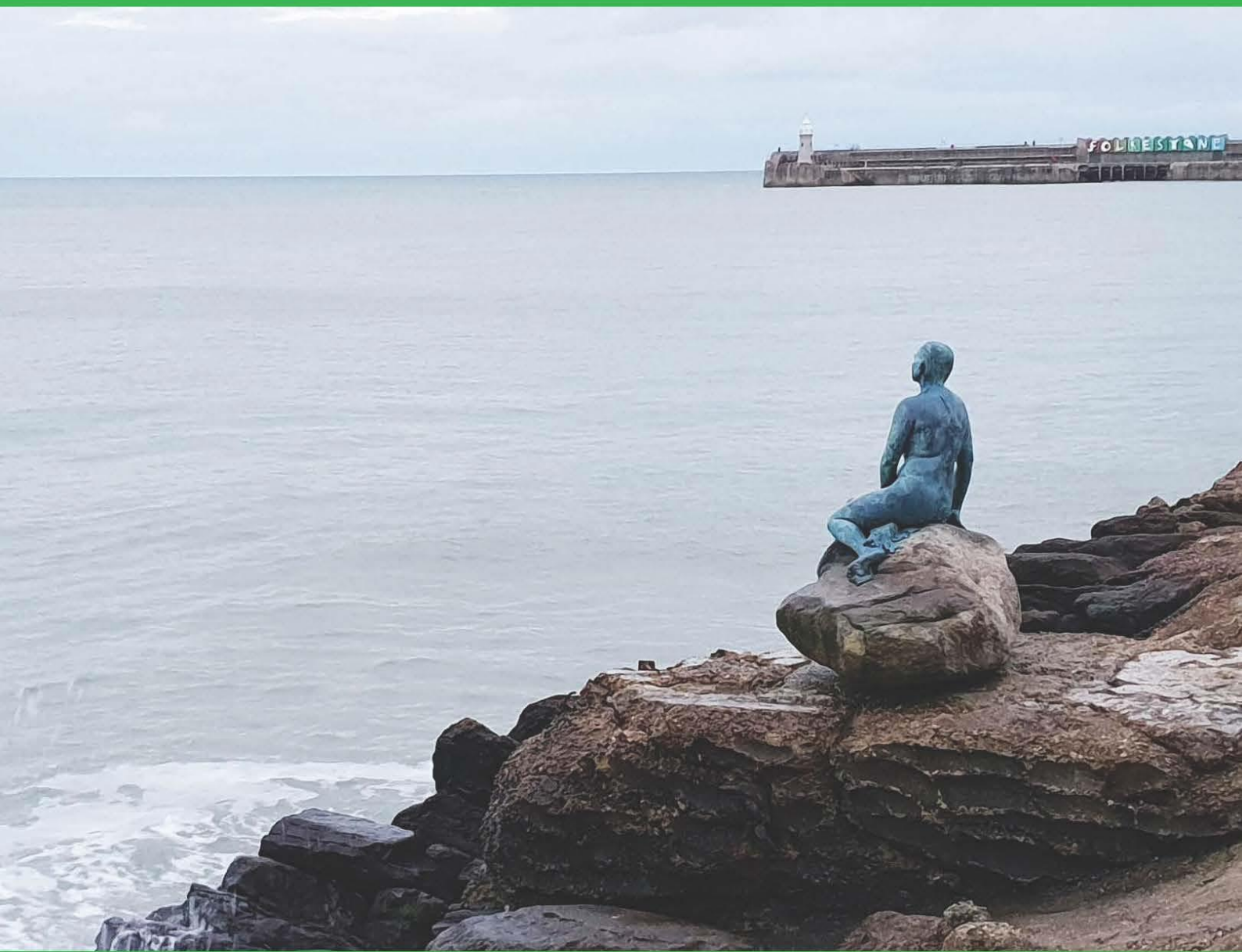


STATEMENT OF ACCOUNTS

2020/21



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Narrative Report

ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Our District

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



The district has distinctive contrasting rural landscapes and urban environments.

Our People

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

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

Economic and Environmental Factors

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

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

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

¹ 2019 Mid-Year Population Estimates - ONS

² Shepway Economic Development Strategy 2015-2020

level and the majority of 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

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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 nearly £41m 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 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. 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 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 115-127.

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 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 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 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

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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 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). In summer 2020 the Council was successfully awarded a combined total of £5.5m funding to progress with the development. £2m was secured from EKSDC and Magnox to deliver a new business centre on five hectares of council owned land at the Mountfield Road industrial estate which will provide co-working space designed to attract new companies to the area. Construction of this business hub is well underway and will be completed by the end of 2021. A further £3.5m funding was awarded from the Government's 'Get Building Fund' to support phase 2 of the development which will bring forward the remaining five acres of council owned land for employment purposes. The funding will deliver the necessary infrastructure to bring forward employment plots for new businesses which will in turn create 700 new jobs for the area. Work on phase 2 is due to be complete by March 2022.

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.

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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 Medium Term Financial Strategy (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

NARRATIVE REPORT

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 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 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.



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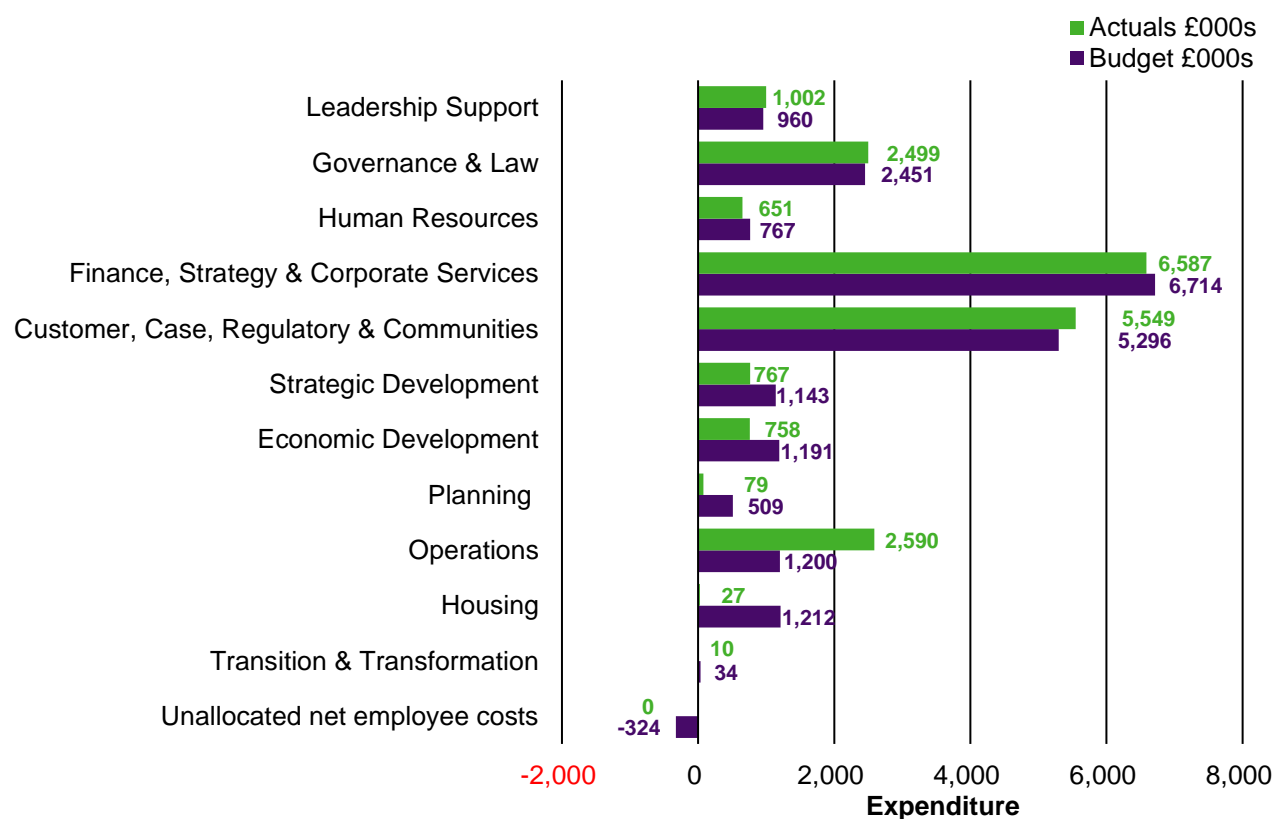
The Councils outturn performance includes:

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

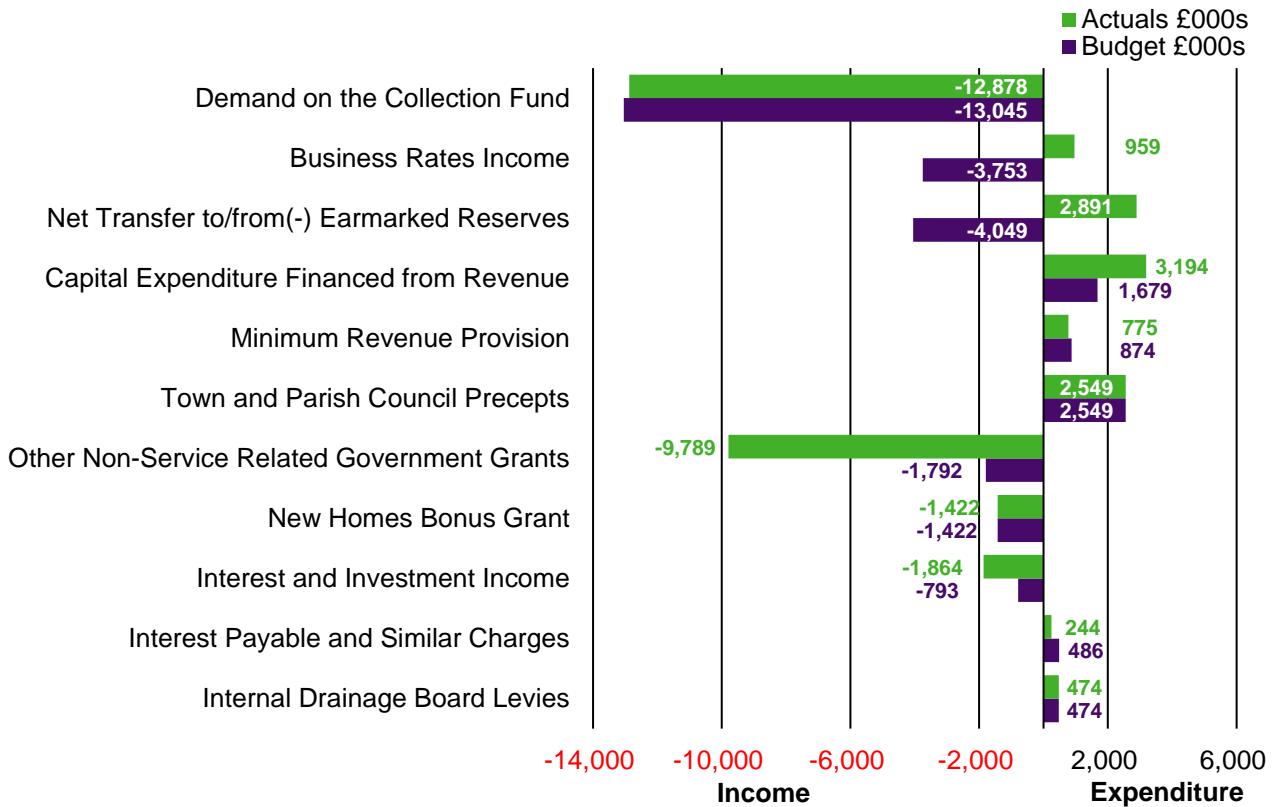
The latest approved budget for net cost of services to deliver the core services of the council and meet its strategic objectives was £21.2m. Delivering expenditure in line with agreed budgets is an important performance indicator and this was achieved in 2020/21 as outlined below:



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

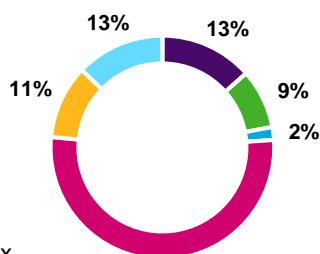
The following entries affect the Other Income and Expenditure within the EFA (in addition to entries from the HRA), and are reported to Members through the in-year monitoring and outturn reports.



