to CLT and may be included in the corporate risk register to raise the profile and ensure it is being sufficiently managed and controlled.

10.3 There may be frequent changes to the Operational Risks and particularly to the sensitivity of some of them during the monthly and quarterly reviews. The Risk Management process should fully recognise this and have procedures in place for highlighting these to the Audit & Governance Committee much sooner if necessary, including, although not restricted to, reporting through audit and other inspection reporting.

11. Responsibility and ownership of risk management

All Members, managers, employees and partners must proactively engage with risk management and the potential impact of risks on achieving objectives. Managers at all levels are responsible for the collation and management of risks within their area, using risk registers It is everyone's job to identify risks and report them to their manager/director. Clear identification of roles and responsibilities is paramount to ensuring the successful adoption of risk management and its embedding into the culture of the Council. This strategy supports the roles and responsibilities as outlined in the Financial Procedure Rules, Section C. In addition, this section sets out how these responsibilities are to be applied.

11.1 Cabinet and its Elected Members

Cabinet and its Elected Members are to oversee the effective management of risk throughout the Council. They set the direction and have ultimate accountability for the risk and related control environment. As such Cabinet will endorse the Council's Risk Management Policy and Strategy and review the Corporate Risk Register annually, following these documents being reviewed by the Corporate Leadership Team and the Audit and Governance Committee. It is also expected that relevant risks are discussed at monthly Portfolio Holder Meetings with Directors / Assistant Directors.

11.2 Corporate Leadership Team

The Council's Corporate Leadership Team (CLT) are to ensure that the Council manages risk effectively through the development and embedding of the Risk Management Strategy plus monitoring its implementation and development. CLT will review the Council's Risk Management Policy and Strategy and Corporate Risk Register annually, ahead of these documents going to Cabinet and the Audit and Governance Committee.

CLT will undertake a formal quarterly review of the Corporate Risk Register and will also actively consider emerging or changing risks on a regular basis.

11.3 Assistant Directors/Chief Officers

The Corporate Services Director will have overall accountability for overseeing the Council's risk management framework and ensuring that the ownership and governance arrangements outlined within this strategy are adhered to.

Assistant Directors and Chief Officers are to manage risk effectively in their service areas. It is also their role to consider risks to services being delivered in partnerships and to work with partnerships to develop partnership risk registers. As such it is expected that Heads of Service work with their Managers and Team Leaders to develop and maintain Operational (Departmental) Risk Registers for their business unit, as well as lead or commission project/partnership risk registers where appropriate. Chief Officers / Assistant Directors will also be responsible for determining when operational risks reach such a level that they should be escalated to CLT for consideration of their inclusion in the Council's Corporate Risk Register.

Chief Officers & Assistant Directors are responsible for ensuring their risk registers remain current and relevant and are encouraged to have emerging risks as a standing item on their Team Leader meeting agendas.

Chief Officers & Assistant Directors meet quarterly as the Risk Management Group (RMG). This group will discuss emerging corporate risks and updates to risks already recorded on the Corporate Risk Register. The proposed amendments and additions will then be sent to CLT for review.

11.4 All Council Staff

All Council staff are expected to manage risk effectively in their day-to-day tasks and to work with their line manager to assess areas of risk within their role. Also, Council staff should be familiar with the Council's Risk Management Strategy and comply with Health and Safety procedures. If any staff member feels they require training on either Risk or Health and Safety, they are to raise this in their monthly one-to-one with their Team Leader. Staff should also take responsibility to escalate risks to their manager so appropriate controls can be agreed.

11.5 Audit and Governance Committee

Audit and Governance Committee are to review the effectiveness of the Council's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. As such an update on the Corporate Risk Register will be presented at each Quarterly Audit and Governance Committee. In addition, the Audit and Governance Committee will review the Council's Risk Management Policy and Strategy and Corporate Risk Register annually, ahead of these documents going to Cabinet.

12. Governance and Reporting

In line with the responsibility and ownership details outlined above the following diagram (diagram 3) details the governance and reporting timetable arrangements for both the Risk Management Policy and Strategy and the Corporate Risk Register.

Risk Policy and Strategy

- Annual review by CLT
- Annual review by Cabinet
- Annual review by Audit & Governance Committee

Corporate Risk Register

- Quarterly review by RMG & CLT
- Quarterly review by Audit & Governance Committee
- Annual review by Cabinet
- Emerging/changing risks highlighted by CO/AD

Operational Risk Registers

- Ongoing – maintained and reviewed regularly by Managers and CO / ADs
- Key risks discussed at Portfolio Holder Meetings

Partnership Risk Registers

- Ongoing – maintained and reviewed regularly by Partnership Lead
- Key risks discussed at Partnership Meetings
- Annual review by CLT
- Inclusion where relevant in Corporate Risk Register

Project Risk Registers

- Ongoing – maintained and reviewed regularly by Project Managers and CO / ADs
- Key risks discussed at Portfolio Holder/Project Sponsor Meetings
- Annual review by CLT
- Annual review of key project risks by Cabinet and Audit & Governance Committee
- Inclusion where relevant in Corporate Risk Register

13 Culture, Awareness and Training

13.1 To ensure risk management is effectively implemented, all FHDC Members and officers should have a level of understanding of the Council's risk management approach and regard risk management as part of their responsibilities.

13.2 Managing risk should be firmly embedded in everyone's thinking, behaviours and actions.

13.3 Having developed a robust approach and established clear roles and responsibilities and reporting lines, it is important to provide Members and officers with the knowledge and skills necessary to enable them to manage risk effectively.

13.4 A range of training methods are being developed to meet the needs of the organisation and include:

- Formal risk management training
- E-learning
- Risk workshops

14 Links to other policies and procedures

14.1 Business Continuity Management (BCM) - having in place appropriate and fully tested business continuity plans helps officers to manage threats or incidents that may occur, that have the potential to disrupt the delivery of services or the conduct of Council business. The aim of BCM is to ensure the Council is resilient to interruptions in the delivery of its business-critical services and to return to 'business as usual' as quickly and efficiently as possible. Business Continuity Management is a cyclical process and is designed to manage and control risks which can be described as 'low likelihood, high impact' events. It involves four stages: understanding the organisation; determining the Business Continuity Strategy; developing and implementing the BCM plans; and exercising, maintaining and reviewing BCM.

14.2 Health & Safety - the Council recognises that effective management of health and safety supports the delivery of our services for the residents of Folkestone & Hythe. As part of the overall risk management culture and process, good health and safety management will help reduce injury and loss, help promote a healthy workforce, help protect all who are affected by the Council's activities and ensure we comply with our legal duties. Forming part of the Council's Health and Safety Management System, our Health and Safety Policy explains what is necessary to manage health and safety effectively and in line with legislation. It identifies roles and responsibilities and provides specific guidance on health and safety risk assessment techniques, implementing and reviewing controls as well as special guidance on issues relating to special risk groups. The risk management principles of the Councils Health and Safety policy are in accordance with the principles established within this policy. It is recognised, however, that as a discipline in its own right, health and safety practice, risk management tools and techniques can be specialist in nature. Therefore, please refer to the Health and Safety Policy for additional information and guidance.

14.3 A Programme Management Office has been established with a lead professional having oversight to ensure outcomes are delivered within a robust governance arrangement whilst being on time and within budget. Working in a matrix approach across the wider organisation to ensure the ambitions can be realised. They have responsibility for the development of a programme management framework approach to high-profile projects, including training and support to individual project leads and ensuring best practice. The key source of knowledge bringing the key corporate projects together to ensure that the critical inter-dependencies are recognised. A new Project Management Toolkit is being prepared and a key part of this will be supporting the risk management policy with project risk registers and specific guidance on risk assessment for projects.

15. Supporting Documents

Corporate Risk Register
Operational Risk Registers
Project Risk Registers
Partnership Risk Registers
Financial Procedure Rules

Folkestone & Hythe District Council- Risk Register layout

Current layout in place 2022/23

Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Current Score			Mitigation scheme (Tolerate, Treat, Transfer, Terminate)	Proposed Actions	Timeframe	Target Score		
					Likelihood	Impact	Total				Likelihood	Impact	Total

Proposed amended layout with additional columns for 2023/24

Risk ID	Risk Name	Risk Owner	Risk Description & Triggers	Actions in place	Key Controls or Sources of Assurance	Current Score			Direction Of Travel	Tolerate Treat Transfer Terminate	Proposed Actions	Timing	Target Score		
						Likelihood	Impact	Total					Likelihood	Impact	Total

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Agenda Item 11

This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/23**

To:	**Audit and Governance**
Date:	**15 March 2023**
Status:	**Non – executive decision**
Head of service:	**Amandeep Khroud – Assistant Director – Governance and Law**

SUBJECT: LOCAL CODE OF CORPORATE GOVERNANCE

SUMMARY: This report recommends the approval of a local code of corporate governance for 2023/24.

REASONS FOR RECOMMENDATIONS:

It is necessary for the committee to adopt a local code of corporate governance for the current year.

RECOMMENDATIONS:

1. To receive and note report AuG/22/23.
2. To adopt the local code of corporate governance appended.

1. INTRODUCTION

1.1 The council should adopt a local code of corporate governance each year.

1.2 The code is derived from the guidance of CIPFA/SOLACE (the Society of Local Authority Chief Executives) "*Delivering Good Governance in Local Government: Framework".*

2. THE CODE

2.1 The code is appended.

2.2 The recommended code is based on seven core principles. These principles are:

A. Strong commitment to integrity, ethical values, and the rule of law.

B. Openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of intended outcomes.

E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency and reporting to deliver effective accountability.

2.2 Under each principle is a list of actions that the council takes to support the relevant principle. These are actions the council is already taking.

3. RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	**Seriousness**	**Likelihood**	**Preventative action**
Failure to adopt a code	Medium	Low	Adopt the local code.

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

Appendices:

Appendix 1: Draft local code of corporate governance

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Local code of corporate governance 2023/24

Folkestone & Hythe District Council

Introduction

The Council produces a code of corporate governance which is reviewed on an annual basis. Guidance for preparing the code is provided by the Chartered Institute for Public Finance and Accountancy (CIPFA).

CIPFA has developed a framework for good governance in the public sector based on the International Framework, Good Governance in the Public Sector.

The framework comprises of seven principles of good governance. In the framework governance is defined as:

> Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

Effective governance in the public sector encourages improved decision making and efficient use of resources. Effective governance is characterised by robust scrutiny, which provides important pressures for improving public sector performance and tackling corruption. Effective governance can improve management leading to better service delivery and ultimately, better outcomes.

The Local Code of Corporate Governance is the document that sets out the framework within which the Council conducts its business and affairs.