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

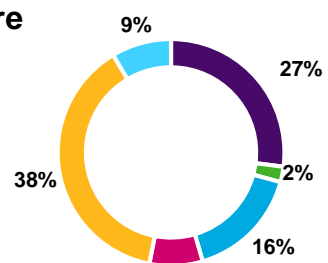
Sources of income and expenditure were as follows:

Income



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

Expenditure



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

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The 2020/21 outturn position shows an overspend of £3.3m against the approved budget but this includes an accounting adjustment 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. This can be seen in the increase in the Collection Fund Adjustment Account in Note 30 (page 79). Excluding this adjustment the outturn position is a surplus of £2.5m. The key movements from the agreed budget included:

- Net Covid grant funding received in year (£2.2m)
- Accounting adjustment to defer Section 31 grants received for Covid business rates reliefs to 2021/22 £5.8m

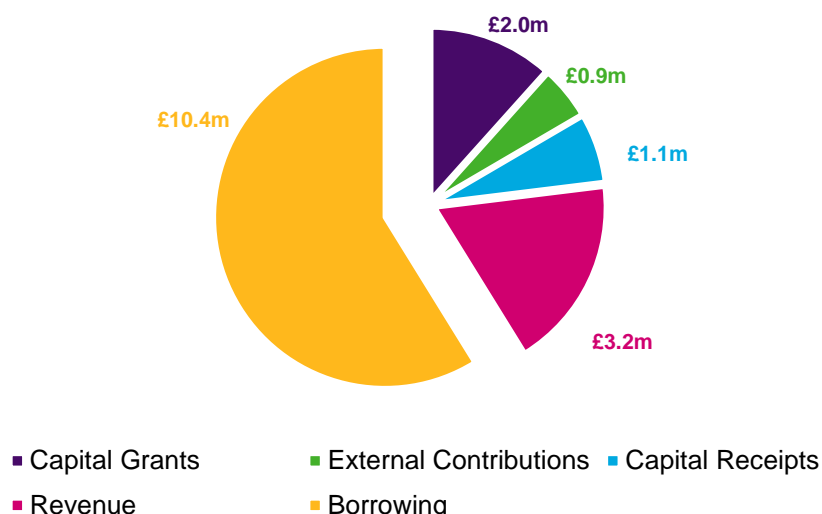
Further detail can be found in the Outturn report to Cabinet in June 2021.

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
Operations	1,781	1,408	(373)
Finance, Strategy & Corporate Services	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.

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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 Medium Term Financial Strategy. 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 Council 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: 25th June 2021

Statement of Responsibilities for the Statement of Accounts

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

COUNCIL RESPONSIBILITIES:

The Council is required to:

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

CHIEF FINANCE OFFICER RESPONSIBILITIES

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

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

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

CERTIFICATION OF ACCOUNTS

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

Signed:



Charlotte Spendley, FCCA
Director of Corporate Services

Date:

25th June 2021

STATEMENT OF RESPONSIBILITIES

APPROVAL OF ACCOUNTS

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

Signed:

Councillor Philip Martin
Chairman, Audit and Governance Committee

Date:

Core Financial Statements



FINANCIAL STATEMENTS
MOVEMENT IN RESERVES STATEMENT

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

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

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

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Comprehensive Income and Expenditure Statement (CIES) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the MiRS.

Restated 2019/20			2020/21			
Gross Expenditure £000s	Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Continuing Operations						
840	(23)	817	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	9,035	(5,234)	3,801
3,416	(2,325)	1,091	Housing	4,235	(4,085)	150
8,376	(2,904)	5,472	Customer Case Regulatory & Communities	8,709	(2,700)	6,009
1,096	-	1,096	Transition & Transformation	31	-	31
14,066	(16,320)	(2,254)	Local Authority Housing (HRA)	21,495	(16,517)	4,978
828		828	Local Authority Housing (HRA) - exceptional item (Note 8)	1,828	-	1,828
84,084	(62,412)	21,672	(Surplus)/Deficit on Continuing Operations	99,099	(69,217)	29,882
2,995	(711)	2,284	Other Operating Expenditure (Note 10)	3,257	(852)	2,405
7,801	(2,342)	5,459	Financing and Investment Income and Expenditure (Note 11)	4,693	(7,889)	(3,196)
6,462	(26,191)	(19,729)	Taxation and Non-specific Grant Income (Note 12)	6,717	(31,483)	(24,766)
101,342	(91,656)	9,686	(Surplus) or Deficit on Provision of Services	113,766	(109,441)	4,325
		(16,637)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 29)			(21,908)
		(4,767)	Re-measurement of net defined liability (Note 27)			4,673
		(21,404)	Other Comprehensive Income and Expenditure			(17,235)
		(11,718)	TOTAL Comprehensive Income and Expenditure			(12,910)

*2019/20 has been restated due to a change in reporting structure. Further detail is provided at Note 18 to the accounts.

FINANCIAL STATEMENTS
BALANCE SHEET

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities held by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments Between Accounting Basis and Funding Basis Under Regulations'.

31-Mar-20 £000s	Note	31-Mar-21 £000s
165,183 Council dwellings	19	185,603
26,732 Other land and buildings	19	26,423
1,654 Vehicles, plant, furniture and equipment	19	3,766
11,272 Infrastructure assets	19	10,346
3,461 Community assets	19	3,461
12,377 Surplus assets	19	12,554
1,677 Assets under construction	19	2,034
2,998 Heritage assets	20	2,998
75,920 Investment property	21	87,247
61 Intangible assets	-	179
15,425 Long term investments	22	19,922
7,103 Long term debtors	22	7,246
323,863 Long Term Assets		361,779
3,510 Short term investments	22	-
15 Inventories	-	8
10,285 Short term debtors	23	17,175
10,570 Cash and cash equivalents	24	4,828
24,380 Current Assets		22,011
(31,921) Short term borrowing	22	(6,902)
(10,882) Short term creditors	25	(29,889)
(80) Capital grants received in advance	-	(1,447)
(2,351) Provisions	26	(2,277)
(45,234) Current Liabilities		(40,515)
(58,455) Long term borrowing	22	(72,155)
(62,935) Net pensions liability	27	(76,591)
(67) Provisions	26	(67)
(121,457) Long Term Liabilities		(148,813)
181,552 Net Assets		194,462
(53,544) Usable reserves	28	(56,334)
(128,008) Unusable reserves	29	(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

Charlotte Spendley, FCCA

Director of Corporate Services Date: 25th June 2021

FINANCIAL STATEMENTS
CASH FLOW STATEMENT

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

2019/20		2020/21
£000s	Note	£000s
(9,686)	Net surplus or (deficit) on the provision of services	(4,325)
18,972	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	21,836
(3,350)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(5,965)
5,936	Net cash flow from operating activities	11,546
(43,618)	Net cash flow from investing activities	(10,755)
34,760	Net cash flow from financing activities	(6,533)
(2,922)	Net increase or decrease in cash and cash equivalents	(5,742)
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	4,828

Notes to the Financial Statements



NOTES TO THE FINANCIAL STATEMENTS

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

1. Accounting Policies

1.1 General Principles

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

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

Class of Assets	Valuation Basis
Property, Plant and Equipment - Dwellings	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secured tenancies.
Property, Plant and Equipment – Land and Buildings	Current value, comprising existing use value Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost
Property, Plant and Equipment – Surplus Assets	Fair value
Investment Properties	Fair value
Financial Instruments – Available for Sale Assets	Fair value
Pensions Assets	Fair value

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 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.

1.6 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.

1.7 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.

1.8 Property, Plant and Equipment

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

Recognition

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

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

Measurement

Items of PPE are initially measured at cost, comprising:

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposal

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

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

NOTES TO THE FINANCIAL STATEMENTS

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.

1.9 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.

1.10 Non-current Assets Held For Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES.

Gains in fair value are recognised only up to the amount of any previously recognised losses in the (Surplus) or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount

NOTES TO THE FINANCIAL STATEMENTS

before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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.

It is the Council's intention to use an external valuer for valuations of heritage assets.

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

NOTES TO THE FINANCIAL STATEMENTS

- 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.
- 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.

Changes in the value of assets carried at fair value are debited/credited to the Financing and Investment Income and Expenditure line in the CIES as they arise.

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 jointly controlled entities, group accounts will be prepared. In the Council's own single entity accounts, any interest in companies and other entities will be recorded as financial assets at cost, less any provision for losses.

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:

Funding levels

There continues to be a high degree of uncertainty about future levels of funding for local government, with the Fair Funding Review, Business Rates Retention Scheme and New Homes Bonus Reform having been deferred for a further year until 2022/23. The government is expected to issue a further consultation in 2021 seeking views on the methodologies and detailed funding formulas, with the results being introduced from April 2022. The Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close any facilities and reduce levels of service provision.

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

NOTES TO THE FINANCIAL STATEMENTS

managed by the Council. It has been determined that on the grounds of materiality the preparation of group accounts for the charity is not required. Further information is disclosed in note 38 on page 94.

Joint waste and recycling contract

It has been concluded that the contract for waste collection and recycling entered into by the East Kent Waste Partnership, consisting of Folkestone & Hythe, Dover and Kent County councils, does not include an embedded lease in respect of the assets used to provide the service. Therefore, no assets have been recognised on the balance sheet and all 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 preparation of 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 28 on page 71.

Oportunitas Limited

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

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.