The seven principles of good governance set out in the framework are:

A. Strong commitment to integrity, ethical values, and the rule of law.

B. Openness and comprehensive stakeholder engagement.

C. Defining outcomes in terms of sustainable economic, social and environmental benefits.

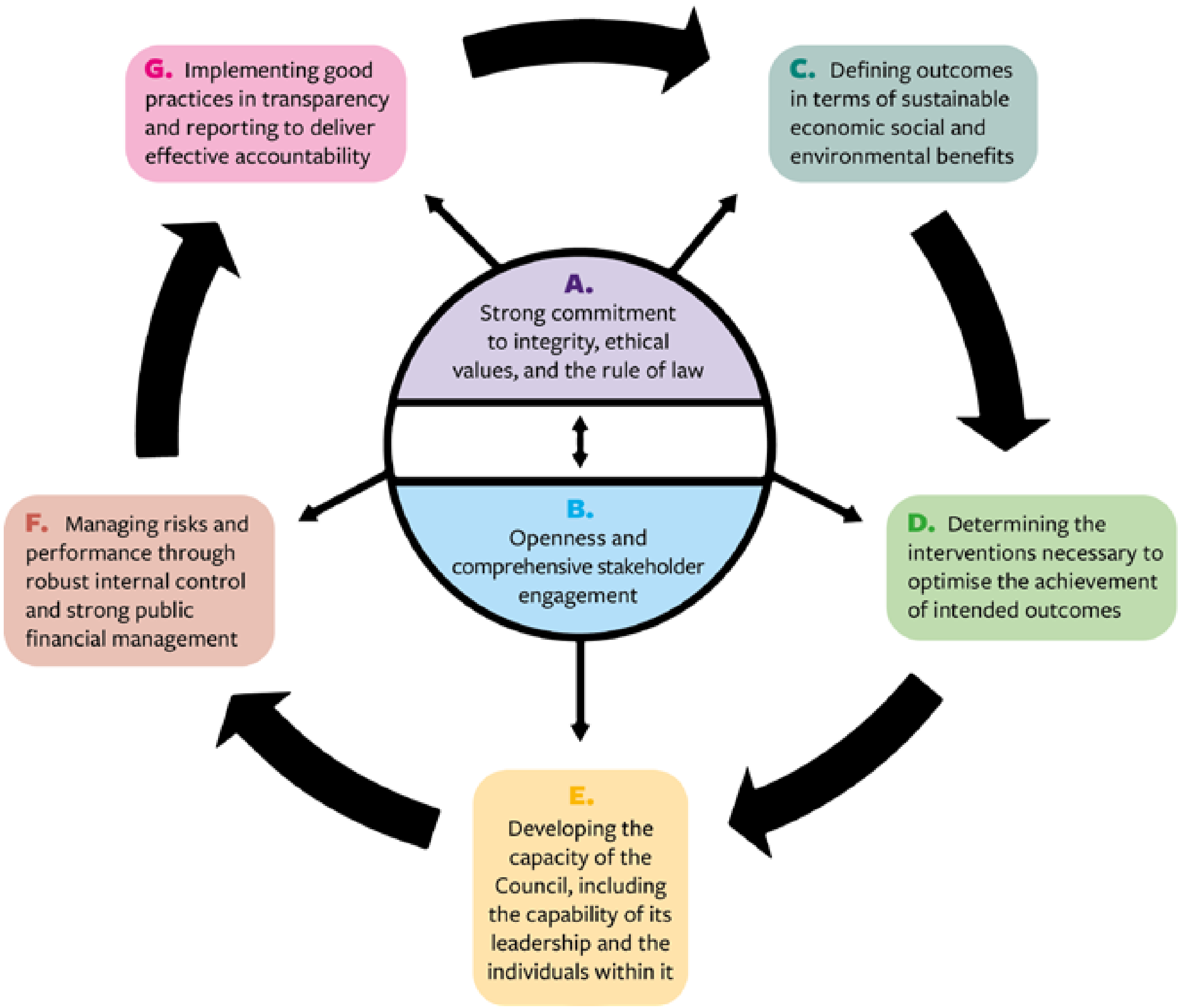
D. Determining the interventions necessary to optimise the achievement of intended outcomes.

E. Developing the capacity of the entity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency and reporting to deliver effective accountability.

The core principles for good governance in the public sector are high level and bring together a number of several concepts. The figure below sets out the relationship between the principles.



A Strong commitment to integrity, ethical values, and the rule of law

The Council is responsible for using national resources collected through taxation to provide services for our citizens. We are accountable not only for how much we spend but also for the way we use the resources with which we have been entrusted.

In addition, we have an overarching mission to serve the public interest, in adhering to the requirements of legislation and government policies.

Ethical values and standards are defined in the Council's Constitution and should form the basis for all our policies, procedures and actions as well as the behaviour of our members and staff.

Council officers may be involved with interpreting laws; such activities demand a high standard of conduct that prevents these roles being brought into disrepute. We should demonstrate a strong commitment to the rule of law as well as compliance with all relevant laws.

This makes it essential that we can demonstrate the integrity of all our actions and that we have mechanisms in place that encourage and enforce a strong commitment to ethical values and legal compliance at all levels.

1. The Council will maintain core values) both for the Council and its officers. These are One Team, Thinking Ahead, Performance Counts and Customer First.
2. We use core values as a guide for decision making and as a basis for developing positive and trusting relationships within the Council. We demonstrate this by adherence to the constitution.
3. We have adopted formal codes of conduct defining standards of personal behaviour for members and officers.
4. We maintain the Audit and Governance Committee to raise awareness and take the lead in ensuring high standards of conduct are embedded within the Council's culture.
5. We have put in place arrangements to ensure that members and staff of the Council are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have put in place appropriate processes to ensure that these arrangements are workable including declaration of interests and anti-corruption policies.
6. We ensure that systems and processes for financial administration and control together with protection of the Council's resources and assets comply with ethical standards; and are subject to monitoring of their effectiveness.
7. We will ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making if appropriate.
8. Officers will actively recognise the limits of lawful activity placed on them but also strive to utilise their powers to the full benefit of their communities.
9. Officers will observe all specific legislative requirements placed upon the Council as well as the requirements of general law, and in particular integrate the key principles of administrative law – rationality, legality and natural justice into the procedures and decision making.
10. We have put in place effective systems to protect the rights of staff. We ensure that policies for whistle-blowing which are accessible to staff and those contracting with the Council, and arrangements for the support of whistle-blowers, are in place.
11. We will publish an Annual Governance Statement, signed by the head of paid service and the Chairman of the Audit and Governance Committee to confirm that we are satisfied that we have effective governance arrangements in place.

B Openness and comprehensive stakeholder engagement

The Council operates for the public good and recognises there is a need for openness about our activities as well as clear channels of communication and engagement with all stakeholders. We must demonstrate that we act in the public interest at all times to maintain public trust and confidence. We should demonstrate clear reasoning for decision making and ensure that this is formally recorded for retrospective public scrutiny.

1. We will ensure that the Council's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated.

2. We will maintain a culture of accountability so that members and officers understand to whom they are accountable and for what.
3. We will strive to engage with stakeholders on an individual and collective basis to demonstrate that we deliver services and outcomes that meet the needs and expectations of the public. These arrangements will recognise that different sections of the community have different priorities and establish robust processes for dealing with these competing demands.
4. We will deliver effective scrutiny of the Council's business as appropriate and produce an annual report on the activities of the overview and scrutiny function.
5. We will ensure that the Council as a whole is open and accessible to the community, service users and staff and we are committed to openness and transparency in all dealings. We will attempt to publish all committee agenda items publicly unless there is the need to preserve confidentiality where it is proper and appropriate to do so.

C Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council has prepared and published a plan which sets out the Council's priorities; a Medium Term Financial Plan which is a financial representation of the Council's Vision and supports the priorities.

We will review this document on a regular basis to ensure they reflect the vision of the Council.

1. We will make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We will ensure that those making decisions are provided with financial and non-financial information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.
3. We will identify and monitor service performance indicators which demonstrate how the quality of service for users is to be measured.
4. We maintain a prudential financial framework, balance commitments with available resources; and monitor income and expenditure levels to ensure this balance is achieved.
5. We ensure compliance with the CIPFA codes regarding a Prudential Framework for Capital Finance and Treasury Management.

D Determining the interventions necessary to optimise the achievement of intended outcomes

The Council clearly defines its priorities and plans which are aimed at delivering the outcomes that the Council intends. These will focus on delivering effective and efficient services for the residents. We assess the risks of not achieving those outcomes and ensure that there are mitigating actions in place to support the achievement of intended outcomes. The Council's financial management arrangements ensure that there is adequate resource available to deliver those outcomes. The Council reviews progress against delivering those outcomes through its performance management arrangements.

1. We will make a clear statement of the Council's purpose and vision and use it as a basis for corporate and service planning.
2. We have risk management arrangements in place including mitigating actions to support the achievement of the Council's intended outcomes.
3. We will ensure that there are effective arrangements in place to monitor service delivery.
4. We will put in place effective arrangements to deal with a failure in service delivery and explore options for improving service delivery and outcomes for our residents.
5. We have prepared contingency arrangements including a disaster recovery plan, business continuity plan and arrangements for delivering services during adverse weather conditions.
6. We will provide senior managers and Members with timely financial and performance information.
7. We ensure that budget calculations are robust and reserves are adequate.
8. We will align financial and performance data to provide an overall understanding of performance.

E Developing the capacity of the Council including the capability of its leadership and the individuals within it

The Council will develop and retain a management structure that provides leadership and creates the opportunity for staff to work effectively and efficiently to achieve the Council objectives. We will provide training and support to enable staff to develop their skills so they can achieve their full potential.

1. Through the constitution we have set out a clear statement of the respective roles and responsibilities of the Council's Cabinet and the members individually.
2. We have set out a clear statement of the respective roles and responsibilities of the Council's other committees and senior officers.
3. We have developed protocols to ensure effective communication between Council members and officers in their respective roles.
4. We have set out the terms and conditions for remuneration of members and officers and publish an Annual Pay policy statement in accordance with the requirements of the Localism Act 2011.
5. There is a scheme of delegated powers within the constitution and we ensure that the scheme is monitored and updated when required.
6. We will ensure that effective management arrangements are in place at the top of the organisation.

7. The head of paid service is responsible and accountable to the Council for all aspects of operational management.
8. The Chief Financial Officer is the Director – Corporate Services and is a member of the Council's Corporate Management Team, with access to the Head of Paid Service and other members of the leadership team.
9. The Section 151 Officer is responsible to the Council for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.
10. We have appointed a professionally qualified and experienced Chief Financial Officer, who will lead the promotion and delivery of good financial management, safeguarding public money and ensuring appropriate, economic, efficient and effective use of funds; together with professional accountability for finance staff throughout the Council.
11. The Monitoring Officer is responsible to the Council for ensuring that the constitution is adhered to.
12. We will assess the skills required by Members including the understanding of financial systems. We will agree a personal development plan to develop skills and address any training gaps, to enable roles to be carried out effectively.
13. We will assess the skills required by officers through the appraisal process and address any training gaps, to enable roles to be carried out effectively.
14. We will develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed.
15. We will ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the Council.
16. We will review the scope of the Chief Financial Officer's non-financial areas of responsibility to ensure financial matters are not compromised.
17. We provide the Chief Financial Officer and the Monitoring Officer with the resources, expertise and systems necessary to perform the role effectively within the Council.

F Managing risks and performance through robust internal control and strong public financial management

The Council recognises the need to implement an effective performance management system that will allow us to deliver services effectively and efficiently. We understand that risk management, internal control and strong financial management are essential for us to achieve our objectives and we have put appropriate arrangements in place.

1. We will maintain an effective Audit and Governance Committee which is independent of the executive and overview and scrutiny functions.
2. We will enable the Chief Financial Officer to bring influence to bear on all material decisions and provide advice on the levels of reserves and balances to be retained.

3. We will ensure that risk management is embedded into the culture of the Council, with members and managers at all levels recognising that risk management is part of their job.
4. We will ensure our arrangements for financial and internal control and management of risk are formally addressed within the annual governance reports.
5. We will ensure effective internal control arrangements exist for sound financial management systems and processes.

G Implementing good practices in transparency and reporting to deliver effective accountability

The Council recognises that effective accountability is concerned not only with reporting on actions completed but ensuring stakeholders are able to understand and respond as the Council plans and carries out its activities in an open manner.