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)	<p>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.</p> <p>Valuations are therefore not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards except in respect of Retail and specific trading related assets/sectors such as car parks, as at the valuation date there continue to be an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements. Consequently, less certainty and a higher degree of caution should be attached to the valuations of these assets.</p>	A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES.
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for non-housing assets would increase by £202k for every year that useful lives had to be reduced.</p>

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Pension liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p> <p>Since the outbreak of Covid-19 there is uncertainty surrounding the valuation of investments (specifically pooled, freehold and leasehold property) and as at the valuation date, less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.7m. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 28.</p>
Impairment allowance for doubtful debt	<p>At 31 March 2021, the Council had a balance of sundry debtors of £1.5m. A review of balances indicated that an impairment of doubtful debts of 13% (£193k) was appropriate. However, it is not fully certain whether such an allowance may be sufficient. The full extent of the economic impact of Covid-19 on debt recovery is unknown and has made the estimation of debt impairment more difficult due to the increased uncertainty.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts, for example, would require an additional £193k to be set aside as an allowance.</p>
Provisions	<p>The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors. Due to delays in the assessment of appeals by the Valuation Office since the</p>	<p>The business rates rateable value at 31/3/2021 was £77m. For every 1% successful reduction in the rateable value, it is equal to a cost of £154k to the Council (for a single year).</p>

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
	implementation of 'Check, Challenge, Appeal' it is difficult to assess the impact of successful appeals.	
Fair value measurements	<p>When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk.</p> <p>Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in notes 21 and 22.</p>	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments.

Notes Supporting the Movement in Reserves Statement



5. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2019/20	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments to Revenue Resources						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(2,765)	(56)	-	-	-	2,821
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	(1,354)	-	-	-	-	1,354
Council Tax and NDR (transferred to or from the Collection Fund Adjustment Account)	(824)	-	-	-	-	824
Holiday pay (transferred to the Accumulated Absences Reserve)	21	1	-	-	-	(22)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(8,991)	(4,512)	-	-	-	13,503
Total Adjustments to Revenue Resources	(13,913)	(4,567)	-	-	-	18,480
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	25	1,393	-	(2,108)	-	690
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,591)	-	-	2,591
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	358	-	-	-	-	(358)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	503	1,387	-	-	-	(1,890)
Total Adjustments to between Capital and Revenue Resources	667	2,780	(2,591)	(1,889)	-	1,033
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	2,831	-	(2,831)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	2,807	-	-	(2,807)
Application of capital grants to finance capital expenditure	1,758	-	-	-	70	(1,828)
Cash payments in relation to deferred capital receipts	(4)	(3)	-	-	-	7
Total Adjustments to Capital Resources	1,754	(3)	2,807	2,831	70	(7,459)
Total Adjustments	(11,492)	(1,790)	216	942	70	12,054

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

6. Transfers to/from Earmarked Reserves

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

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

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

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

Notes Supporting the Comprehensive Income and Expenditure Statement



NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

7. Expenditure and Funding Analysis

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

	As reported for resource management	2020/21 Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	1,002	191	1,193	(116)	1,077
Governance & Law	2,499	194	2,693	(125)	2,568
Human Resources	651	92	743	(56)	687
Finance Customer & Support	6,587	432	7,019	(233)	6,786
Strategic Development	767	123	890	(56)	834
Economic Development	758	90	848	1	849
Planning	79	343	422	(138)	284
Estates & Operations	2,590	(81)	2,509	1,292	3,801
Housing	27	257	284	(134)	150
Customer Case Regulatory & Communities	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

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

2019/20 has been restated due to a change in the reporting structure. Further detail is provided at Note 18 to the accounts.

8. Exceptional Items

Valuation issues affecting both the council's property portfolio and its investments holdings have required an exceptional item of a net £3.3m debit to be recognised in the CIES and is summarised in the table below:

Issue	Description	£000s
i)	Valuation adjustment for council dwellings acquired during 2020/21 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	2,353
ii)	On the advice of the council's external valuer, the council's dwelling value has increased over the year in line with regional property valuation changes. A valuation gain has been taken reversing previous losses. (See Note 19)	(1,233)
iii)	On the advice of the council's external valuer, the council's investment property portfolio has seen a net increase in its value. (See Note 21)	(3,257)
iv)	There has been an increase to the fair value of the council's holdings in pooled fund investments and equity holding in Oportunitas. (see Note 11)	(1,168)
		(3,305)

9. Material Items of Income and Expense

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

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

10. 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)
	2,284	2,405

11. 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 21)	1,495	(3,291)
	5,459	(3,196)

12. 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)

13. Agency Services – On Street Parking

The Council operates, under an agency agreement with Kent County Council, On Street Parking Services. Income and expenditure are as follows:

Agency Services - On Street	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Income	(670)	(621)	(730)	(715)	(656)
Expenditure	632	607	806	886	876
Deficit/(surplus)	(38)	(14)	76	171	220

Under Section 55 of the Road Traffic Regulations Act 1984 (as amended) if the council realises a surplus on on-street charges and on and off street enforcement this must be used for one or more of the purposes set out in that section.

14. Members' Allowances

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

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

15. 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

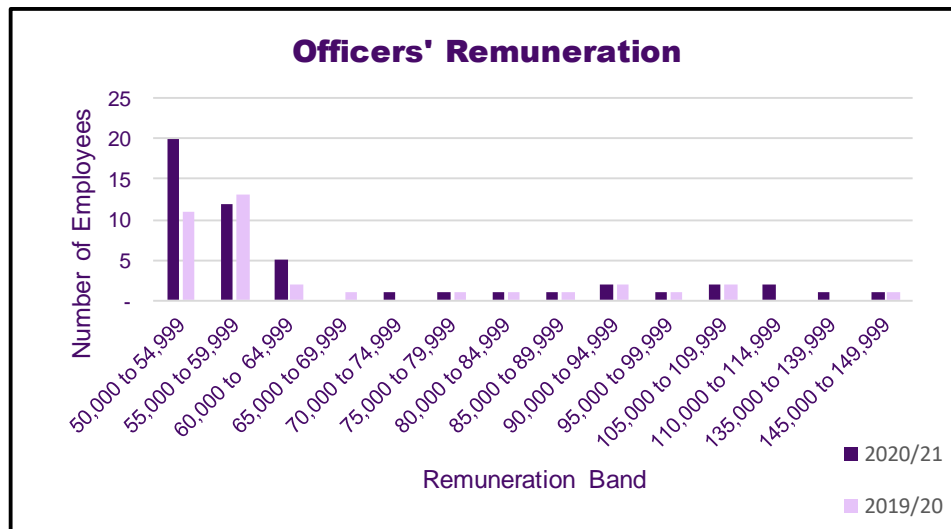
** Monitoring Officer

+ New role from 2nd January 2020

++ New role May 2020

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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.

16. External Audit Costs

The Council has incurred 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	70
Rebate of PSAA fees	(6)	-
Fees payable for the certification of grant claims and returns for the year	20	15
	73	85

17. Grant Income

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

Grant Income	2019/20	2020/21
	£000s	£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
	<u>3,962</u>	<u>12,847</u>
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
	<u>34,886</u>	<u>40,331</u>

18. Restatement of Accounts – Working Papers

Note to restated Consolidated Income and Expenditure Statement 2019/20

Continuing Operations	Reported 2019/20	Change in Reporting Structure	Restated 2019/20
Leadership Support	924	(107)	817
Governance & Law	7,174	(4,386)	2,788
Human Resources	697	-	697
Finance, Strategy & Corporate Services	5,348	(551)	4,797
Strategic Development	1,119	(152)	967
Economic Development	526	153	679
Planning	282	31	313
Estates & Operations	4,597	(216)	4,381
Housing	987	104	1,091
Customer, Case, Regulation & Communities		5,472	5,472
Transition & Transformation	1,444	(348)	1,096
Local Authority Housing (HRA)	(2,254)	-	(2,254)
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



19. Property, Plant and Equipment

Measurement

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

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

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

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

Contractual Commitments

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

- Heating servicing and repair 2019-2022 – approximately £2.8m
- Kitchen and bathroom replacement - approximately £0.54m per annum
- Window/door servicing and maintenance 2015-2022 approximately £0.3m per annum.

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

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

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

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra- structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2020/21	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2020	165,183	28,713	9,941	35,720	3,461	1,677	12,377	257,072
Additions	7,676	420	2,559	436	-	357	-	11,448
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,923	(78)	-	-	-	-	1,063	21,908
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,120)	(34)	-	-	-	-	34	(1,120)
De-recognition - Disposals	-	-	-	-	-	-	(920)	(920)
Assets reclassified (to)/from Held for Sale	(403)	35	-	-	-	-	-	(368)
Other reclassifications	-	-	-	-	-	-	-	-
Other movements in cost or valuation #	(6,656)	(20)	-	-	-	-	-	(6,676)
At 31 March 2021	185,603	29,036	12,500	36,156	3,461	2,034	12,554	281,344
Depreciation and Impairment								
At 1 April 2020	-	(1,981)	(8,287)	(24,448)	-	-	-	(34,716)
Depreciation charge for the year	(2,401)	(632)	(447)	(1,362)	-	-	-	(4,842)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(4,255)	(20)	-	-	-	-	-	(4,275)
Other movements in depreciation and impairment #	6,656	20	-	-	-	-	-	6,676
At 31 March 2021	-	(2,613)	(8,734)	(25,810)	-	-	-	(37,157)
Balance Sheet amount at 31 March 2021	185,603	26,423	3,766	10,346	3,461	2,034	12,554	244,187
Balance Sheet amount at 1 April 2020	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.

NOTES SUPPORTING THE BALANCE SHEET

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

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

20. Heritage Assets

The Council's heritage assets were valued as at 31st March 2021 by an external independent valuer – Wilks Head & Eve Chartered Surveyors. It is intended to continue to use an external valuer as part of the Council's wider valuation exercise.

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

21. Investment Properties

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

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

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

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

Fair Value Movement	2019/20 £000s	2020/21 £000s
Cost or Valuation		
At 1 April	31,841	75,920
Additions – acquisitions	45,260	8,059
Additions – construction	453	26
Net gain/(loss) from fair value adjustments	(1,431)	3,257
Impairment losses/(reversals) recognised in the CIES	(203)	(15)
Transfers to PPE	-	-
At 31 March	<u>75,920</u>	<u>87,247</u>

Sensitivity Analysis 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:

NOTES SUPPORTING THE BALANCE SHEET

2020/21 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Fair value at 31-Mar-21 £000s
Otterpool Park - Residential Properties	7,516	7,516
Otterpool Park - Land	57,414	57,414
Agricultural Land	32	32
Offices	17,401	17,401
Commercial Units	4,070	4,070
Commercial Land	660	660
Total at Fair Value	87,093	87,093
Assets Under Construction	154	154
Total Investment Properties	87,247	87,247

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 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

The commercial units located in the local authority area are measured using the income approach, by means of the implicit (all-risk yield) capitalisation model.

The approach has been developed using the analysis and valuation of similar rented investment assets in the local area. It reflects rental growth, obsolescence and re-sale price as well as other factors including security of tenure and return on capital. Local market conditions for these assets show rental yields have been very stable over a number of years with very limited growth. The commercial units principally serve a local market however there is only a limited supply of such property. As such it is considered that there is no material risk of rents changing significantly from their current levels that may give rise to a change in carrying value of the assets.

The authority's commercial units are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

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.

Investment Properties Categorised with Level 3	31-Mar-21
	£000s
Opening Balance	1,617
Reclassification of Investment Properties at valuation	(1,617)
Closing Balance	-

22. 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

NOTES SUPPORTING THE BALANCE SHEET

- certificates of deposit and covered bonds issued by banks and building societies
- loans to other local authorities
- loans to Kent County Council, East Kent Housing Limited and Oportunitas Limited, the Council's wholly owned regeneration and housing company, made for service purposes
- trade receivables for goods and services delivered

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

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

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

Financial Instruments - Balances

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

Financial Liabilities	Long Term		Short Term	
	31-Mar-20	31-Mar-21	31-Mar-20	31-Mar-21
	£000s	£000s	£000s	£000s
Loans amortised cost:				
- Principal sum borrowed	(58,455)	(72,155)	(31,800)	(6,800)
- Accrued interest	-	-	(121)	(102)
Total Borrowing	(58,455)	(72,155)	(31,921)	(6,902)
Liabilities at amortised cost:				
- Trade payables	-	-	(2,389)	(7,211)
Included in Creditors	-	-	(2,389)	(7,211)
Total Financial Liabilities	(58,455)	(72,155)	(34,310)	(14,113)

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.

NOTES SUPPORTING THE BALANCE SHEET

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

Financial Assets	Long Term		Short Term	
	31-Mar-20 £000s	31-Mar-21 £000s	31-Mar-20 £000s	31-Mar-21 £000s
At amortised cost:				
- Principal	-	-	3,505	-
- Accrued interest	-	-	5	-
At fair value through profit & loss:				
- Fair value	15,425	19,922	-	-
Total investments	15,425	19,922	3,510	-
At amortised cost:				
- Principal	-	-	(1,289)	1,208
At fair value through profit & loss:				
- Fair value	-	-	11,859	3,620
Total Cash & Cash Equivalents	-	-	10,570	4,828
At amortised cost:				
- Trade receivables*	-	-	2,462	3,091
- Lease receivables*	128	119	8	9
- Loans made for service purposes*	4,873	5,196	1,041	569
- Loss allowance Expected Credit Loss	(173)	(88)	-	-
Included in Debtors	4,828	5,227	3,511	3,669
Total Financial Assets	20,253	25,149	17,591	8,497

*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 £13.506m (£6.774 2019/20*) short-term debtors that do not meet the definition of a financial asset and £2.019m (£2.275m 2019/20) long-term debtors (i.e. being soft loans) 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. Soft loans have previously been given by the Council for private sector housing improvement purposes.

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

NOTES SUPPORTING THE BALANCE SHEET

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 2020, using the following methods and assumptions:

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

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

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

NOTES SUPPORTING THE BALANCE SHEET

Financial Liabilities	Fair Value Level	Balance Sheet		Balance Sheet	
		31-Mar-20	Fair Value 31-Mar-20	31-Mar-21	Fair Value 31-Mar-21
		£000s	£000s	£000s	£000s
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	53,455	64,409	52,155	63,743
Other long-term loans	2	5,000	5,180	20,000	20,102
Short-term loans from PWLB	2	1,300	1,317	1,300	1,331
Short-term loans	2	30,500	30,654	5,500	5,572
Total		90,255	101,560	78,955	90,748
Liabilities for which fair value is not disclosed *		2,510		7,313	
Total Financial Liabilities		92,765		86,268	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		2,389		7,211	
Short-term borrowing		31,921		6,902	
Long-term borrowing		58,455		72,155	
Total Financial Liabilities		92,765		86,268	

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		Balance Sheet	
		31-Mar-20	Fair Value 31-Mar-20	31-Mar-21	Fair Value 31-Mar-21
		£'000	£'000	£'000	£'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	3	4,699	6,188	5,107	6,121
Lease receivables	3	128	128	119	119
Total		35,621	37,101	28,768	29,782
Assets for which fair value is not disclosed*		2,223		4,877	
Total Financial Assets		37,844		33,645	
Recorded on balance sheet as:					
Long-term investments		15,425		19,922	
Long-term debtors		4,828		5,226	
Short-term investments		3,510		-	
Short-term debtors**		3,511		3,669	
Cash and cash equivalents		10,570		4,828	
Total Financial Assets		37,844		33,645	

*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

NOTES SUPPORTING THE BALANCE SHEET

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

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

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments - Gains and Losses

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

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

23. 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%.

24. 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	1,139
Other Receivables	4,477	4,670
	12,156	19,062
Impairment of debt		
Trade Receivables	(1,130)	(938)
Other Receivables	(741)	(949)
Total	(1,871)	(1,887)
Balance as at 31 March	10,285	17,175

NOTES SUPPORTING THE BALANCE SHEET

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

25. Cash and Cash Equivalents

Cash and Cash Equivalents	2019/20	2020/21
	£000s	£000s
Bank Accounts	(1,289)	1,208
Money Market Funds	11,859	3,620
Total	10,570	4,828

26. Short Term Creditors

Short Term Creditors	2019/20	2020/21
	£000s	£000s
Trade Payables	834	1,300
Payables to Related Parties	3,852	16,109
Receipts in Advance	2,615	3,499
Accrued Creditors	1,149	5,101
Other payables	2,432	3,880
	10,882	29,889

27. Provisions

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

MMI scheme of arrangement - Municipal Mutual Insurance (MMI) went into administration in the early 1990's. The Council is a scheme creditor and is contractually obliged to make a contribution should there not be a solvent 'run off' of MMI. A decision by the Supreme Court in March 2012 determined that liabilities in respect of certain asbestos claims would fall on the insurer at the time of the employees' exposure. This decision now affects MMI's ability to arrive at a solvent 'run off'. It appears likely that the call on the Council's contribution will

be required and an initial levy rate of 15% was set which increased to 25% in March 2017. The levy continues to remain subject to change in future.

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.

28. 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.

NOTES SUPPORTING THE BALANCE SHEET

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.

Statement of Financial Position

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

Statement of Profit and Loss for the year

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

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

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

NOTES SUPPORTING THE BALANCE SHEET

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

	Year to 31-Mar-20 £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.

NOTES SUPPORTING THE BALANCE SHEET

The significant assumptions used by the actuary have been:

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

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

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

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

Asset and Liability Matching Strategy

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

Impact on the Council's Cash Flows

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

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

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

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

29. Usable Reserves

Movements in the Council's usable reserves are detailed in the MiRS, page 22 and Notes 5 and 6 on pages 43-46.

30. Unusable Reserves

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

Revaluation Reserve

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

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

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

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

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the authority arising from increases in the value of its investments that are measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

NOTES SUPPORTING THE BALANCE SHEET

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

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis).

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

NOTES SUPPORTING THE BALANCE SHEET

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

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Adjustment Account

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

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

NOTES SUPPORTING THE BALANCE SHEET

Pensions Reserve

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

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

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

Accumulated Absences Account

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

Accumulated Absences Account	2019/20		2020/21	
	£000s	£000s	£000s	£000s
Balance at 1 April		243		221
Settlement or cancellation of accrual made at the end of the preceding year	(243)		(221)	
Amounts accrued at the end of the current year	<u>221</u>		<u>593</u>	
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		<u>221</u>		<u>593</u>

31. Capital Expenditure and Capital Financing

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

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

Capital Expenditure and Financing	2019/20	2020/21
	£000s	£000s
Opening Capital Financing Requirement	67,794	117,358
Capital Investment		
Property, Plant and Equipment	6,177	11,448
Heritage assets	3,359	-
Investment Properties	45,713	8,085
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
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

32. 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

NOTES SUPPORTING THE BALANCE SHEET

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.

NOTES SUPPORTING THE BALANCE SHEET

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 and recovery rate for secured and unsecured loans. Only 12 month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £90k. This sum has been taken to the Surplus or Deficit on the Provision of Services. A reconciliation of the opening to closing 12 month expected credit loss allowances is as follows:

	12 month expected credit losses £'000
New loans made	0
Loans repaid	(27)
Opening Allowance 01/04/2020	173
Change in risk	(83)
Closing Allowance 31/03/2021	<u>90</u>

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. 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.

NOTES SUPPORTING THE BALANCE SHEET

There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities is as follows, shown both as discounted (principal plus accrued interest to date) and undiscounted (principal plus future interest payments) figures:

Time to maturity	Discounted (Principal)		Undiscounted (Principal plus interest)	
	31-Mar-20 *	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

NOTES SUPPORTING THE BALANCE SHEET

upper limit of £290,000 on the 12 month revenue impact of a 1% rise and £310,000 of a 1% fall in interest rates was set for 2020/21.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2021 would be:

	<u>£000s</u>
Increase in interest payable on variable rate borrowings	13
Increase in interest receivable on variable rate investments	(38)
Impact on Comprehensive Income and Expenditure	(25)
Decrease in fair value of loans and receivables and bonds	(166)
Decrease in fair value of fixed rate borrowings	(6,095)

The most significant effect of a 1% increase in interest rates on the financial instruments carried at amortised cost would be on the fair value of PWLB debt. However, this will have no impact on either the Balance Sheet or the CIES.

Price Risk

The Council's investment in pooled funds is subject to the price risk associated with the instruments contained within them and is managed alongside interest rate risk.

The Council's investment in the pooled property fund is subject to the risk of falling commercial property prices. The Council's investment in the diversified income funds it holds are subject to the risk of falling interest rates, equity prices and commercial property prices.

The estimated impact of these price risks are summarised below:

Impact on Fair Value of Fund

Pooled Fund Category	1% interest rate rise	5% equity price fall	5% property price fall
	£'000	£'000	£'000
Property Fund	-	-	(258)
Diversified Income Funds	(161)	(130)	(25)
Total	(161)	(130)	(283)

The reduction in fair value would be a charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve with no impact to the local tax payer.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

33. Section 106 Receipts and Planning Condition Contributions

Section 106 receipts and planning condition contributions are monies paid to the Council by developers as a result of the grant of planning permission where works are required to be carried out or new facilities are provided as a result of that permission.

In summary, the movement during the year is shown below:

Opening Balance 01-Apr-20 £000s	New Contributions £000s	Amounts Applied £000s	Closing Balance 31-Mar-21 £000s
(2,430)	(254)	320	(2,364)

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

	2019/20 £000s	2020/21 £000s
Current liabilities:		
Short term creditors – Depositors	(1,155)	(1,249)
Capital grants received in advance – current	(85)	(65)
Reserves:		
Capital grants unapplied reserve	(1,190)	(1,050)
	<u>(2,430)</u>	<u>(2,364)</u>

Notes Supporting the Cash Flow Statement



34. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2019/20	2020/21
£000s	£000s
549 Interest received	(18)
(1,887) Interest paid	(19)
718 Dividends received	(2)

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

2019/20	2020/21
£000s	£000s
4,758 Depreciation and impairment	4,842
6,105 Impairment and downward revaluations	5,613
35 Amortisation	27
119 Change in impairment for bad debts	(81)
(2,431) Increase/(decrease) in creditors	6,298
1,833 (Increase)/decrease in debtors	(689)
(7) (Increase)/decrease in inventories	7
2,821 Movement in pension liability	8,983
1,431 Movement in investment property values	(3,257)
764 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,364
3,544 Other non-cash items charged to the net surplus or deficit on the provision of services	(1,271)
18,972	21,836

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

2019/20	2020/21
£000s	£000s
(1,758) Capital grants credited to the surplus or deficit on the provision of services	(3,763)
(1,475) Proceeds from the sale of property, plant and equipment	(2,126)
(117) Any other items for which the cash effects are investing or financing cash flows	(76)
(3,350)	(5,965)

35. Cash Flow Statement – Investing Activities

2019/20		2020/21
£000s		£000s
(55,049)	Purchase of property, plant & equipment, investment property and intangible assets	(18,002)
(1,310)	Purchase of short-term and long-term investments	(3,330)
(1,133)	Other payments for investing activities	(640)
1,483	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2,134
10,000	Proceeds from investments	3,505
2,391	Other receipts from investing activities	5,578
<u>(43,618)</u>	Net cash flows from investing activities	<u>(10,755)</u>

36. Cash Flow Statement – Financing Activities

2019/20		2020/21
£000s		£000s
40,000	Cash receipts of short- and long-term borrowing	20,000
(6,100)	Repayments of short- and long-term borrowing	(31,300)
860	Other payments for financing activities	4,767
<u>34,760</u>	Net cash flows from financing activities	<u>(6,533)</u>

Other Notes



37. 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 17 on page 54.