1. We comply with the local government transparency code and publish all required information in a timely manner.
2. We have established a medium term business and financial planning process in order to deliver a financial strategy ensuring sustainable finances, a robust annual budget process ensuring financial balance and an adequate monitoring process; all of which are subject to regular review.
3. We have put in place effective transparent and accessible arrangements for dealing with complaints.
4. We will maintain an effective overview and scrutiny function which encourages constructive challenge and enhances the Council's performance overall.
5. We will maintain an effective Audit and Governance Committee which is independent of the Cabinet and the Overview and Scrutiny committee.
6. We will ensure an effective internal audit function is resourced and maintained.
7. We will maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.
8. We will attempt to publish all committee items in the public part of the agenda unless there is the need to preserve confidentiality where it is proper and appropriate to do so.
9. We will put in place arrangements for whistle-blowing to which staff and all those contracting with the Council have access.
10. We will produce clear, timely, complete and accurate information for budget holders and senior officers relating to the budgetary and financial performance of the Council.
11. We will maintain effective arrangements for determining the remuneration of senior staff and publish an Annual Pay Policy statement in accordance with the requirements of the Localism Act 2011.

Annual Review of Corporate Governance

At the end of each financial year, the Council formally reviews the governance arrangements in place and produces an Annual Governance Statement.

The Annual Governance Statement includes:

- Scope of responsibility
- The purpose of the governance statement
- The Council's governance framework
- Review of effectiveness
- Assurance statements
- Internal Audit's opinion of the system of internal controls
- Financial management
- Significant governance and internal control issues
- Action plan
- Certification statement

The Annual Governance Statement addresses any actions arising from the previous years' Annual Governance Statement and highlights any actions arising from the year being reviewed.

The Annual Governance Statement also assesses the effectiveness and application of the Local Code of Governance and identifies any necessary changes and makes any relevant recommendations to the Council.

As part of the Audit and Governance Committee's governance role, the formal annual review will be undertaken by the Audit and Governance Committee on behalf of the Council.

The Annual Governance Statement is signed by the Chairman of the Audit and Governance Committee) and by the Head of Paid Service and is published with the Council's annual Statement of Accounts.

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This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/25**

To: Audit and Governance Committee
Date: 15 March 2023
Status: Non-Executive Decision
Corporate Director: Charlotte Spendley – Director – Corporate Services (S151)

SUBJECT: QUARTERLY 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 31st December 2022.

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/22/25.**
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 five 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 two audit reports completed during the period. These have been allocated assurance levels as follows: one was Substantial and one was Substantial / Reasonable assurance. Summaries of the report findings are detailed within Annex 1 to this report.

3.2 In addition, five 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 31st December 2022 246.20 chargeable days were delivered against the planned target for the year of 350 days, which equates to achievement of 70.34% 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** (AK)

No legal officer comments are required for this report.

5.2 **Finance Officer's Comments** (CS)

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.

EAST KENT
DOVER • FOLKESTONE & HYTHE • THANET • CANTERBURY
AUDIT PARTNERSHIP

Annex 1

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 31st December 2022.

2. SUMMARY OF REPORTS

Service / Topic		Assurance level	No of recs	
2.1	Council Tax	Substantial	C H M L	0 0 0 0
2.2	Creditors	Substantial / Reasonable	C H M L	0 1 2 0

2.1 Council Tax – Substantial Assurance

2.1.1 Audit Scope

To ensure that Council Tax is set correctly, that billing is accurate, and payments are received when due.

2.1.2 Summary of Findings

Folkestone and Hythe District Council are responsible for the setting, billing and collection of Council Tax in the District.

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

- Council Tax is set in accordance with the relevant legislation.
- Parameters within the Council Tax system are extensively checked and reviewed before the billing process is started.
- Council Tax bills are checked to confirm they are in the correct format before the commencement of the billing process.

- Updates from the Valuation Office are actioned and reconciled to the Council Tax system on a regular basis.
- Established processes are in place for the processing of refunds, write offs and the recovery of outstanding arrears of council tax.

2.2 Creditors – Substantial / Reasonable Assurance

2.2.1 Audit Scope

To provide assurance on the adequacy and effectiveness of the procedures and controls established in the systems to ensure that creditors payments are valid, authorised, accurate, timely and properly recorded and meet Council guidelines and legislation.

2.2.2 Summary of Findings

The creditors staff process approximately 10,000 invoices a year. The value can range from £1 to many £1000s and to ensure the correct payment is processed all invoices must comply with the Council's payment rules and regulations.

Management can place a Substantial Assurance on the system of internal controls in operation for the day-to-day payment processes and a Reasonable Assurance for transparency, duplicate payment testing and records retention.

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

- Established processes and authorisation routines are in place for the creditors runs that are done twice a week.

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

- An exercise should be completed to ensure that the Council is reporting all the correct information as per the transparency legislation. This could also include other information that may be relevant to the Council that supports being open and transparent and it should also be easily accessible on the Council's website.
- An exercise needs to be carried out to ensure that the Corporate Retention Policy is being complied with and any invoices earlier than the period defined in the policy may be disposed of (both paper and electronic).

FOLLOW UP OF AUDIT REPORT ACTION PLANS

3.1 As part of the period's work five 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
FCWP	Reasonable	Reasonable	C 0 H 0 M 0 L 1	C 0 H 0 M 0 L 0
Councillors' Grants	Reasonable	Reasonable	C 0 H 2 M 2 L 0	C 0 H 0 M 1 L 0
E-Procurement	Reasonable	Reasonable	C 0 H 2 M 5 L 0	C 0 H 0 M 0 L 0
Right to Buy	Limited	Reasonable	C 1 H 3 M 0 L 1	C 0 H 0 M 0 L 0
Housing Data Integrity	N/A	N/A	C 0 H 1 M 1 L 0	C 0 H 0 M 0 L 0

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: Members Allowances, Employee benefits in kind; Homelessness, Tenants Health & Safety and Fraud resilience.

5.0 CHANGES TO THE AGREED AUDIT PLAN

5.1 The 2022-23 audit plan was agreed by Members at the meeting of the Audit & Governance Committee on 16th March 2022.

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.

5.3 A secondment has been arranged for 30 days to assist the Council in respect of contract procurement. As a result of this three audit reviews have been deferred to 2023/24.

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 31st December 2022 246.20 chargeable days were delivered against the planned target for the year of 350 which equates to achievement of 70.34% of the original planned number of days.

7.2 The financial performance of the EKAP for 2022-23 is on target.

Attachments

Appendix 1 Summary of high priority recommendations outstanding after follow up.
Appendix 2 Summary of services with limited / no assurances yet to be followed up.
Appendix 3 Progress to 31st December 2022 against the 2022-23 Audit plan.
Appendix 4 Balanced Scorecard to 31st December 2022.
Appendix 5 Assurance Definitions.

Appendix 1

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		

Appendix 2

SERVICES GIVEN LIMITED / NO ASSURANCE LEVELS STILL TO BE REVIEWED			
Service	**Reported to Committee**	**Level of Assurance**	**Follow-up Action Due**
Housing Planned Maintenance - Contracts	July 2022	No assurance	June 2023
Officers Interests	September 2022	Reasonable / Limited	June 2023
Contracts Management – Controls & Governance	December 2022	Limited	June 2023
Car Parking Income	December 2022	Substantial / Limited	June 2023
Garden Waste – Recycling Management	December 2022	Limited	June 2023

Appendix 3

PROGRESS AGAINST THE AUDIT PLAN 2022/23

Review	Original Planned Days	Revised Planned Days	Actual To 31/12/2023	Status and Assurance level
FINANCIAL SYSTEMS:				
Bank Reconciliation	10	0	0	Deferred
Car Parking Income	10	16	16.56	Finalised – Reasonable / Limited
Council Tax	10	10	5.64	Finalised - Substantial
Creditors	10	10	10.28	Finalised – Substantial / Reasonable
Housing Benefit Admin & Assessment	10	10	0.28	Quarter 4
Housing Benefit Subsidy	10	0	0	Deferred
HOUSING SYSTEMS:				
Capital Programme Planned Repairs	10	0	0.57	Deferred
Housing Anti-Social Behaviour	10	0	0.38	Deferred
Improvement Grants & DFGs	10	10	0.16	Quarter 4
Tenants Health& Safety	10	10	4.21	Work in progress
Housing Contract Management	10	25	25.65	Finalised – No Assurance
New Build Capital Programme	10	10	0.73	Quarter 4
Responsive Repairs and Maintenance	10	10	0.19	Quarter 4
Right to Buy	10	10	10.19	Finalised - Limited
Tenancy & Estate management	10	0	0.19	Deferred
Tenancy Counter Fraud	10	10	0.77	Quarter 4
Homelessness	15	23	23.74	Draft report
TECHNOLOGY / CYBER:				
ICT Review	10	0	0.14	Deferred
CORPORATE GOVERNANCE:				
Otterpool Governance	10	2	1.57	Deferred
Whistleblowing	5	5	4.13	Work in progress
COUNTER FRAUD:				
Review	**Original Planned Days**	**Revised Planned Days**	**Actual To 31/12/2022**	**Status and Assurance level**
Fraud Resilience Arrangements	10	9	7.44	Work in progress
PROCUREMENT & CONTRACTS:				

Contract Management / CSOs	10	11	10.82	Finalised - Limited
ASSET MANAGEMENT:				
Asset Management	10	0	0	Deferred
SERVICE LEVEL:				
Corporate Responsive Repairs	10	0	0	Deferred
Members Allowances	10	8	5.14	Work in progress
Planning Income	10	10	0	Quarter 4
Garden Waste / Recycling Management	10	21	21.51	Finalised - Limited
PEOPLE MANAGEMENT:				
Employee Benefits in Kind	10	10	6.07	Work in progress
Recruitment	10	0	0.07	Deferred
OTHER:				
Committee Reports & Meetings	10	10	10.26	Ongoing
S151 Meetings & Support	10	10	10.85	Ongoing
Corporate Advice / CMT	5	8	8.73	Ongoing
Liaison with External Audit	1	1	1.33	Ongoing
Audit Plan Prep & Meetings	10	7	6.03	Ongoing
Follow Up Reviews	14	18	17.51	Ongoing
FINALISATION OF 2021-22 AUDITS:				
COVID Grants	10	1	0.54	Finalised - Reasonable
Freedom of Information		3	2.89	Work in progress
Housing Data Integrity		6	5.51	Finalised – N/A
RESPONSIVE ASSURANCE:				
Corporate Leak Investigation	0	5	3.05	Finalised – N/A
Officers' Interests	0	11	11.28	Finalised – Reasonable / Limited
Disposal of logs / white goods	0	6	6.85	Finalised – N/A
Fraud Presentation	0	1	1.15	Work in progress
Print to Post	0	3	3.79	Finalised – Not Applicable
Secondment		30	0	s.151 request
Total	**350**	**350**	**246.20**	**70.34%**

BALANCED SCORECARD **Appendix 4**

INTERNAL PROCESSES PERSPECTIVE:	2022-23 Actual	Target	FINANCIAL PERSPECTIVE:	2022-23 Actual	Original Budget
	Quarter 3		Reported Annually		
Chargeable as % of available days	88%	90%	• Cost per Audit Day	£	£
			• Direct Costs	£	£
Chargeable days as % of planned days					
CCC	74.52%	75%	• + Indirect Costs (Recharges from Host)	£	£
DDC	70.16%	75%			
TDC	75.24%	75%	• - 'Unplanned Income'	£	Zero
F&HDC	70.34%	75%			
EKS	60.05%	75%			
Overall	71.20%	75%	• = Net EKAP cost (all Partners)		£
Follow up/ Progress Reviews;					
• Issued	38	-			
• Not yet due	25	-			
• Now due for Follow Up	24	-			
Compliance with the Public Sector Internal Audit Standards (PSIAS) (see Annual Report for more details)	Partial	Partial			

CUSTOMER PERSPECTIVE:	2022-23 Actual Quarter 3	Target
Number of Satisfaction Questionnaires Issued;	52	
Number of completed questionnaires received back;	31 = 60%	
Percentage of Customers who felt that;		
• Interviews were conducted in a professional manner	100%	100%
• The audit report was ‘Good’ or better	94%	90%
• That the audit was worthwhile.	97%	100%

INNOVATION & LEARNING PERSPECTIVE: Quarter 3	Actual	Target
Percentage of staff qualified to relevant technician level	61%	60%
Percentage of staff holding a relevant higher level qualification	36%	36%
Percentage of staff studying for a relevant professional qualification	14%	N/A
Number of days technical training per FTE	3.90	3.5
Percentage of staff meeting formal CPD requirements (post qualification)	50%	50%

Appendix 5

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.

This Report will be made public on 7 March 2023

Folkestone & Hythe District Council

Report Number **AuG/22/26**

To: Audit and Governance Committee
Date: 15 March 2023
Status: Non-Executive Decision
Corporate Director: Charlotte Spendley – Director – Corporate Services (S151)

SUBJECT: INTERNAL AUDIT CHARTER AND DRAFT INTERNAL AUDIT PLAN 2023/24 FROM THE HEAD OF THE EAST KENT AUDIT PARTNERSHIP

SUMMARY: This report includes the Audit Charter for the East Kent Audit Partnership which sets out the overarching vision, aims and strategy for the Internal Audit Service together with the draft plan of work for the forthcoming 12 months for approval.

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/22/26.**
2. **That Members approve (but not direct) the Council's Internal Audit Plan for 2023/24**
3 **That Members approve to adopt the Internal Audit Charter for delivery of the internal audit service for the next three years.**

1. INTRODUCTION

1.1 The purpose of the Council's Audit & Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

1.2 In accordance with current best practice, the Governance Committee should "review and assess the annual internal audit work plan". The purpose of this report is to help the Committee assess whether the East Kent Audit Partnership has the necessary resources and access to information to enable it to fulfil its mandate and is equipped to perform in accordance with the professional standards for Internal Auditors.

2.0 Audit Mission & Charter.

2.1 The Audit Mission is a simple high-level statement setting out the objectives for the service, please see attached as Annex A.

2.2 The Audit Charter is an important document setting out the expectations of how the Internal Audit function will be delivered. Not only does having a Charter and keeping it up to date assist the Council in complying with best practice, but by considering the Audit Charter, the Governance Committee is also demonstrating its effectiveness by ensuring that these mechanisms are in place and are working effectively.

2.3 The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, it goes on to set out the Terms of Reference, Organisational Relationships and Independence, Competence and Standards of Auditors, the Audit Process and in providing an Internal Audit function to the partner councils; as well as the resources required across the four partnership sites and details how the resource requirements will be met.

2.4 The Audit Charter is attached as Annex B to this report. It is essentially the 'Why' and 'How' the East Kent Audit Partnership will provide the Internal Audit Service. It is a document that does not materially change from year to year and consequently it was suggested last year that this be approved for the next three years (to 31st March 2026) with the caveat that should any significant changes be required a revised Charter will be presented for consideration. Having undertaken a detailed self-assessment against the revised Public Sector Internal Audit Standards (PSIAS) minor aspects of the Charter were refreshed, consequently the attached version contains the tracked changes as showing, so that the areas updated can be easily identified. It is proposed again, that subject to there being any future changes to the standard having a knock on effect to the Charter, this document will next be brought back to this Committee in March 2026.

3.0 Risk Based Internal Audit Plan.

3.1 The Audit Plan for the year 2023 to 2024 is attached as Annex A and has the main components to support the approved Audit Charter. The plan is produced in accordance with professional guidance, including the Public Sector Internal Audit Standards (PISAS). A draft risk based plan is produced from an audit software database (APACE) maintained by the EKAP which records our risk assessments on each service area based upon previous audit experience, criticality, financial risk, risk of fraud and corruption etc. Amendments have been made following discussions with senior management, taking account of any changes within the Council over the last 12 months, and foreseen changes over the next.

3.2 The plan has then been further modified to reflect emerging risks and opportunities identified by the Chief Executive, Directors, and the links to the Council's Corporate Plan and Corporate Risk Register. This methodology ensures that audit resources are targeted to the areas where the work of Internal Audit will be most effective in improving internal controls, the efficiency of service delivery and to facilitate the effective management of identified risks.

3.3 Furthermore, wider risks are considered, by keeping abreast of national issues and advice from the auditing profession / firms. The annual "Risk in Focus" report provides an opportunity to track how risk priorities are developing over time. A number of dominant themes are emerging. Climate change and environmental sustainability has gained in prominence more than any other risk type over the past three years. It is a moving target that organisations will have to make continuous efforts to mitigate for decades to come. This should therefore be considered a "forever risk" that is likely to move up the risk rankings over time. Risks related to business continuity, crisis management and disasters response have been heavily impacted by recent events, and the same is true of health, safety & security, Human capital, diversity and talent management and organisational culture. These latter three have a clear human capital element to them. Organisations have been forced to flex and adapt over the past 18 months, protecting their workforces from harm as health risks sharply escalated. As the pandemic has rolled on for longer than many expected, organisations have had to think about the psychological wellbeing of their staff and what socially distanced and remote working conditions mean for staff cohesion and culture. The top ten identified risks through 'Risk In Focus' survey have been considered for inclusion in the 2023/24 plan as follows;

1 - Cyber Security & Data Security – Cybersecurity and data security retained its hold as the number one threat in the Risk in Focus 2023 survey – with 82% of respondents saying it was a top five risk (the same as in 2022). It is also the area on which internal auditors say they spend most time and effort. In three years' time, internal auditors expect the risk to still rank highest as a threat to their organisations but with slightly fewer ranking it a top five risk (77%). In fact, the threat landscape has become more dangerous – not least because of the war in Ukraine. Survey respondents said cybercrime and data security was their second biggest risk from the conflict. In addition to this ransomware acts increased by 80% in 2022. There is an ICT review in the audit plan for 2023/24.

2 - Human Capital, Diversity & Talent Management – In the wake of an ongoing pandemic, organisational culture and talent management have become key areas of competitive advantage for organisations. Human capital, diversity and talent management ranked 2nd in Risk in Focus 2023's risk ranking, up from fourth place in 2022. With 50% citing it as a top five risk this year compared to 40% last year. Eighteen per cent of respondents said it was their number one priority. It is a risk that is firmly cementing itself among the hardest challenges businesses face and internal auditors say that it will rank as the second largest risk three years from now – with 21% saying it will be their number one priority. There are HR reviews planned across the strategic audit plan and for 2023/24 there is a review of recruitment & leavers.

3 - Macroeconomic and geopolitical uncertainty - The war in Ukraine took many organisations by surprise, including those with deep commercial interests in the region. As the Risk in Focus 2023 survey took place during the first quarter of 2022 when the conflict was just beginning, the crisis helped to push macroeconomic and geopolitical uncertainty into 3rd place in the survey, up from seventh just a year ago. With 46% citing it as a top five risk this year, compared to 32% last year. No time has been allocated in 2023/24 regarding this risk.

4 - Changes in laws and regulations
This risk has reduced slightly down from number 2 in 2022. Local councils will always be subject to changes in laws and regulations from government and are expected to react immediately to these changes. There is no time allocated specifically in the 2023/24 plan, but any changes are picked up within the individual audit reviews.

5 - Digital disruption
Digital disruption, new technology and AI - The pandemic pushed organisations' digitalisation efforts into third place in the risk rankings in the Risk in Focus 2022 survey as they moved staff to homeworking and shifted sales online. Not surprisingly, perhaps, this year internal auditors ranked it as the 5th biggest risk their organisations faced. With 38% citing it a top five risk this year compared to 45% last year. The Council is expected to keep pace with advances in digital services and this is a constant pressure upon them. No time has specifically been allocated in 2023/24.

6 - Climate change and environmental sustainability - While internal auditors have had climate change on the agenda for some time, chief audit executives taking part in this year's Risk in Focus 2023 roundtable on the topic agreed that it was moving higher up their agendas. "Last year we were starting to wake up to the issue with training and seminars; this year we are getting into the detail and starting to implement environmental issues in every audit," said one participant. A Climate Change review has been undertaken recently and time has been allocated in the 2023/24 plan for a follow up to assess the Council's progress against this agenda.

7 - Business continuity, crisis management and disasters response
Following the pandemic and the large scale changes that have been introduced since that time, such as working from home, etc. The Council's business continuity plans and responses have been thoroughly tested and lessons have been learnt. Although

there has been wide spread vaccinations undertaken nationally there is still the risk from variants of Covid and the Council must always be prepared for this. The next audit review of this area is scheduled for 2024/25.

8 – Supply chain, outsourcing and nth party risk
Supply chain, outsourcing and 'nth' party risk - stress on supply chains will be a constant feature over the next few years, especially since the European Commission's Proposal for a Directive on Corporate Sustainability Due Diligence seeks to further tighten environmental and human rights protection in law. In this year's survey, supply chain, outsourcing and "nth" party risk ranked eighth in terms of its potential impact (up from ninth in 2022) and respondents said it ranked sixth in terms of the areas where internal audit functions spend most time and effort.
No time has specifically been allocated in 2023/24 to this.

9 - Financial, liquidity and insolvency risks - Last year's Risk in Focus assessment showed that organisations were firmly concentrating on their financial resilience and liquidity, whilst this remains an issue for all organisations, there is a new focus to ensure that key business partners are being monitored. Insolvencies may rise in correlation with the withdrawal of government support, indeed, it has been estimated that insolvency rates will raise by 13%, Services, leisure, hospitality and travel sectors rely on government policy and, approaching two years into the pandemic, the future of businesses in these industries is still in question. Contractor or supplier failure remains a key risk. There is a review of budgetary control in 2023/24.

10 - Organisational governance and corporate reporting –
Organisational governance has moved up slightly to now feature in the top ten risks for 2023. This is an important aspect of any company and especially for a local council which represents the local community and residents. It must be seen as complying with the many and various governance requirements placed upon a council to keep the trust of the local people. There are reviews scheduled in 2023/24 for Otterpool Park Governance, Financial Procedure Rules and RIPA.

3.4 There are insufficient audit resources to review all areas of activity each year. Consequently, the plan is based upon a formal risk assessment that seeks to ensure that all areas of the Council's operations are reviewed within a strategic cycle of audits. In order to provide Members with assurance that internal audit resources are sufficient to give effective coverage across all areas of the Authority's operations, a strategic plan has been included.

3.5 To comply with the best practice, the agreed audit plan should cover a fixed period of no more than 1 year. Members are therefore being asked to approve the 2023/24 plan at the present time, and the future years are shown as indicative plans only, to provide Members with assurance that internal audit resources are sufficient to provide effective coverage across all areas of the Authority's operations within a rolling cycle.