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 14 (page 52). 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 15 (pages 52-53).

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 38 (page 92).

The Council was joint owner of East Kent Housing Limited, an arms-length management organisation, owning 25% of the company, until it ceased trading on 30th September 2020. 2011/12 was the first year of operation. Payment of £1.4m was made in 2020/21 to East Kent Housing Limited in respect of management fees and the Council received £76k from East Kent Housing Limited in respect of services supplied to it. There were no balances due to/from East Kent Housing Limited at 31st March 2021.

The Council has three subsidiaries; wholly owned Oportunitas Limited, a company that commenced trading in 2014/15; wholly owned Otterpool Park Development Company; and Otterpool Park LLP of which the Council owns 99.9%. Otterpool Park LLP, set up by the Council to deliver its objectives for the Otterpool Park Garden Town, was incorporated on 15th August 2019 and FHDC and Otterpool Park Development Company Ltd were appointed members on 4th February 2020. Group financial statements, consolidating the results of the companies with those of the Council, have been prepared and are set out on pages 108-113.

NOTES TO THE FINANCIAL STATEMENTS

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

38. 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	Folkestone Parks and Pleasure Grounds Charity	£000s	£000s	£000s	£000s
(715)	(715)	4,845	(2,842)		(707)	707	5,140	(3,349)

The Council has used Section 35 of the Local Government Finance Act 1992 to apply a Special Expenses Rate, to recover the cost of its contribution to the charity, thus only residents of the former Borough of Folkestone are asked to contribute via their council tax bill.

The special expenses of £509k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£544k 2019/20).

Income to the Charity therefore includes a contribution of £509k from the Council (£544k in 2019/20). The remainder of the charity's income is derived from charges for services, grants and investment income.

The Charity is required to produce an Annual Report and Account that sets out in detail its activities for that year. Copies of these can be obtained by contacting the Head of Paid Service, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

39. 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*	2019/20*	2020/21**	2020/21**
	£000s	£000s	£000s	£000s
	East Kent Housing Limited	Council share (25%)	East Kent Housing Limited	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*	2019/20*	2020/21**	2020/21**
	£000s	£000s	£000s	£000s
	East Kent Housing Limited	Council share (25%)	East Kent Housing Limited	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)

NOTES TO THE FINANCIAL STATEMENTS

	2019/20*	2019/20*	2020/21**	2020/21**
	£000s	£000s	£000s	£000s
Balance Sheet	East Kent Housing Limited	Council share (25%)	East Kent Housing Limited	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 37 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 108.

The Council holds 1,955 shares in the company at a cost of £3.87m and has loans outstanding of £4.25m 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 £5.196m at 31st March 2021 (£4.853m 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 108.

The Council's member capital in the company is £1.25m.

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).

40. 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.

41. 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 25th June 2021. Events after the balance sheet date (31st March 2021) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31st March 2021, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

There have been no such events since 31st March 2021.

Housing Revenue Account



HOUSING REVENUE ACCOUNT

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA Statement.

Housing Revenue Account (HRA) Income and Expenditure Statement

2019/20 £000s		2020/21 £000s
	Income	
(14,854)	Dwelling Rents (Gross)	(14,944)
(318)	Non dwelling rents (Gross)	(279)
(979)	Charges for services and facilities	(1,049)
(52)	Contributions towards expenditure	(52)
(16,203)		(16,324)
	Expenditure	
3,487	Repairs and maintenance	3,826
4,610	Supervision and management	10,292
19	Rents, rates, taxes and other charges	21
5,511	Depreciation and impairment of non-current assets (HRA Note 6)	6,887
828	Exceptional item – valuation change (HRA Note 10)	1,828
22	Debt management costs	25
140	Increase in bad debt provision (HRA Note 7)	95
14,617		22,974
(1,586)	Net (surplus)/deficit of HRA Services as included in the whole authority CIES	6,650
160	HRA services share of Corporate and Democratic Core	156
(1,426)	Net (surplus)/deficit of HRA services	6,806
(629)	(Gain)/loss on sale of HRA non-current assets	(277)
1,569	Interest payable and similar charges	1,546
(78)	Interest and investment income	(18)
43	Net interest on the net defined liability (HRA Note 9)	164
(521)	(Surplus)/Deficit for the year on HRA Services	8,221

HOUSING REVENUE ACCOUNT

Movement on the Housing Revenue Account Statement

2019/20 £000s	2020/21 £000s
(521) Deficit on the HRA Income and Expenditure Statement	8,221
Difference between interest payable and similar charges including	
- amortisation of premiums and discounts determined in accordance	-
with the Code and those determined in accordance with statute	
Difference between any other items of income and expenditure	
(3,750) determined in accordance with the Code and determined in	(6,132)
accordance with statutory HRA requirements (HRA Note 8)	
629 Gain or (loss) on sale of HRA non-current assets	277
1,387 Capital expenditure funded by the HRA	2,966
(56) HRA share of contributions to or from the Pensions Reserve (Note 5)	(4,894)
(2,311) Net (increase) or decrease before transfers to or from Reserves	438
- Transfer from the Major Repairs Reserve	-
(2,311) (Increase) or Decrease in year on the HRA	438
(10,164) Balance on the HRA at the end of the previous reporting period	(12,475)
(2,311) (Increase) or Decrease in year on the HRA (as shown above)	438
(12,475) Balance on the HRA at the end of the current reporting period	(12,037)

1. Housing Assets

At 31st March 2021, the Council was responsible for managing 3,388 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows:	1,882
Flats and Bedsits:	1,506

The change in the stock can be summarised as follows:

Stock	2019/20	2020/21
Stock at 1 April	3,381	3,377
Acquisitions	10	17
Sales	(14)	(6)
Stock at 31 March	3,377	3,388

HOUSING REVENUE ACCOUNT

The Balance Sheet value was as follows:

	2019/20 £000s	2020/21 £000s
<i>Dwellings</i>	165,183	185,603
Other Land and Buildings	5,924	5,281
Infrastructure	1,047	981
Vehicles, Plant, Furniture and Equipment	156	142
Total Operational Assets	172,310	192,007
<i>Assets under construction</i>	509	676
Total Non Operational Assets	509	676
Total Assets	172,819	192,683

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1st April 2019 was £500,553,397. Except for recent purchases and works made during the year, where the valuation reflects existing use, the Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

3. Major Repairs Reserve

	2019/20 £000s	2020/21 £000s
Balance on Major Repairs Reserve as at 1 April	(4,811)	(4,595)
Depreciation and impairment of non-current assets	(2,591)	(2,641)
Capital expenditure on land, houses and other property within the HRA	2,807	3,965
Balance on the Major Repairs Reserve as at 31 March	(4,595)	(3,271)

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

	2019/20 £000s	2020/21 £000s
Houses	4,721	7,953
Other Property	48	174
	4,769	8,127

HOUSING REVENUE ACCOUNT

5. Capital Financing

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

	2019/20	2020/21
	£000s	£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	2020/21
	£000s	£000s
Land	7	-
Houses and Flats	1,386	568
	1,393	568

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

2019/20				2020/21		
Revaluation	Depreciation	Impairment		Revaluation	Depreciation	Impairment
£000s	£000s	£000s		£000s	£000s	£000s
-	-	-	Land			
(828)	2,356	2,896	Dwellings	(1,120)	2,401	4,255
-	125	24	Other Land and Buildings	-	132	(9)
-	78	-	Infrastructure	-	80	-
-	32	-	Vehicles, Plant, Furniture and Equipment	-	28	-
(828)	2,591	2,920		(1,120)	2,641	4,246

Impairment is in respect of capital expenditure not adding value to the asset base. The revaluation gain is a reversal of previous revaluation losses recognised through the net cost of HRA services.

Additionally in 2020/21 £20.923m was posted to the Revaluation Reserve (£2.651m 2019/20) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

HOUSING REVENUE ACCOUNT

7. Rent Arrears

	31-Mar-20 £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)
	<u>(3,750)</u>	<u>(6,132)</u>

9. Housing Revenue Account Pension Costs

The following transactions have been made in the HRA Income and Expenditure Statement and Movement on the HRA Statement during the year in respect of pensions.

2019/20 £000s	2020/21 £000s
96 Current Service Cost	619
43 Net interest on net defined liability	164
139 Net charge to the HRA Income and Expenditure Statement	783
(56) HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(4,894)
83	(4,111)
83 Employer Contributions	(4,111)
83 Actual amounts charged against the HRA balance for pensions	(4,111)

10. Exceptional Item – Valuation Change

Two valuation issues affecting council dwellings have required an exceptional item of a net £0.8m debit to be recognised in the CIES and is summarised in the table below:

Issue Description	£000s
i) Valuation adjustment for council dwellings acquired during 2020/21 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	2,353
ii) On the advice of the council's external valuer, the council's dwelling value has increased over the year in line with regional property valuation changes. A valuation gain has been taken reversing previous losses. (See Note 19)	(1,233)
iii) On the advice of the council's external valuer, the council's HRA land and buildings has seen a net decrease in its value.	430
iv) Following the cessation of EKH on 30th September the outstanding balance on the capital loan to EKH has been written out.	278
	<u>1,828</u>

11. Item 8 Credit and Item 8 Debit (General) Determination

The capital asset charges accounting adjustments calculated in accordance with the Regulations were as follows.

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.547m (£1.569m 2019/20).

The Item 8 credit was calculated by multiplying the average HRA balances for the year by the consolidated rate of interest on the Council's investments and amounted to £11k (£71k 2019/20).

Collection Fund



COLLECTION FUND

The Collection Fund Statement reflects the statutory obligations for billing authorities to maintain a separate Collection Fund. It shows the transactions in relation to collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates. It shows the impact of the Council retaining a proportion of the collected non-domestic rates.