3.6 The plan has been prepared in consultation with the Directors and the Council's statutory s.151 Officer. The plan is also designed to meet the requirements expected by the External Auditors for ensuring key controls are in place for its fundamental systems. This Committee is also part of the consultation process, and its views on the plan of work for 2023/24 are sought to ensure that the Council has an effective internal audit of its activities and Members receive the level of assurance they require to be able to place assurance on the annual governance statement.

3.7 The risk assessment and consultation to date has resulted in;

86% Core Assurance Projects- the main Audit Programme
0% Fraud Work – fraud awareness, reactive work and investigating potential irregularities
0% Corporate Risk – testing the robustness of corporate risk mitigating action
14% Other Productive Work – Corporate meetings, follow up, general advice, liaison

Total number of audits 30.

For 2023/24 the days available for carrying out audit is 350 days. When compared to the resources available and working on the basis that the highest risk areas should be reviewed as a priority, the EKAP has sufficient resources to review undertake 30 audits.

The detailed draft audit plan is contained in Annex C.

4.0 Benchmarking the level of Internal Audit Provision.

4.1 Members should have regard to how audit resources within the Council compare to other similar organisations when considering the adequacy and effectiveness of the internal audit plan. The results of benchmarking show that the average number of internal audit days provided by district councils within Kent is circa 400 days annum. The audit plan of Folkestone & Hythe District Council of 350 days. The Folkestone & Hythe plan is therefore 12.50% less well-resourced than the Kent average.

5.0 Head of Internal Audit Opinion of the 2023/24 Internal Audit Plan.

5.1 This report is presented to Members by the Council's Strategic Director (Corporate Resources) whose s.151 responsibility it is to maintain an effective internal audit plan. In the interests of openness and transparency and in order to enable Members to make an informed decision on the internal audit plan presented for their approval consideration should also be given to the opinion of the Head of Internal Audit on the effectiveness of the plan.

5.2 It is the professional opinion of the Head of the East Kent Audit Partnership that the draft 2023/24 internal plan presented for Members' consideration is less well-resourced than the Kent average and accordingly our overall audit opinion at the end of the year will be limited to commenting on the systems of internal control that have been examined. The current resources of the EKAP will allow for an opinion to be given on the Council's key risk areas and systems. This should be sufficient coverage to inform the Annual Governance Statement.

5.3 The Head of the East Kent Audit Partnership highlights that Members either approve the 2023/24 internal audit plan as drafted or they may recommend to Cabinet that additional resources should be allocated to bring the plan up to the Kent average. This would require an additional 50 days per annum, which at an estimated cost per audit day of £400 would cost £20,000 per annum.

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** (AK)

No legal officer comments are required for this report.

5.2 **Finance Officer's Comments** (CS)

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 Annual Plan 2022/23 - Previously presented to and approved in March 2022 Governance Committee meeting.
- Internal Audit working papers - Held by the East Kent Audit Partnership.
- Former Audit Mission, Audit Charter and Strategies - Previously presented to and approved at Governance Committee meetings.

Attachments

Annex A Audit Mission
Annex B EKAP Internal Audit Charter
Annex C Folkestone & Hythe District Council draft 2023/24 Internal Audit Plan

Annex A

East Kent Audit Partnership Mission

The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP, supported by an agreed Audit Charter, is to build a resilient service that provides opportunities to port best practice between the four councils and East Kent Services acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

EKAP provides an independent, objective assurance and consulting activity designed to add value and improve the councils' operations. It helps the partners accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The mission for internal auditing (linked to the definition above) is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight reflecting each councils' Corporate Objectives.

Annex B

EAST KENT

DOVER • FOLKESTONE & HYTHE • THANET • CANTERBURY

AUDIT PARTNERSHIP

EAST KENT AUDIT PARTNERSHIP
AUDIT CHARTER

1 Introduction

1.1 This Charter establishes the purpose, authority, objectives and responsibility of the Audit Partnership, in providing an Internal Audit function within the Partner Councils.

1.2 The EKAP is committed to the highest standards and prides itself on complying with the definition of Internal Auditing, the ethical codes that the profession requires and adopting the International standards.

1.3 The Audit Partnership is hosted by Dover District Council. The four East Kent authorities Canterbury City Council (CCC), Dover District Council (DDC), Folkestone & Hythe District Council (F&HDC), and Thanet District Council (TDC) formed the East Kent Audit Partnership (EKAP) in order to deliver a professional, cost effective, efficient, internal audit function. A key aim for the EKAP is to build a resilient service that provides opportunities to port best practice between the four sites, acting as a catalyst for change and improvement to service delivery as well as providing assurance on the governance arrangements in place.

1.4 The Audit Partnership is sufficiently independent of the activities that it audits, and this enables the auditors to perform their duties in a manner, which facilitates impartial and effective professional judgements and recommendations.

1.5 The organisational status of the Audit Partnership is such that it is able to function effectively. The Head of Audit Partnership must be able to maintain their independence and report to members. The Head of Audit Partnership has sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with the senior management and audit committees of the individual partners.

1.6 Accountability for the response to the advice and recommendations of the Audit Partnership lies with each partner's own management.

1.7 The Audit Partnership reports to those committees charged with governance. The main objective is to independently contribute to the councils' overall process for ensuring that an effective internal control environment is maintained. The work of the Audit Partnership for each of the partner authorities is summarised into an individual annual report, which assists in meeting the requirements to make annual published statements on the internal control systems in operation as required by Section 6 of the Accounts and Audit Regulations 2015.

2 Terms of Reference

2.1 Strategy & Purpose

Internal Audit is a statutory requirement under the Local Government Act 1972 (Section 151). It is the strategy of the Audit Partnership to comply with best practice as far as possible. The East Kent Audit Partnership has therefore adopted the best practice principles set out in the Public Sector Internal Audit Standards (PSIAS). The definition of Internal Audit taken from their guidance is as follows:

> Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

This definition sets out the primary purpose of the Audit Partnership, but the guidance also recognises that other work may be undertaken which may include consultancy services and fraud-related work. Where relevant and applicable the Audit Partnership also follows the professional and ethical standards of the Institute of Internal Auditors, being that many of the staff are members of this Institute.

2.2 Responsibility & Scope

2.2.1 Internal Audit is responsible for appraising and reviewing:

a) the completeness, reliability and integrity of information, both financial and operational,
b) the systems established to ensure compliance with policies, plans, procedures, laws and regulations, i.e. rules established by the management of the organisation, or externally,
c) the means of safeguarding assets,
d) the economy, efficiency and effectiveness with which resources are employed,
e) whether operations are being carried out as planned and objectives and goals are being met.
f) Significant emerging risk exposures which threaten the delivery of Corporate objectives.
g) Fraud and corruption risks.
h) Governance issues and risks which threaten the ethical delivery of services.

2.2.2 The scope of the Audit Partnership includes the review of all activities of the partner councils, without restriction. In doing this, the purpose of Internal Audit is to:

a) Advise the Chief Executive, Directors, Senior Managers and Audit Committee on appropriate internal controls and the management of risk,
b) Assist the Chief Executive, Directors, Senior Manager and Audit Committee with the way that organisational objectives are achieved at operational levels,
c) Assure the Chief Executive, Directors, Senior Managers and Audit Committee of the reliability and integrity of systems, and that they are adequately and effectively controlled,
d) Alert the Chief Executive, Directors, Senior Managers and Audit Committee to any system weaknesses or irregularities.

2.2.3 In addition, the Audit Partnership may carry out special investigations as necessary, and agreed with the s.151 Officer or Monitoring Officer as appropriate, in respect of cases of fraud, malpractice or other irregularity, or carry out individual ad hoc projects as requested by management and agreed by the Head of Audit Partnership and the partners' client officer.

2.2.4 Assurance to third parties may be agreed, by the Head of Audit Partnership with the relevant s.151 Officer on a case by case basis; such as acting as the First Level Controller for Inter Reg Grant Claims. The rate charged to a third party for assurance work is set by the Joint s.151 Client Officer Group at £375 per audit day. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include, for example the verification of claims or returns.

2.2.5 The decision to undertake consultancy services will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. The EKAP is able to avoid conflicts of interest if carrying out consultancy work due to the flexibility of the arrangements, as auditors may be rotated accordingly. The decision to provide such a service is informed by the required timing of the work, whether the skills and resources are available and if it is in the best interest of the EKAP and the Partners to do so, the nature of this work may include for example, being involved on project teams for new systems development. There are no contingency provisions within the agreed audit plans, therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any consultancy work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource to back-fill whilst partnership staff carry out the assignment.

2.3 **Authority**

2.3.1 The procedures for auditing the Council are included within each of the councils' Constitutions. This typically includes words to the effect that the Authority shall:

a) Make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs, and
b) Shall maintain an adequate and effective system of Internal Audit of their accounting records and control systems.

Additionally, there may be delegated authority to the Chief Executive and Directors to establish sound arrangements for the planning, appraisal, authorisation and control of the use of resources, and to ensure that they are working properly. Maintaining adequate and effective controls is necessary to:

a) carry out activities in an orderly, efficient and effective manner,
b) ensure that policies and directives are adhered to,
c) ensure compliance with statutory requirements,
d) safeguard assets & to prevent fraud,
e) maintain complete and reliable records and information, and
f) prevent waste & promote best value for money.

2.3.2 The Audit Partnership is authorised to complete a programme of audit reviews within the Partner Councils through the delegation of powers to Dover District Council, as the Lead body for the Audit Partnership.

2.3.3 The Head of Audit Partnership works principally with a nominated officer, the s.151 Officer, for each of the Partner councils, to ensure that a continuous internal audit review of the accounting, financial and other operations of the Council is performed. Progress on the work undertaken shall be submitted regularly to the appropriate committee with responsibility for Internal Audit.

2.3.4 All employees and Councillors shall comply with the requirements of the Council's internal and external auditors who have authority to;-

a) enter at all reasonable times on any Council premises or land,
b) have access to all Council assets such as records, documents, contracts and correspondence, including computer hardware, software and data,
c) require and receive such explanations as are necessary concerning any matters under examination, and
d) require any employee of the Council to produce cash, stores or any other Council property under his/her control.

2.3.5 Employees and Councillors of any of the Partners may report any financial irregularity or suspected irregularities to the Head of Audit Partnership, who shall then ensure that the matter is dealt with in accordance with the individual council's Anti Fraud and Corruption Strategy.

2.4 **Avoiding Conflicts of Interest**

2.4.1 An additional benefit of four councils working in partnership to provide an internal audit service, is providing sufficient staff to give flexibility and the opportunity for the rotation of Auditors. Where consultancy projects are requested and agreed, conflicts of interest will be avoided by preventing the Auditor undertaking that project from reviewing that area of operation for a period of time equivalent to current year plus one (see also paragraph 3.2 below). The EKAP provides a pure audit arrangement and does not have any "non audit" or operational responsibilities that would otherwise have the potential to cause a conflict of interest.

3 Organisational Relationships and Independence

3.1 Audit Partnership Management and Staffing

The audit service is managed by the Head of Audit Partnership, who is responsible for providing a continuous internal audit service under the direction of the Section 151 Officers. The auditor assigned to each individual review is selected by the Head of Audit Partnership, based on their knowledge, skills, experience and discipline to ensure that the audit is conducted properly and in accordance with professional standards.

3.2 Relationship with Service Managers

- It is the responsibility of management, not auditors, to maintain systems of internal control.

- To preserve its independence and objectivity, staff involved in the Audit Partnership shall not have direct responsibility for, or authority over, any of the activities subject to audit review. Staff transferring to EKAP may not review an area they were previously operationally responsible for, for a period of two years (current year plus one).