Council Tax £000s	2019/20 Business Rates (Restated) £000s	Total £000s		2020/21 Council Tax £000s	Business Rates £000s	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)	And then moving down to Final	(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	Contribution towards previous year's estimated Council Tax	(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
	13,783	13,783	Share of Business Rates income:			
			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		77,111	23,781	100,892
717	1,742	2,459	(INCREASE)/DECREASE IN FUND BALANCE 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

COLLECTION FUND

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 2019/20 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,145	2,763	(5,436)
B	8,934	6,949	(13,670)
C	11,485	10,209	(20,084)
D	7,156	7,156	(14,078)
E	4,601	5,624	(11,064)
F	2,499	3,610	(7,102)
G	1,763	2,939	(5,782)
H	68	136	(268)
	40,651	39,386	(77,484)
	Contributions from the Ministry of Defence in lieu of council tax		(611)
	In year adjustments		2,556
	Income collectable from council tax payers		(75,539)

The 2020/21 tax base approved by Council was 39,109. This figure was arrived at after allowing for contributions in lieu of council tax and provision for bad debts.

2. Income Collectable from Business Rate Payers

The Council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. Since April 2015 Folkestone & Hythe District Council have been a member of the Kent Business Rates Pool with Kent County Council, Kent Fire and Rescue and nine other Kent local authorities in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates. In 2020/21 the total amount, less certain reliefs and other deductions, was shared between Central Government (50%), Folkestone & Hythe District Council (40%), Kent County Council (9%) and Kent and Medway Fire and Rescue (1%).

COLLECTION FUND

2019/20		2020/21
£000s		£000s
76,982	Non domestic rateable value as at 31 March	77,358
49.1p	Non-domestic rate multiplier	49.9p
(37,798)	NNDR income before allowances and other	(38,602)
11,264	Allowances, reduced assessments and other adjustments, including small business rate relief supplement & Covid reliefs	23,326
(26,534)	Income collectable from business rate payers	(15,276)

The non-domestic rate multiplier for 2020/21 was 49.9p for qualifying properties of less than £51,000 rateable value and 51.2p for all others (2018/19 49.1p and 50.4p respectively).

Group Accounts



GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2020/21**											
Balance at 31 March 2020		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(163)	(181,715)
Movement in reserves during 2020/21											
Total Comprehensive Income and Expenditure		(3,896)	8,221	-	-	-	4,325	(17,235)	(12,910)	(191)	(13,101)
Adjustments between accounting basis and funding basis under regulations	5	492	(7,783)	(305)	1,324	(843)	(7,115)	7,115	-	-	-
Increase or Decrease in 2020/21		(3,404)	438	(305)	1,324	(843)	(2,790)	(10,120)	(12,910)	(191)	(13,101)
Balance at 31st March 2021 carried forward		(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)	(354)	(194,816)
2019/20 (Restated)											
Balance at 31 March 2019		(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)	(51)	(169,885)
Movement in reserves during 2019/20											
Total Comprehensive Income and Expenditure*		10,207	(521)	-	-	-	9,686	(21,404)	(11,718)	(112)	(11,830)
Adjustments between accounting basis and funding basis under regulations	5	(11,492)	(1,790)	942	216	70	(12,054)	12,054	-	-	-
Increase or Decrease in 2019/20		(1,285)	(2,311)	942	216	70	(2,368)	(9,350)	(11,718)	(112)	(11,830)
Balance at 31st March 2020 carried forward		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(163)	(181,715)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2019/20*			2020/21**			
Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure	
£000s	£000s	£000s	£000s	£000s	£000s	
Continuing Operations						
840	(23)	817	Leadership Support	1,198	(121)	1,077
3,324	(536)	2,788	Governance & Law	2,922	(354)	2,568
835	(138)	697	Human Resources	900	(213)	687
36,829	(32,148)	4,681	Finance Customer & Support	44,490	(37,774)	6,716
1,648	(681)	967	Strategic Development	851	(17)	834
826	(147)	679	Economic Development	1,784	(935)	849
1,669	(1,356)	313	Planning	1,621	(1,337)	284
10,331	(5,950)	4,381	Estates & Operations	9,035	(5,234)	3,801
3,416	(2,325)	1,091	Housing	4,235	(4,085)	150
8,376	(2,904)	5,472	Customer Case Regulatory & Communitie	8,709	(2,700)	6,009
1,096	-	1,096	Transition & Transformation	31	-	31
14,066	(16,320)	(2,254)	Local Authority Housing (HRA)	21,495	(16,517)	4,978
828	-	828	Local Authority Housing (HRA) - exceptional item (Note 8)	1,828	-	1,828
84,084	(62,528)	21,556	(Surplus)/Deficit on Continuing Operations	99,099	(69,287)	29,812
2,995	(711)	2,284	Other operating expenditure (Note 10)	3,257	(852)	2,405
7,975	(2,342)	5,633	Financing and investment income and expenditure (Note 11)	4,915	(7,889)	(2,974)
6,502	(26,191)	(19,689)	Taxation and non-specific grant income (Note 12)	6,717	(31,483)	(24,766)
101,556	(91,772)	9,784	(Surplus) or Deficit on Provision of Services	113,988	(109,512)	4,477
-	-	(16,847)	(Surplus) or deficit on revaluation of non- current assets (Note 29)	-	-	(22,251)
-	-	(4,767)	Re-measurement of net defined liability (Note 27)	-	-	4,673
-	-	(21,614)	Other Comprehensive Income and Expenditure	-	-	(17,578)
-	-	(11,830)	TOTAL Comprehensive Income and Expenditure	-	-	(13,101)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP BALANCE SHEET

Restated 2019/20* £000s		Note 2020/21** £000s
	Non current assets	
60,171	Property, plant and equipment	185,603
165,183	Council dwellings	61,610
80,773	Investment property	1 92,443
61	Intangible assets	179
13,636	Long term investments	14,803
2,794	Long term debtors	2,993
322,618	Long term assets	357,631
3,510	Short term investments	-
15	Inventories	359
11,579	Short term debtors	19,706
10,776	Cash and cash equivalents	6,640
25,880	Current assets	26,705
(31,921)	Short term borrowing	(6,902)
(10,931)	Short term creditors	(30,011)
(80)	Grants receipts in advance - capital	(1,447)
(2,351)	Current Provisions	(2,277)
(45,283)	Current liabilities	(40,637)
(58,455)	Long term borrowing	(72,155)
(62,935)	Other long term liabilities	(76,591)
(110)	Non-current provisions	(137)
(121,500)	Long term liabilities	(148,883)
181,715	Net assets	194,816
(53,707)	Usable reserves	(56,688)
(128,008)	Unusable reserves	(138,128)
(181,715)	Total Reserves	(194,816)

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

**2020/21 includes group results for Otterpool Park LLP

GROUP ACCOUNTS
GROUP CASH FLOW STATEMENT

Restated 2019/20*		2020/21**
£000s		£000s
(9,784)	Net surplus or (deficit) on the provision of services	(4,477)
17,918	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	20,295
(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	9,853
(41,609)	Net cash flow from investing activities	(7,456)
33,982	Net cash flow from financing activities	(6,533)
(2,763)	Net increase or decrease in cash and cash equivalents	(4,136)
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	6,640

*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

GROUP ACCOUNTS

in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Group Financial Statements

For the Group Financial Statements, there are no material differences to the Council's own notes to the accounts (including its accounting policies) except that in respect of Investment Properties.

Note 1 – Investment Properties

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

	Restated 2019/20*	2020/21
	£000s	£000s
Cost or Valuation		
At 1 April	36,404	80,773
Additions – acquisitions	45,792	8,085
Disposals	-	-
Transfers to PPE	-	-
Net gain from fair value adjustments	(1,221)	3,599
Impairment	(202)	(14)
At 31 March	80,773	92,443

*2019/20 comparatives restated following post-audit results for Oportunitas accounts

Sensitivity Analysis 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)	Fair value at 31-Mar-21
	£000s	£000s
Residential Units	12,712	12,712
Agricultural Land	58,106	58,106
Commercial Units	21,471	21,471
Total at Fair Value	92,289	92,289
Assets Under Construction	-	154
Total Investment Properties	92,289	92,443

INDEPENDENT AUDITOR'S REPORT

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

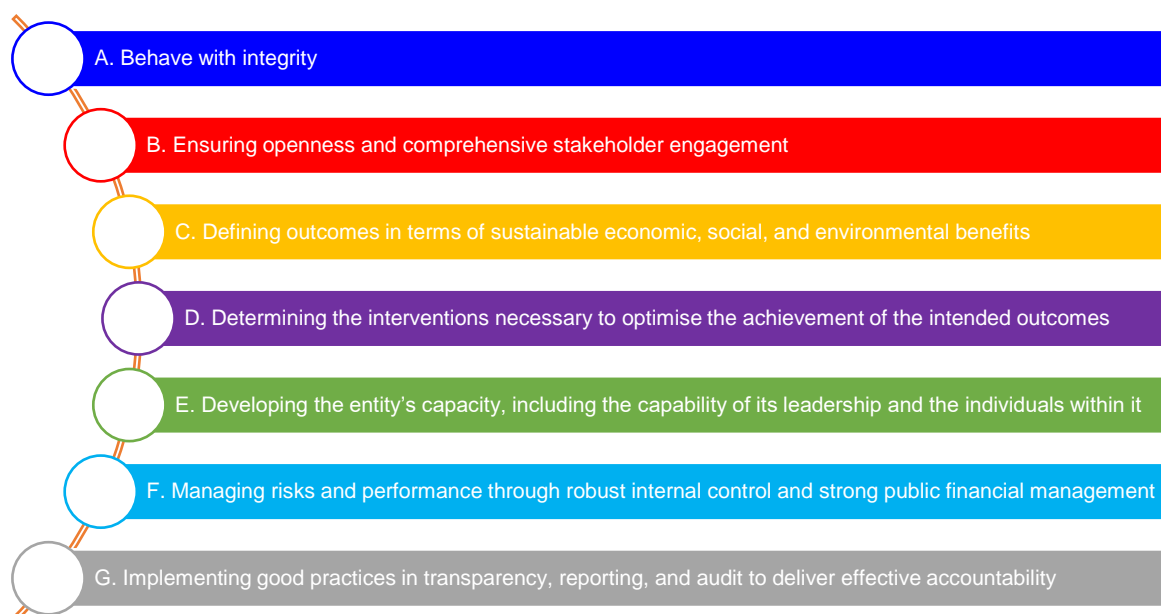
Annual Governance Statement 2020/21

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:



3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- Identify and prioritise risks to the achievement of the Council's aims and objectives.
 - Evaluate the likelihood and impact of those risks.
 - Manage those risks efficiently, effectively and economically.
- 3.3 The information provided in the governance framework includes matters to the year ending 31 March 2021, and up to the date of approval of the annual report and statement of accounts.