- The involvement of an auditor through conducting an audit review, or providing advice, does not in any way diminish the responsibility of line management for the proper execution and control of their activities.

- Co-operative relationships will be fostered with management to enhance the ability of the Audit Partnership to achieve its objectives effectively.

- All employees should have complete confidence in the integrity, independence and capability of the Audit Partnership. We recognise that the relationship between auditors and service managers is a privileged one, and information gained in the course of audit work will be treated confidentially, and only reported appropriately.

3.3 **Relationship with Line Management and Statutory Officers**

3.3.1 The Head of Audit Partnership will have regular meetings with each of the Partner's s.151 Officer / nominated client officer. Any events that may have an adverse affect on the audit plan, or a significant impact on the Council will be reported immediately.

3.3.2 Any high risk matters of concern, which have not been adequately dealt with after an appropriate period of time and after follow up, will be escalated to the s.151 Officer / nominated client officer, who will be asked to decide for each high risk matter whether:

- Resources should be allocated to enable the risk to be reduced in the agreed way, or
- To approve that the risk will be accepted and tolerated, or
- To determine some other action to treat the risk.

The outcome of which will be report to the Audit Committee, whose attention will be drawn to critical or high risk matters outstanding after follow up.

3.3.3 The Head of Audit Partnership has unrestricted access to the s.151 Officer, the Monitoring Officer and the Head of Paid Service as appropriate. Engagement with the statutory officers is not prescribed, however regular attendance at CMT with IA updates is desirable.

3.4 **Relationship with the Partners**

3.4.1 The Head of Audit Partnership has a reporting line relationship directly to the Dover District Council's Director of Finance, Housing and Communities the Council's s.151 Officer. Together under the Collaboration Agreement for the provision of one shared Internal Audit Service, the four s.151 Officers form the "Client Officer Group" which is the key governance reporting line for the EKAP. The s.151 Client Officer Group meets collectively with the Head of Audit Partnership to consider the strategic direction and development of the partnership and any performance matters.

3.4.2 The East Kent Audit Partnership overall performance is reported to all the partner authorities annually. Key performance measures and indicators have been agreed and these are also reported quarterly. As well as individual assurance reports, and the quarterly Audit Committee reports, EKAP will present an Annual Audit Report that is used to inform the councils' governance statement to:

- Provide an individual summary of the work completed for each Partner,
- Compare actual audit activity with that planned,
- Provide an opinion on the adequacy and effectiveness of the councils' framework of governance, risk management and control,

- Summarise the performance of the East Kent Audit Partnership against its performance criteria, and provide a statement of conformance with professional standards, with details of the quality assurance and improvement programme,
- Include the cost of the service for the partner.

The Accounts and Audit Regulations section 5 requires that a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The Charter sets out how the EKAP will meet this requirement.

3.5 **Relationship with Audit Committees**

Please note the PSIAS refer to the 'board', and it is expected that the audit committee will fulfil the role of the board in the majority of instances.

The East Kent Audit Partnership has a direct relationship with those charged with the responsibility for governance. Consequently, the Head of Audit Partnership issues a report summarising the results of its reviews to each meeting. The Annual Report is the foundation for the opinion given through the Governance Assurance Statement, which is published annually The Accounts and Audit Regulations section 3 requires that a relevant authority has a sound system of internal control which

- facilitates the effective exercise of its functions and the achievement of its aims and objectives,
- ensures that the financial and operational management of the authority is effective, and
- includes effective arrangements for the management of risk.

This Charter establishes how the EKAP contributes to complying with the regulations and creates the link to the Annual Governance Statement. The Committee will also approve the annual work plan for their Council.

The Head of Audit Partnership will escalate any critical or high-risk matters of concern that have not been adequately actioned by management at the progress report stage to the committee via the quarterly update report, drawing attention to significant matters in the annual report. The Head of Audit Partnership may meet privately with the chair of the audit committee and has direct access to the committee should this be required.

The Audit Committee will note decisions relating to the appointment and removal of the Head of Audit Partnership.

3.6 **Relationship with External Audit**

- The Head of Audit Partnership will liaise with the External Auditors to:

  - Foster a co-operative and professional working relationship,
  - Reduce the incidence of duplication of effort,
  - Ensure appropriate sharing of information, and
  - Co-ordinate the overall audit effort.

- In particular the Head of Audit Partnership will:

- Discuss the annual Audit Plan with the External Auditors to facilitate External Audit planning,
- Hold meetings to discuss performance and exchange thoughts and ideas,
- Make all Internal Audit working papers and reports available to the External Auditors,
- Receive copies of all relevant External Auditors reports to Management, and
- Gain knowledge of the External Auditors' programme and methodology.

3.7 Relationship with Other Regulators, Inspectors and Audit Bodies

The Head of Audit Partnership will foster good relations with all other audit bodies, regulators and inspectors. In particular protocols regarding joint working, access to working papers, confidentiality and setting out the respective roles will be agreed where applicable. The EKAP will only become involved with external regulators and inspectors if expressly required by the partner authority as part of the agreed audit plan.

3.8 Relationship with the Public

The councils' Anti-Fraud, Corruption, Bribery and Whistleblowing policies encourage staff, members, contractors and members of the public to raise their concerns in several ways, one of which includes making contact with Internal Audit. This Charter therefore considers the responsibility EKAP has with investigating complaints made from contractors, staff or the general public about their concerns. It is concluded that each case must be assessed on its own merits and agreement with the s.151 Officer reached before EKAP resources are directed towards an investigation.

4 Competence and Standards of Auditors

4.1 **Competence**

The Head of Audit Partnership will ensure that those engaged in conducting audit reviews, possess the appropriate knowledge, qualifications, experience and discipline to carry them out with due professional care and skill.

4.2 **Standards**

Regardless of membership, all auditors will be expected to work in accordance with the Public Sector Internal Audit Standard and practice statements issued by the Institute of Internal Auditors and CiPFA. The East Kent Audit Partnership strives to meet best practice as highlighted in paragraph 2.1. The auditors must also observe the Codes of Ethics of the Institute of Internal Auditors and CiPFA, which call for high standards of honesty, objectivity, diligence and loyalty in the performance of their duties and responsibilities. In addition to professional codes of ethics, the EKAP staff are bound to the DDC Code of Conduct through their employment contract.

5 Audit Process

5.1 The EKAP seeks to deliver effective outcomes by;

- Understanding the four partner councils, their needs and objectives,
- Understanding its position with respect to other sources of assurance and to plan our work accordingly,

- Embracing change and working with the four councils to ensure our work supports management,
- Adding value and assisting the partners in achieving their objectives,
- Being forward looking, knowing where the partners wish to be and being aware of the local and national agenda, and their impact,
- Being innovative and challenging,
- Helping to shape the ethics and standards of the four councils, and
- Sharing best practice and assisting with the joint working agenda.

5.2 Planning

5.2.1 The internal audit process is to follow a planned approach based upon risk assessments. The planning framework comprises the following:

- A Strategic Plan, which ensures that coverage of each of the partner councils as a whole, over a time frame of three to five years, is maintained and reviewed annually, to take into account the new priorities and risks of each authority. This focuses internal audit effort on the risks of the four partner's objectives and priorities. It also seeks to add value to the partners by reviewing areas that most support management in meeting their objectives. The Head of Audit Partnership works together with the two Deputy Heads of Audit to consult relevant service managers and heads of service at each site to assist in formulating the strategic audit plans. Each council's corporate aims and objectives, individual service plans, risk registers, time spent on previous audits, any problems encountered, and level and skill of service staff involved are taken into account and information is entered into the audit software. All areas as identified in the strategic plan are then subject to a risk assessment to identify their risk level and whether or not they are to be included in the proposed annual plan. The audit plans are generated from the audit software based on the risk scores of each area of activity identified through the consultation process

- An Annual Plan for each partner, specifying the planned audits to be performed each year, their priority and the resource requirements for each planned audit review.

5.2.2 For each audit review undertaken, the planning framework comprises the following:

- An Audit Brief, specifying the objectives, scope and resources for the audit.
- Where appropriate either a detailed Audit Programme of tests to be conducted, or a CiPFA Audit Matrix of testing to follow.

The Audit Brief is prepared by the Head of Audit Partnership or Deputy Heads of Audit and reviewed and agreed with the client manager prior to the commencement of the audit review (except where an unannounced visit is necessary).

5.3 **Documentation**

The EKAP is committed to continuous improvement and has standardised all the working practices across the partnership. The Internal Audit team has access to a common Audit Manual to ensure that the same processes are operational across all the partner sites. The Audit Manual is subject to (at least) annual review. Audit working papers contain the principal evidence to support the report and they provide the basis for review of work. The Auditors employ an audit methodology that requires the production of working papers, which document the following:

- The samples of transactions collected when examining the adequacy, effectiveness and application of internal controls within the system.
- The results of the testing undertaken.
- Other information obtained from these examinations.
- Any e-mails, memos or other correspondence with the client concerning or clarifying the findings.
- A report summarising significant findings and recommendations for the reduction of risk or further control improvement.
- The Service Manager's response to the draft report and then agreed recommendations made in the final audit report.

5.4 **Consultation**

5.4.1 Prior to the commencement of an audit, the Head of Audit Partnership or Deputy Heads of Audit will communicate by phone, e-mail or face to face meeting with the relevant Manager to discuss the terms of reference. Having agreed the proposed brief with the Manager, the Head of Audit Partnership or Deputy Heads of Audit will:

- issue a copy of the proposed Audit Brief by e-mail, and
- where appropriate arrange a pre-audit meeting between the Service Manager and the Auditor to discuss the purpose, scope and expected timing of the work.

In the case of special investigations, such prior notification may not be given where doing so may jeopardise the success of the investigation. In such an event, the prior approval of the Chief Executive, s.151 Officer or Monitoring Officer will be obtained.

5.4.2 During the conduct of reviews, Auditors are to consult orally and / or in writing with relevant staff to:

- ensure that information gathered is accurate and properly interpreted,
- allow Management to present adequate/reliable evidence to ensure a balanced judgment is formed,
- ensure recommendations add value, are cost effective and practicable, and
- keep Management informed of the progress of the audit.

5.5 **Reporting**

5.5.1 A written discussion document (draft report) is prepared and issued by the responsible Auditor at the conclusion of each audit. Prior to its issue, the appropriate Deputy Head of Audit reviews the draft together with the supporting working papers. The purpose of this document is to allow the service manager the opportunity to confirm factual accuracy and challenge any of the findings of the review.

5.5.2 The draft document will contain an outline action plan listing proposed individual recommendations for internal control improvement. These recommendations are categorised to indicate whether there is a high, medium or low risk of the control objectives failing. It is at this stage that the Service Manager accepts or negotiates that the risks are in fact present, that they accept responsibility for the risks and discuss how they proposed to mitigate or control them.

5.5.3 The document is then updated, and if changes are required following the discussion, is presented to the Service Manager as a Draft Report. On completion of the Action Plan, a final version of the report containing “Agreed Actions” is issued to the Service Manager with a copy to the relevant Director. Additional copies are circulated as agreed with each Partner Authority.

5.5.4 The agreed actions will be followed up, and high priority recommendations will be tested to ensure they have been effective after their due date has passed.

5.5.5 Audit reports are to be clear, objective, balanced and timely. They are to be constructed in a standardised format which will include:

- The objectives of the audit,
- The scope of the audit, and where appropriate anything omitted from the review,
- An overall conclusion and opinion on the subject area,
- Proposed actions for improvement,
- Service Manager’s comments (where appropriate), and
- A table summarising all the Proposed/Agreed Actions, risk category, a due date and any management responses.

5.5.6 Each Final Report carries one of four possible levels of Assurance. This is assessed as a snapshot in time, the purpose of which is for all stakeholders to be able to place reliance on that system of internal controls to operate as intended; completely, consistently, efficiently and effectively. Assurance given by Internal Audit at the year end is based on an overall assessment of the assurance opinions it has given during that year, and can only apply to the areas tested. There are insufficient resources to audit every aspect of every area every year.

5.5.7 In addition to individual audit reports for each topic, the performance of the East Kent Audit Partnership is analysed and reviewed as described in section 3.4 of this Charter.

5.6 **Follow Up**

5.6.1 The Audit Partnership will follow up on management action arising from its assignments. Each individual recommendation is recorded on the specialist auditing software used. Each recommendation is classified as to whether it is critical, high, medium or low risk. The due date for implementation and the responsible person are also recorded.

5.6.2 Following the last due date within the Action Plan, the auditors follow up whether or not action has been taken to reduce the identified risk. They ask the responsible officer for each individual recommendation whether:

a. The control improvement has successfully been implemented
b. Progress is being made towards implementing the control improvement
c. No action has yet occurred due to insufficient time or resources
d. That after agreeing the action, the risk is now being tolerated
e. That the control improvement is no longer relevant due to a system change
f. Other reason (please specify).

5.6.3 Further testing will be carried out where necessary (e.g. critical and high risk recommendations) to independently confirm that effective action has in fact taken place.

5.6.4 A written summary of the results of the follow up action is issued to the relevant Service Manager and Director, and where appropriate a revised assurance level is issued. The results of follow-up reviews and the revised assurance opinions issued are also reported to the audit committee.

5.6.5 Any areas of concern after follow up, where it is thought that management has not taken appropriate action, will be escalated to senior management and ultimately the Audit Committee as described in paragraph 3.3.2 of this Charter.

6 Resources

6.1 Staff Resources

6.1.1 Dover District Council is the host authority for the shared internal audit service therefore it employs or contracts with all the staff engaged to deliver the service. The current team is made up of full or part time staff all providing a range of skills and abilities within the Internal Audit profession. Those staff accredited to a professional body are required to record their Continued Professional Development (CPD) in order to evidence that they maintain their skills and keep up to date. Additionally, the staff are bound by the professional standards and code of ethics for their professional body, either CIPFA, the ACCA or the CIIA.

6.1.2 A mix of permanent staff and external contractors will provide the resources required to fill the required number of chargeable audit days. Internal Audit staff will be appropriately qualified and have suitable, relevant experience. Appropriate professional qualifications are ACCA, IIA or AAT. The DDC appraisal scheme including an assessment of personal development and training needs will be utilised to identify technical, professional, interpersonal and organisational competencies. Having assessed current skills a personal development plan will be agreed for all EKAP staff intended to fill any skill gaps.

6.1.3 The Dover District Council's Personal Performance Review process will be the key driver to identifying any skill gaps, and training, where appropriate, will be investigated at an individual level, as well as across the team, and on a Kent wide basis (through collaborative arrangements at Kent Audit Group). In the short-term, the specialised computer audit skills gap may be addressed through the engagement of contractors for specialist work, and where possible, a team member will shadow the "expert" to gain additional skills.

6.2 Budget

The EKAP budget is hosted by DDC and apportioned between the partners based on the agreed number of audit days. The cost per audit day is a metric reported annually in the Annual Report. The budget includes direct and indirect costs to the partnership. The individual salaries paid to the staff, including the Head of the Audit Partnership are standard grades as assessed by the DDC Job Evaluation system.

7. Quality assurance

The quality assurance arrangements for the EKAP include all files being subject to review by either the Deputy Head of Audit for the site and/or by the Head of Audit Partnership (particularly if the review has 'no' or 'limited' assurance). The review process is ongoing and includes adequate supervision of the audit staff and of the audit work performed. This review ensures that the work undertaken complies with the standards defined in the Public Sector Internal Audit Standards and with the requirements of this Charter. In addition to the ongoing review of the quality of individual working papers and reports and performance against the balanced scorecard of performance indicators; an annual assessment of the effectiveness of

Internal Audit is undertaken separately by each of the partner authorities. To comply fully with the PSIAS the EKAP has presented the options for an external quality assessment to be undertaken before October 2017. However, the s.151 Client Officer Group has decided to not spend resources on an External Quality Assessment but to rely on the self-assessment.

8. Additional Services

8.1 Special Investigations and Fraud Related Work

The EKAP is, from time to time, required to carry out special investigations, including suspected fraud and irregularity investigations and other special projects. The prevention and detection of fraud and corruption is ultimately the responsibility of management within the four partner authorities. However, EKAP is aware of its role in this area and will be alert to the risk of fraud and corruption when undertaking its work. The EKAP will immediately report to the relevant officer any detected fraud or corruption identified during the course of its work; or the discovery of any areas where such risks exist.

Consequently, a provision for additional time in the event of fraud related work being required has not been included in any of the annual audit plans. Any special investigations which the EKAP is requested to undertake may be accommodated from re-allocating time within the relevant partner's own plan, or through buying in additional resource to either investigate the case, or to back-fill whilst partnership staff carry out the investigation. The provision of resources decision will be made on a case-by-case basis in conjunction with the relevant partner's s.151 Officer and other management as necessary. The Head of Audit Partnership will give consideration to conflicts of interest, capacity, skills and competency when assessing the scope of the investigation, before agreeing to undertake the engagement. The reporting lines and methodology will vary from investigation to investigation dependent on the circumstances. Close liaison with the Monitoring Officer and s.151 Officer is essential, particularly in the (rare) event of a potential criminal matter.

An added advantage due to the flexibility of the arrangements within the EKAP means that we are able to use auditors who are not necessarily known at an authority to complete special investigations as this strengthens independence.

The s.151 Officer will keep the Head of Audit Partnership appraised via the regular meetings of any disciplinary action taken by the council that may be relevant to internal audit planning and risk assessments, if staff have been found to act deceitfully or circumvent controls etc.

8.2 Ad Hoc / Consultancy Work/ External Bodies

A contingency has not been included in any of the partners' plans. Therefore if work has not been included in the plan from the outset, a variation will need to be agreed for any subsequently requested work, to re-allocate time within the relevant partner's own plan, or through buying in additional resource, to back-fill whilst partnership staff carry out the assignment. The decision will be made in conjunction with the relevant partner's s.151 Officer and other management as necessary. Conflicts of interest may be avoided if carrying out consultancy work due to the flexibility of the arrangements within the EKAP, as we are able to rotate auditors accordingly. Approval of requests from Management for additional projects are subject to certain criteria, to include whether the EKAP has the relevant skills and capacity to undertake the assignment.

Requests for assurance work from external bodies are not anticipated, nor does the EKAP have capacity or spare resource to deliver such requests. However, in the event that a request is received, the s.151 Client Officer Group would consider and authorise such an undertaking and a separate legal agreement confirming the engagement would be drawn up with DDC as the host authority (EKAP not being a separate legal entity). The Head of Audit Partnership would give the same consideration to conflicts of interest, capacity, skills and competency when assessing the scope of the work, as it if were an internal assignment, before agreeing to undertake the engagement.

8.3 **Value for Money (VFM) Reviews**

VFM relates to internal audit work that assesses the economy, efficiency and effectiveness of an activity. The work of EKAP is planned to take account of VFM generally, indeed this is supported by the objective to port best practice between sites where appropriate. Audit plans may have a specific provision for VFM reviews (or a review of VFM arrangements). Where possible VFM reviews will be run concurrently with other sites within East Kent where this is deemed to be most beneficial to participating authorities. The EKAP staff are alert to the importance of VFM in their work, and to report to management any examples of actual or possible poor VFM that they encounter in the course of their duties.

9. Amendment to Audit Charter

Amendment of this Charter is subject to the approval of the Partners' Audit Committees, Chief Executives, s.151 Officers and the Head of Audit Partnership.

February 2023

References:

Audit Manual
Public Sector Internal Audit Standards (PSIAS)
CIPFA Local Government Application Note to PSIAS

10. Glossary

Add Value
The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

Adequate Control
Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

Assurance Framework
This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

Assurance Services
An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

Audit Committee
The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

Board
The highest level of governing body charged with responsibility to direct and oversee the activities and management of the organisation. Typically, this includes an independent group of directors (eg a board of directors, a supervisory board or a board of governors or trustees). If such a group does not exist, the 'board' is the head of the company or agency. 'Board' may refer to an audit committee to which the governing body has delegated its authority.

Charter
The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Chief Audit Executive
Chief audit executive describes a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the Definition of Internal Auditing, the Code of Ethics and the International Standards. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title of the chief audit executive may vary across organisations.

Code of Ethics
The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal

auditing. Compliance Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Conflict of Interest
Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

Consulting Services
Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

Control
Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved. 32 Public Sector Internal Audit Standards.

Control Environment
The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements: Integrity and ethical values. Management's philosophy and operating style. Organisational structure. Assignment of authority and responsibility. Human resource policies and practices. Competence of personnel. Control Processes The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the level of risk that an organisation is willing to accept.

Engagement
A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Engagement Objectives
Broad statements developed by internal auditors that define intended engagement accomplishments.

Engagement Opinion
The ratings, conclusions or other descriptions of results of an individual internal audit engagement based upon the procedures performed, relating only to those aspects within the objectives and scope of the engagement.

Engagement Work Programme
A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

External Service Provider
A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

Fraud
Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance
The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

Governance Statement
The mechanism by which an organisation publicly reports on its governance arrangements each year.

Impairment
Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

Independence
The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls
Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

Information Technology Governance
Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

Internal Audit Activity
A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

International Professional Practices Framework (IPPF)
The conceptual framework that organises the authoritative guidance promulgated by the IIA. Authoritative Guidance is comprised of two categories (1) mandatory and (2) endorsed and strongly recommended. Only the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards. The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

Must
The Standards use the word must to specify an unconditional requirement.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

Overall Opinion
The overall ratings, conclusions or other descriptions of results provided by the chief audit executive addressing, at a broad level, governance, risk management and control processes of the organisation. An overall opinion is based on the results of a number of individual engagements and other activities for a specific time interval.

Risk
The effect of uncertainty on objectives. And effect is a deviation from the expected and may be positive or negative. Risk is often expressed in terms of a combination of the consequences of an event and the associated likelihood of occurrence.

Risk Appetite
The level of risk that an organisation is willing to accept.

Risk Management
A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

Senior Management Team
The highest level of officers with responsibility to direct and oversee the activities and management of the organisation. Typically, this includes a group of directors in the Public Sector formed of at least the Chief Executive, the Monitoring Officer and the s.151 Officer and other operational Directors and is dependent on the structure of the Council.

Should
The Standards use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

Significance
The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Standard
A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

Technology-based Audit Techniques
Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).