Table 1: Overview of the Council's governance framework

<p align="center"><u>Cabinet</u></p>		
<p>Responsible for:</p> <ul style="list-style-type: none"> • Discharging executive functions in accordance with the policy framework and budget • Approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management • Approving the Anti-Fraud and Corruption Framework • Receiving regular performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget. 		
<p align="center"><u>Overview & Scrutiny</u></p>	<p align="center"><u>Council</u></p>	<p align="center"><u>Audit and Governance</u></p>
<p>Responsible for:</p> <ul style="list-style-type: none"> • Reviewing the work and decisions of the Cabinet, and all areas of the Council's work. • Carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. • Exercise the power to call in a decision of the cabinet or a cabinet member. 	<p>Responsible for:</p> <ul style="list-style-type: none"> • Adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework. • Setting the budget and determining the level of Council Tax • All the authority's non-executive functions. Functions which have not been delegated, remain the sole responsibility of the whole or full Council. 	<p>Responsible for:</p> <ul style="list-style-type: none"> • Promoting and maintaining the highest standards of conduct by Councillors. • Monitoring the operation of the Councillors' Code of Conduct. • Advising, training or arranging to train Councillors on matters relating to the Code where necessary. • Considering and recommending to Council, when necessary, changes to the financial procedure rules and contract standing orders. • Providing independent assurance on the adequacy of the risk management framework.

ANNUAL GOVERNANCE STATEMENT

<p>Finance and Performance Sub Committee</p> <p>Responsible for:</p> <ul style="list-style-type: none"> To scrutinise the Council's performance against KPIs and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. To scrutinise the Council's financial monitoring data against budget and make recommendations as appropriate, to the Cabinet and / or Overview and Scrutiny Committee. 		
<p style="text-align: center;"><u>Decision Making</u></p> <ul style="list-style-type: none"> All decisions are made in line with legislation and rules set out in Council's Constitution. Reports, decisions and minutes of committee meetings published on the Council's website. All committee meetings are held in public and webcast. Webcast recordings of previous meetings are available to the public for six months. 	<p style="text-align: center;"><u>Risk Management</u></p> <ul style="list-style-type: none"> The Councils' Risk management Strategy ensures proper management of risks Risk registers identify both strategic and operational risks Regular updates on the management of risk are provided to the Corporate Leadership Team, Audit and Governance Committee and Cabinet. 	
<p style="text-align: center;"><u>Statutory Chief Officers</u></p> <ul style="list-style-type: none"> Head of Paid Service: This role has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review. Chief Finance Officer (Section 151): The Director for Corporate Services holds the role of Chief Finance Officer, a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources. Monitoring Officer: The Assistant Director for Governance & Law holds the role of Monitoring Officer and is responsible for: <ul style="list-style-type: none"> Maintaining and interpreting the Councils constitution, ensuring lawfulness and fairness of decision-making. Providing advice to all councillors, on the scope of powers and authority to take decisions; maladministration; financial impropriety; probity; and Budget and Policy Framework issues. Conducting investigations, or arrange for investigations to be conducted, into complaints concerning alleged breaches of the councillor's Code of Conduct. 		

Following a full council motion work was undertaken during 2019/20 on reviewing the governance structure of the Council. This work, which remains ongoing, made in-year recommendations to improve the functioning of the Overview & Scrutiny Committee. During the year assistance from external expertise was given from Bevan Brittan, the Local Government Association and from the Centre for Governance and Scrutiny. In October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in decision making:

ANNUAL GOVERNANCE STATEMENT

- Reduction in number of meetings of the Overview and Scrutiny Committee from 11 to 5 or 6 per year.
- Creation of a finance and performance sub-group to meet quarterly.
- A committee work plan to include about 12 clearly scoped topics by OSC Members, allowing for detailed consideration of two topics per meeting, in general.
- Work plan topics to have clear lines of enquiry, questions, and to draw on external expertise as necessary.
- Members to lead the items at Scrutiny meetings.
- Introduction of an established Cabinet and Overview and Scrutiny Protocol to clarify relationships between the two and help ensure the smooth conduct of Scrutiny work, which was adopted by both groups in October 2020.

In addition to the changes implemented to the Overview & Scrutiny Committee, it should be noted that since 1st February 2020 changes have also been made to the membership of Cabinet which now includes a Councillor from the Green party and a Councillor from the Liberal Democrat party. They joined two councillors from the Independent party and five Conservative members to form the Executive under the leadership of the Conservative party.

Strategic Planning
















- 3.4. The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The latest plan covers the period 2021 to 2030, and was agreed by both Cabinet and Council in February 2021. Within this period in the short term there is a focus on COVID recovery, and the Plan will be reviewed in 2024.

The Corporate Plan sets out the Council's vision for improving the lives for all those who live and work in the district for the next nine years.

The vision for Folkestone & Hythe is '**Creating Tomorrow Together**'.


To help achieve the vision for the district, the Council has four service ambitions and six guiding principles set out below:

Creating Tomorrow Together: Corporate Plan 2021-30

<p>Service ambition 1: Positive community leadership</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Improve physical and mental health & wellbeing  Safer communities  Supporting & empowering our communities 	<p>Service ambition 2: A thriving environment</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Ensure an excellent environment for everyone  Grow the circular economy & reduce waste  Increase our resilience to climate change 	<p>Service ambition 3: A vibrant economy</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Reinvigorate the high streets  Support a vibrant & diverse business community  Help people access jobs & opportunity  Grow the skills we need for the future 	<p>Service ambition 4: Quality homes and infrastructure</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none">  Improve outcomes & support for homeless people  Deliver sustainable, affordable housing  Deliver a safe, accountable housing service  Digital inclusion & connectivity  Deliver a sustainable new development at Otterpool Park
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In everything we do we will follow these guiding principles:

Sustainable recovery We will do all we can to ensure a strong recovery for the district from the effects of COVID.	Locally distinctive We will protect the special distinctive and diverse nature of our district - working with our key partners to enhance it.	Greener Folkestone & Hythe We will encourage and create a more sustainable district consuming fewer natural resources.	Transparent, stable, accountable and accessible We will be financially sustainable and communicate effectively with our communities in an accessible way.	Working effectively with partners We will engage with partners to understand the vital role they play and work collaboratively with them to ensure the best outcomes for our residents.	Continuous improvement We will embed a culture of continuous improvement, seeking feedback and being innovative and creative to find new ways to deliver services.
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- 3.5 For each service ambition set out above, the Council has committed to a number of priorities within the Corporate Plan that will be delivered over the next three years. The priorities are monitored regularly to ensure they are being delivered effectively.
- 3.6 Elected Members of the council are ultimately responsible for the delivery of the council's corporate objectives. The council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.
- 3.7 Effective communication, both within departments and across the council is continually supported through the Wider Management Team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.
- 3.8 On an annual basis, managers are required to develop a departmental service plan setting out the priorities and key outcomes for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

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3.10 Folkestone and Hythe District Council as public funded organisation is fully committed to principles of openness and accountability. In line with the Transparency Code, the Council continues to publish a series of data sets including;

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

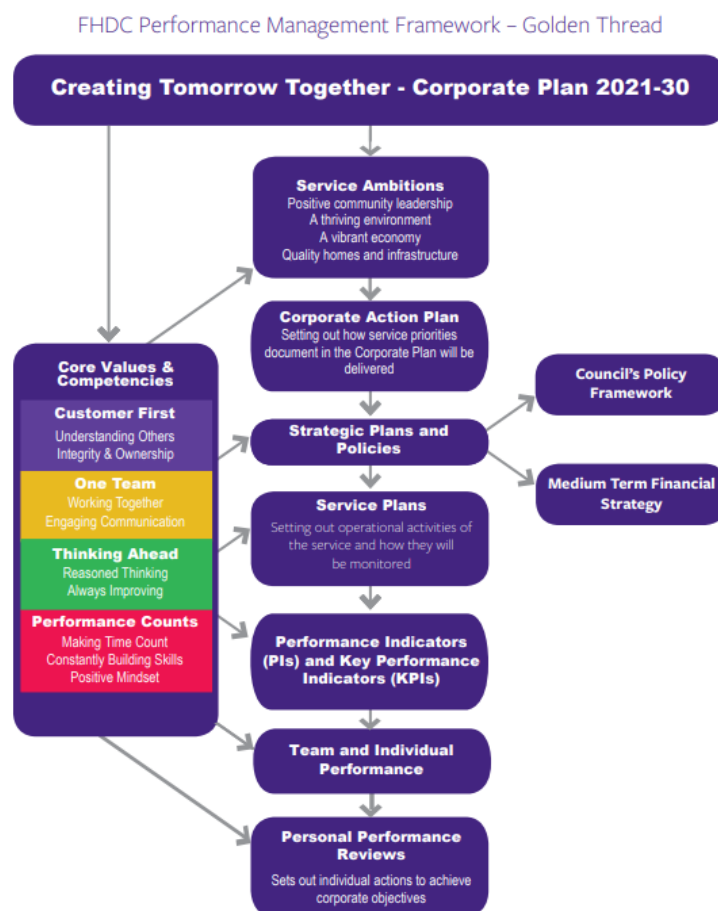
Performance Management

3.11 The Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.

3.12 The Performance Management Framework demonstrates how the Council's corporate vision and objectives are cascaded down through the organisation in what is known as the 'Golden Thread' (See diagram 1). The objectives defined with the corporate plan and our core values help drive the development of strategic policy, operational service plans and the performance of both teams and individual members of staff. A revised version of framework was considered by the Overview & Scrutiny Committee in June 2021.

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Diagram 1: FHDC Golden Thread of Performance Management:



3.13 The Council has recently enhanced its performance reporting procedures to Members. The new Finance & Performance Sub Committee and Cabinet receive Quarterly Performance Reports enabling them, along with other Members of the Council and the public to scrutinise the performance of the Council against strategic deliverables and key indicators in accordance with the approved Corporate Plan. All performance reports presented are made publically available through the Council's website.

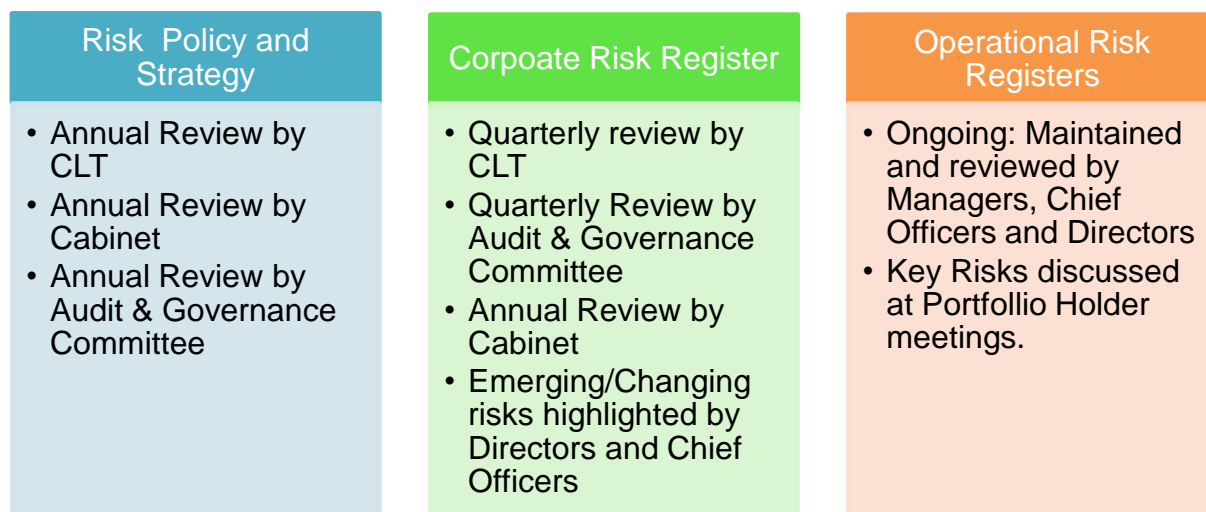
3.14 A key component of performance management for the Council is the overall quality of the service provided to the customer. The Customer Access Strategy takes into consideration customers' feedback to develop and implement plans to improve the way in which the Council delivers and receives day to day information about the services it provides. The strategy also sets out the council's principles in delivering customer service for its residents.

In September 2020, the Council successfully retained its Customer Service Excellence (CSE) accreditation. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. The independent assessor was so impressed by the Council's ongoing commitment to customer service he awarded a further 3 compliance plusses as part of his latest inspection bringing the overall number awarded to 15.

Risk

- 3.15 The Council’s Risk Management Strategy (Adopted by Cabinet in December 2019) is reviewed on annual basis to reflect any changes in the council’s assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 3.16 In preparing the Council’s Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. Progress made against any required action in relation to the risks is reported to the council’s Corporate Leadership Team on a regular basis.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority’s risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the council’s Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption.
- 3.18 Diagram 2 below provides an overview of the revised governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council’s operations:

Diagram 2: Reporting Arrangements for Risk Management



Finance

- 3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2020-21 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial

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management of service areas within the council, which includes accurate forecasting and the effective monitoring of financial performance against budget.

- 3.20 The council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in '*Delivering Good Governance in Local Government*'.
- 3.21 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the council's Corporate Plan priorities. The MTFS was updated and approved by Council in November 2020 and expresses the aims and objectives of various plans and strategies in financial terms over a four year period ending 31st March 2025. The MTFS is a key element of sound corporate governance and financial management which is reviewed on a regular basis.
- 3.22 In addition, the Overview & Scrutiny Committee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2020-21 financial year at its meeting in February 2020; Cabinet endorsed this at its subsequent meeting. A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting in January 2021 which provided an update on the council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.
- 3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Councils service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. In 2020 due to the pandemic the Director for Corporate Services took an officer decision on behalf of Council to adopt these strategies for 2020/21 on 27 March 2020. Full Council adopted the relevant strategies for 2021/22 on 24 February 2021.
- 3.24 Regular budget monitoring took place in 2020-21 in order to manage the council's net revenue budget. Regular meetings were held virtually between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Overview & Scrutiny Committee or Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to have an additional focus on the council's revenue budget monitoring during 2020/21 due to the unprecedented impacts of the pandemic on council finances. Therefore in addition to the regular monitoring that was undertaken papers were also tabled in November to Cabinet (in addition to the Finance & Performance Sub-Committee) noting the action required in year, the current reserves position and potential call upon reserves required in year.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports.

Partnership and Joint-working

- 3.26 The Council is continuously looking at innovative solutions to deliver its range of services, including the processes associated with service delivery, the ongoing requirements for the scale of services and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with public bodies and local agencies, including identification of shared service opportunities where appropriate.
- 3.27 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency.

Internal and External Audit

Internal Audit

- 3.28 The Internal Audit function is performed by the East Kent Audit Partnership (EKAP) and aims to provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions and systems.
- 3.29 The Head of Internal Audit plays a critical role in delivering the organisation's strategic objectives by: championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- 3.30 As at 31st March 2021 the Internal Auditors completed 327 days of review equating to 95% of planned completion, the remaining audits being carried over as work in progress at the year end. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Audit and Governance Committee in July 2021.

External Audit

- 3.31 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.
- 3.32 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.33 The 2019/20 Audit Findings Report gave an unqualified opinion on the Council's financial statements. The 2019/20 Annual Audit Letter from Grant Thornton UK LLP remains pending, the outstanding objection to the 2018/19 accounts has now been

considered and resolved and we await the Annual Audit letters for 2018/19 and 2019/20 from Grant Thornton in due course. The auditors were also able to certify the pooling of housing capital receipts return without amendment or qualification, and the Housing Benefits Subsidy return was certified by the auditor and submitted to Department of Work & Pensions.

Counter Fraud Arrangements

- 3.34 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:
- encourage fraud deterrence and prevention
 - raise awareness of fraud and corruption and promote their detection
 - perform investigations and facilitate recovery in a prompt, thorough and professional manner
 - invoke disciplinary proceedings and further action as appropriate.
- 3.35 The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework is currently in the process of being reviewed by the Section.151 Officer and Monitoring Officer.
- 3.36 The responsibility for the prevention of fraud and corruption lies with management, who ensure that adequate controls, including policies and procedures, are in place to prevent and detect fraud and corruption. The Council has developed systems and procedures that incorporate effective and efficient internal controls, and management ensure that controls minimise risk to an appropriate level. Controls are regularly reviewed to ensure they remain appropriate and effective. The internal and external auditors independently monitor the existence, effectiveness and appropriateness of these controls.
- 3.36 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its officers:
- has made, or about to make, a decision which involves incurring unlawful expenditure
 - has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
 - is about to make an unlawful entry in the authority's accounts
- 3.37 The Assistant Director for Governance & Law is the 'Monitoring Officer' for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring

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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.

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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

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- The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval)
- 7.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020).
- 7.3 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan includes a draft vision document which sets out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document draws on a range of Council documents, primarily the Charter for Otterpool Park. In November 2019, Full Council determined to *“To make available an additional one hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed.”*
- 7.4 The Business Plan was considered by the Overview and Scrutiny committee in July and December 2020 before being considered at Cabinet in January 2021.
- 7.5 Officers continue to work on the Assurance Framework as well as progress the work with professional advisors and the LLP on the key agreements and legal instruments outlined in 7.1, as delegated to them by Cabinet in January 2021.

8. CONCLUSION

- 8.1 In line with the council's responsibilities for its internal control and overall governance environment (paragraph 1.1), the conclusion to the annual review process for the year ended 31 March 2021 and up to the date of approval of the Statement of Accounts is that the arrangements in place are considered to be fit for purpose and in accordance with the council's governance framework, with no significant areas requiring attention.
- 8.2 Set out in Appendix 1 is the action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements.
- 8.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 29th July 2021.

Signed

Signed

Cllr David Monk
Leader of the Council

Dr Susan Priest
Head of Paid Service

Date: 30 July 2020

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

	Action	Who	Date
1	<p>Annual Review of Corporate Governance At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Assistant Directors/Chief Officers and internal audit's opinion report</p>	Monitoring Officer	May 2022
2	<p>Governance Arrangements To keep under review, the Council's governance arrangements.</p>	Monitoring Officer	March 2022
3	<p>Data Retention Policy and General Data Protection Regulation To keep under review, the Data retention policy and the new General Data Protection Policy.</p>	Monitoring Officer	March 2022
4	<p>Review of the Overview & Scrutiny Committee function To keep under review the governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing
5	<p>Review of Corporate Risk Policy for the Council: Encourage all services to have up to date Departmental / Project Risk Registers that comply with the Corporate Policy. Undertake the annual review of the Policy alongside the Audit & Governance Committee and make recommendations to Cabinet.</p>	Director of Corporate Services	March 2022
6	<p>Financial Management Code Review and assess conformity with the CIPFA Statement of Principles of Good Financial Management, raise awareness in the organisation and make appropriate changes to processes to ensure compliance with the Financial Management Code for 2021/22.</p>	Lead Accountant & Monitoring Officer	October 2021
7	<p>Folkestone & Hythe Accelerated Delivery Board: Existing governance arrangements for the board will be reviewed in light of the council's approach to COVID-19 recovery and the new Corporate Plan (with due consideration of key strategic projects such as Otterpool Park and Folkestone Town Centre Place Plan).</p>	Corporate Director of Place	March 2022
8	<p>Otterpool Park LLP Assurance Framework Conclude the work being undertaken on the assurance framework and governance arrangements between FHDC and Otterpool Park LLP</p>	S151/ Monitoring Officer	Autumn 2021

Glossary of Terms

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement

MiRS – Movement in Reserves Statement

FVOCI – Fair Value through Other Comprehensive Income

FVPL – Fair Value through Profit and Loss

Accounts - A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Actual - The final amount of expenditure or income which is recorded in the council's accounts.

Actuarial Gains and Losses – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- (b) the actuarial assumptions have changed.

Assets – resources controlled by the authority as a result of past events and from which future economic benefits or service potential is expected to flow to the authority.

Balance Sheet - A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget - A statement of the council's plans for net revenue and capital expenditure over a specified period of time.

Capital Expenditure – Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Receipts - Proceeds from the sale of fixed assets, repayments of grants or the realisation of certain investments. Capital receipts are available to finance other items of capital expenditure or to repay debt on assets originally financed from loan.

Collection Fund - The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community Assets - Assets that the council intends to hold in perpetuity that have no determinable finite useful life, and in addition may have restrictions on their disposal, e.g. parks and cemetery land.

Council Tax - A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current Service Cost (Pensions) – The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Deferred Credits - Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of council houses (deferred capital receipts).

Depreciation - The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Events after the Balance Sheet date – those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Exit Packages – can include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

Fair Value – is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance Lease – a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

General Fund (GF) - The main revenue fund of the council from which are made payments to provide services and into which receipts are paid, including the district council's share of council tax.

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

Housing Revenue Account (HRA) - The statutory account to which are charged the annual revenue costs of providing, maintaining and managing council dwellings financed by rents, grants and other income.

Impairment – A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure Assets - Inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use, e.g. coast protection works.

Investment Assets – those assets that are held solely to earn rentals or for capital appreciation or both.

Lease – An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Liabilities – present obligations of an authority arising from past events, the settlement of which is expected to result in an outflow from the authority of resources embodying economic benefits or service potential.

Minimum Revenue Provision – A prudent annual provision has to be made for the repayment of debt in accordance with Capital Finance Regulations.

GLOSSARY OF TERMS

Net Book Value – The amount at which property, plant and equipment are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net defined liability – also known as the net pension liability.

Net Service Expenditure - Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-Current Asset – Any asset which is not easily convertible to cash, or not expected to become cash within the next year.

Non-Domestic Rates - Businesses contribute to local government expenditure on the basis of a uniform rate, decided by the Government, levied on the rateable value of the business premises.

Non-specific Grant Income – grant that cannot be attributed to a specific revenue Service (e.g. New Homes Bonus).

Past Service Cost – The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept - The demand on the collection fund by one authority (e.g. Kent County Council) which is collected from the council tax payer by another (e.g. Folkestone & Hythe District Council). Precepts on Folkestone & Hythe are also made by town and parish councils in the district, which are charged to the General Fund.

Prior Period Adjustments – Those adjustments applicable to prior years arising from the correction of material errors.

Provisions - Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Public Works Loans Board - A government agency which provides longer term loans to the public sector at interest rates only slightly higher than those at which the government itself can borrow.

Remuneration – all sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves - The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund and HRA General Reserves). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

Revenue Expenditure - The day-to-day running costs of services including salaries, running expenses and capital charges