Annex C

Folkestone & Hythe District Council 2023-27 Internal Audit Plan - Draft

Plan Area	Risk register / Corporate Plan / Service	Year last audited	Previous assurance level	Follow up assurance	2023-24 Planned days	2024-25 Planned days	2025-26 Planned days	2026-27 Planned days
Financial Governance:								
Capital	C4	2018-19	Reasonable	Reasonable	10			
Treasury Management	C4	2019-20	Substantial	Substantial		10		
Car Parking & Enforcement	C4	2022-23	Sub / limited					10
Bank Reconciliation	C4	2020-21	Reasonable	Reasonable		10		
Creditors & CIS	C4	2022/23	Substantial / Reasonable		2	2	2	10
Miscellaneous Grants in and out - Levelling up	C4	New			10			
Insurance	C4	2020-21	Substantial	Substantial			10	
VAT	C4	2018-19	Reasonable	Reasonable		6		
Budgetary Control	C4	2018-19	Substantial	Substantial	10			
Housing Benefits – Overpayments	CP	2021-22	Substantial	Substantial				10
Housing Benefits – Admin & Assessment	CP	2018-19	Substantial	Substantial		10		
Housing Benefits - Quality	CP	2020-21	Substantial	Substantial			10	
Housing Benefits - DHP	CP	2021-22	Substantial	Substantial				10
Housing Benefits Subsidy	CP	2016-17	Substantial	Substantial	10			
Council Tax	CP	2022/23	Substantial			10		10
Council Tax Reduction Scheme	CP	2019-20	Substantial	Substantial		10		
Business Rates	CP	2013-14	Substantial	Substantial	10		10	
Business rates relief	CP	2018-19	Substantial	Substantial		10		

Debtors	C4	2020-21	Reasonable	Reasonable			10	
Social Housing								
Rent Setting, Accounting, Collection and Debt Management	C13	New			10			
Tenancy & Estate Management	C13	New			10			
Responsive Repairs & Maintenance	C13	(22/23)						10
Resident Engagement	C13	2021-22	Reasonable	To do			10	
Void Property Management	C13	2021-22	Reasonable	To do			10	
Leasehold Services	C13	New			10			
Tenants' Health and Safety	C13	(22/23)	Sub / Reasonable	Sub / Reasonable		10		10
Tenancy Fraud	C13	(22/23)						10
Contract Letting / Procurement Process/ Specification of Works	C13	New			10			
Contract Management	C13	2022/23	No			10		10
Sheltered & Supported Housing	C13	New			10			
Pumping Stations	C13	New					7	
Handyman Services	C13	New					7	
Capital Programme, Planned Maintenance	C13	New			10			
Rechargeable Works / Service charges	C13	New			10			
Garage Deposits / Management	C13	2021-22	Reasonable	Sub / Reasonable			10	
Cash Incentive Grants	C13	New				10		
New Build Capital Programme	C13	New			10			
Anti-Social Behaviour	C13	New			10			
Homelessness inc Rent Deposit	CP	2022/23	Reasonable					15
HRA Business Plan	Service	2018-19	Substantial	Substantial			10	
Decent Homes		New				10		

Carbon Reduction, Fuel Poverty & Energy Efficiency	C13	New						10
General Fund Housing								
Private Sector Housing, HMOs	C13	New			10			
Improvement Grants/DFG	CP	2017-18	Substantial	Substantial		10		
Housing Allocations	CP	2019-20	Reasonable	Substantial	10			
Right to Buy	CP	2022/23	Limited	Reasonable				10
Information Governance:								
Data Protection/FOI/Information Management	Service	2018-19	Limited	Reasonable	10		10	
Corporate Governance:								
Members' Code of Conduct and Standards Arrangement	C1	2020-21	Substantial	Substantial				10
Officers' Code of Conduct	C1	2020-21	Reasonable	Reasonable				10
Whistleblowing / Anti Money arrangements	C1	2022/23						9
Local Code of Corporate Governance	C1	2017-18	Substantial	Substantial			10	
Complaints Monitoring	C11	2016-17	Substantial	Substantial			10	
Oportunitas Governance	C1	2019-20	Substantial	Substantial		10		
Otterpool Governance	C3	2019-20	Reasonable	Substantial	10			
Scheme of Officer Delegations	C1	2016-17	Reasonable	Substantial		10		
Corporate/Governance and Audit Committee			N/A	N/A	35	35	35	35
Financial Procedure Rules	C4	2019-20	Reasonable	Substantial	5			
RIPA		New			4			
Constitution	CP	2019-20	Substantial	Substantial				10
Technology / Cyber								
ICT reviews	C8	2022/23			10		10	
Performance Management:								
Performance Management	C11	2020-21	Reasonable	Reasonable			10	
Fraud								
Fraud assurance	C4	2022-23	Reasonable			10		10

Fraud Arrangements Review	C4	2016-17	Reasonable	Reasonable			10	
Risk Management								
Risk Management	C1	2017-18	Substantial	Substantial		10		
Other								
Liaison with External Auditor			N/A	N/A	1	1	1	1
Previous Year Work in Progress b/fwd			N/A	N/A	20	20	20	20
Follow-up			N/A	N/A	14	14	14	14
Procurement & Contracts:								
Contract Standing Orders	C8	2022/23	Limited					10
E-Procurement inc corporate purchase cards	C8	2021/22	Reasonable	Reasonable			10	
Asset Management								
Asset Management	Service	2018-19	Substantial	Substantial		10		
Service Level								
Cemeteries and Crematorium	C11	2017-18	Reasonable	Reasonable		10		
Child Protection - Safeguarding	C11	2021-22	Reasonable	To do			10	
Climate Change	C15	New	Reasonable		4	2	4	6
Community Safety Partnership	C11	2020-21	Reasonable	To do		10		
Coast Protection / Engineers	Service	2020-21	Reasonable				10	
Corporate Responsive Repairs	Service	2019-20	Reasonable	Reasonable		10		
Dog Warden Enforcement	C11	2019-20	Substantial	Substantial			10	
Electoral Finance	C1	2017-18	Reasonable	Reasonable		10		
Environmental Health - Food Safety / H&S	C11	2016-17	Reasonable	Substantial		10		
Environmental Protection - Pollution / Noise	C11	2017-18	Reasonable	Reasonable	10			
Environmental Health – Public Health Burials	C11	2018-19	Substantial	Substantial		10		
Folkestone Community Works Programme	C12	2021/22	Reasonable	Reasonable	10			
Emergency Out of Hours service	C11	2018-19	Reasonable	Reasonable				10
Emergency Planning / Business Continuity	C11	2016-17	Substantial	Substantial		10		
Employee Health, Safety and Welfare	Service	2017-18	Reasonable	Reasonable	10			

Equality and Diversity	Service	2017-18	Reasonable	Reasonable			10	
Events Management	Service	2018-19	Substantial	Substantial			10	
Grounds Maintenance	Service	2020-21	Reasonable	To do				10
Folkestone Parks & Pleasure Grounds Charity	Service	2020-21	Substantial	N/A				10
Land Charges	CP	2020-21	Reasonable/Ltd	Substantial / Reasonable			10	
Licensing	C4	2019-20	Reasonable/Ltd	Reasonable		10		
Lifeline	Service	2015-16	Reasonable	Reasonable		10		
Members Allowances and Expenses	C1	2018-19 (22/23)	Reasonable	Reasonable				10
Planning Income	C4	2016-17	Reasonable	Reasonable				10
Planning Section 106s / CILS	C4	2020-21	Limited	Reasonable	10			
Building Control Income	Service	2018-19	Reasonable	Reasonable			10	
Property Charges - Industrial Estates	C4	2019-20	Reasonable	Substantial				10
Security of the civic building	Service	2019-20	Reasonable	Reasonable				10
Sports Income	C4	2019-20	Reasonable	Reasonable			10	
Hythe Swimming Pool	Service	2017-18	Reasonable	Reasonable		10		
Taxis	Service	2019-20	Reasonable/Ltd	Reasonable			10	
Waste Management	C8	2019-20	Reasonable/Ltd	Reasonable	15			
Waste Recycling	C8	2022/23	Limited	To do				10
Councillor Grants	C4	2021-22	Reasonable	To do			10	
People Management								
Recruitment/ Leavers	C1	2018-19	Reasonable	Substantial	10			
Flexi / Sick Leave / Annual leave	C1	2016-17	Reasonable	Reasonable		10		
Payroll, SMP and SSP	C1	2020-21	Substantial	N/A	10			
Employee Allowances and Expenses	C1	2019-20	Substantial	Substantial			10	
Employee Benefits-in-Kind	C1	2017-18 (22/23)	Substantial	Substantial		-		10

Total Planned Days	**350**	**350**	**350**	**350**

Reviews outside of 4 year cycle.

Treasury Management	C4	2019-20	Substantial	Substantial		10		
Insurance	C4	2020-21	Substantial	Substantial			10	
VAT	C4	2018-19	Reasonable	Reasonable		6		
Budgetary Control	C4	2018-19	Substantial	Substantial	10			
Housing Benefits Overpayments	CP	2021-22	Substantial	Substantial				10
Business Rates	CP	2013-14	Substantial	Substantial	10		10	
Business rates relief	CP	2018-19	Substantial	Substantial		10		
Debtors	C4	2020-21	Reasonable	Reasonable			10	
Capital	C4	2018-19	Reasonable	Reasonable	10			
HRA Business Plan	Service	2018-19	Substantial	Substantial			10	
Members' Code of Conduct and Standards Arrangement	C1	2020-21	Substantial	Substantial				10
Officers' Code of Conduct	C1	2020-21	Reasonable	Reasonable				10
Local Code of Corporate Governance	C1	2017-18	Substantial	Substantial			10	
Complaints Monitoring	C11	2016-17	Substantial	Substantial			10	
Oportunitas Governance	C1	2019-20	Substantial	Substantial		10		
Scheme of Officer Delegations	C1	2016-17	Reasonable	Substantial		10		
Constitution	CP	2019-20	Substantial	Substantial				10
Risk Management	C1	2017-18	Substantial	Substantial		10		
Cemeteries and Crematorium	C11	2017-18	Reasonable	Reasonable		10		
Dog Warden Enforcement	C11	2019-20	Substantial	Substantial			10	
Electoral Finance	C1	2017-18	Reasonable	Reasonable		10		
Environmental Health - Food Safety / H&S	C11	2016-17	Reasonable	Substantial		10		
Environmental Protection - Pollution / Noise	C11	2017-18	Reasonable	Reasonable	10			
Environmental Health – Public Health Burials	C11	2018-19	Substantial	Substantial		10		

Emergency Out of Hours	C11	2018-19	Reasonable	Reasonable				10
Emergency Planning / Business Continuity	C11	2016-17	Substantial	Substantial		10		
Employee Health, Safety and Welfare	Service	2017-18	Reasonable	Reasonable	10			
Equality and Diversity	Service	2017-18	Reasonable	Reasonable			10	
Events Management	Service	2018-19	Substantial	Substantial			10	
Grounds Maintenance	Service	2020-21	Reasonable	To do				10
Folkestone Parks & Pleasure Grounds Charity	Service	2020-21	Substantial	N/A				10
Licensing	C4	2019-20	Reasonable/Ltd	Reasonable		10		
Lifeline	Service	2015-16	Reasonable	Reasonable		10		
Building Control Income	Service	2018-19	Reasonable	Reasonable			10	
Property Charges - Industrial Estates	C4	2019-20	Reasonable	Substantial				10
Security of the civic building	Service	2019-20	Reasonable	Reasonable				10
Sports Income	C4	2019-20	Reasonable	Reasonable			10	
Hythe Swimming Pool	Service	2017-18	Reasonable	Reasonable		10		
Taxis	Service	2019-20	Reasonable/Ltd	Reasonable			10	
Flexi / Sick Leave / Annual leave	C1	2016-17	Reasonable	Reasonable		10		
Employee Allowances and Expenses	C1	2019-20	Substantial	Substantial			10	

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