Folkestone & Hythe District Council

Agenda

Meeting:	**Audit and Governance Committee**
Date:	**14 May 2024**
Time:	**6.00 pm**
Place:	**Council Chamber - Civic Centre Folkestone**
To:	**All members of the Audit and Governance Committee**

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

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

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

Please note there will be 37 seats available for members of the public, which will be reserved for those speaking or participating at the meeting. The remaining available seats will be given on a first come, first served basis.

1. **Apologies for Absence**

2. **Declarations of Interest (Pages 3 - 4)**

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

a) disclosable pecuniary interests (DPI);
b) other significant interests (OSI);
c) voluntary announcements of other interests.

Queries about the agenda? Need a different format?

Contact Alex Baker – Tel: 01303 853 498
Email: committee@folkestone-hythe.gov.uk or download from our website
www.folkestone-hythe.gov.uk

Date of Publication: Friday, 3 May 2024

3. **Statement of Accounts 2022/23 - Audit Findings (Pages 5 - 246)**

In accordance with the Accounts and Audit (Amendment) Regulations, the audit of the 2022/23 Accounts has now been completed. The final audit findings in relation to the audit of the 2022/23 Statements of Account are set out within the Grant Thornton's Audit Findings report attached as Appendix A.

Declarations of Interest

Disclosable Pecuniary Interest (DPI)

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

Other Significant Interest (OSI)

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

Voluntary Announcement of Other Interests (VAOI)

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

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

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This Report will be made public on 3 May 2024

Report number: **AuG/24/01**

To:	**Audit and Governance Committee**
Date:	**14 May 2024**
Head of Service:	**Lydia Morrison – Interim Director Governance and Finance Services**
Cabinet Member:	**Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance**

Subject: **Statement of Accounts 2022/23 – Audit Findings**

Summary: In accordance with the Accounts and Audit (Amendment) Regulations, the audit of the 2022/23 Accounts has now been completed. The final audit findings in relation to the audit of the 2022/23 Statements of Account are set out within the Grant Thornton's Audit Findings report attached as Appendix A.

Reasons for recommendations:
The Committee is asked to note the recommendations set out below because the Accounts and Audit (Amendment) Regulations require the Council to consider and approve its 2022/23 Statement of Accounts (Appendix B) to enable publication to be made.

Recommendations:

1. **To note Grant Thornton's final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts.**
2. **To approve the updated Statement of Accounts for 2022/23.**
3. **To note the formal External Auditor (GT) Letter of Representation that will be signed by the Chairman of the Audit & Governance Committee and the Interim Director Governance and Finance Services (S151 Officer) as required by the external auditor at the conclusion of the audit.**
4. **To note the auditors (GT) report on the Council's 2022/23 audit risk assessment.**

1. INTRODUCTION AND BACKGROUND

1.1 For 2022/23 the statutory deadlines for publishing the final audited accounts was 30th September with unaudited accounts needing to be published by 31st May. It was identified during audit planning that external audit would be unable to work to the 30th September deadline due to delays in available audit resources whilst the audit sector work through the backlog of public sector audits highlighted and acknowledged by the Public Sector Audit Appointments.

1.2 The 2022/23 Statement of Accounts has been prepared in accordance with the relevant Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice, supported by International Financial Reporting Standards (IFRS).

1.3 The Department for Levelling-Up, Housing and Communities (DLUHC) published the Accounts and Audit Regulations on 28 June 2022. The Accounts and Audit (Amendment) Regulations amended the date for the publication of draft accounts to 31 May and the publication of the final audited accounts from to 30 September to help stabilise the market and address long-term supply auditor issues.

1.4 It has not been possible to meet the deadlines due to a number of factors beyond the Council's control. The completion of the audit was delayed, primarily due to a number of elements including limited resources to carry out the Council's accounts final audit given Grant Thornton's existing commitments to other ongoing audits, various audit resource issues, changes to the audit team, agreeing appropriate accounting treatment, valuation, and the Group financial statements issues.

1.5 Following further discussions with GT in July 2023, the Council was advised that September and October are the peak times for GT's business as a whole. That they have looked for team availability to carry out the audit and have been unable to reallocate resources given the GT's existing commitments to other clients.

1.6 The continuous rescheduling of the final audit tends to have implications for the Council's finance team and might present other challenges for 2023/24 closures of accounts process. This knock-on impact is currently being worked through by officers with GT to ensure minimum disruption to other work commitments and future audit.

1.7 Changes to local government audit since the abolition of the Audit Commission and a lack of qualified and experienced audit staff in the sector are some of the key drivers for the final audit backlogs. The backlog is so significant that it is really important to know what is holding this up and what steps need to be taken to address the issues in a more granular way.

1.8 The Auditor's view is that the uncertainties around the valuation of infrastructure assets, and the significant ongoing challenges of recruiting and retaining sufficient audit staff, are contributing to create a level of backlog, which is beginning to seriously undermine the financial management, governance, and accountability of local government bodies.

1.9 At the same time, new auditing standards required more detailed investigations than in previous years, further lengthening the timescales and the Council will likely incur significant audit fees variation, in addition to the ongoing situation, putting pressure on budgets set with a potential damage to the Council’s reputation.

1.10 The Council cannot emphasise enough that the backlog and non-completion of audit delay comes at a cost - financial cost, reputational cost, and governance cost - and that when audits are delayed, financial reporting is weakened, leading to various risks. The ongoing delay and lack of timely external audit assurance has a direct impact on the Council’s planning processes, as the Council commences its annual budget planning during the autumn of the preceding year. Late delivery of an audit opinion makes it harder for the Council to plan its budgets setting processes for the forthcoming year with certainty.

1.11 While the Council continues to conduct future financial planning and set its annual budgets, it is forced to do so without the support it is due, i.e., without the back up of an independently audited opinion.

2. 2022/23 AUDIT OF THE ACCOUNTS

2.1 Under its terms of reference, it is the role of this Committee to review/approve the annual statement of accounts and the external auditor’s report to those charged with governance, having considered whether appropriate accounting policies have been followed, and any issues raised by Grant Thornton from the audit of the accounts.

2.2 The audit of the accounts is substantially complete, and it is important to note that the Audit Opinion in respect of the 2022/23 Accounts will be an Unqualified Opinion on the accounts, subject to the successful completion of any outstanding matters. A number of accounting and presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the report.

2.3 Grant Thornton has also completed the review of the arrangements made by the Council to secure economy, efficiency, and effectiveness in the use of resources (Value for Money - VFM) and did not identify any significant VFM risks in 2022/23. Grant Thornton is satisfied that the Council has made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2023, and did not feel it necessary to report on any particular points on value for money issues.

3. STATEMENT OF ACCOUNTS - Content

3.1 In recent years, the authority has seen a change in the audit approach taken by Grant Thornton, with increased scrutiny of the authority's accounting estimates and related disclosures. This includes increased scrutiny of journal postings and the evidence supporting those entries. There has also been a significant focus on two of the largest accounting estimates (pensions liability and property valuations). This additional scrutiny has been seen nationally following requests made on auditors by the Financial Reporting Council and auditing standards. This applies to audits at all authorities.

Narrative Statement

3.2 The purpose of the narrative statement is to provide commentary on the financial statements. It includes an explanation of key events and their effect on the financial statements. The information in the narrative statement is consistent with budget information provided during the year and reconciles to the year-end financial position reported to Cabinet in July 2023.

Core Financial Statements

3.3 **Movement in reserves statement**

Reserves represent the Council's net worth and show its spending power. Reserves are analysed into two categories: usable and unusable. The level of usable reserves, the Council's spending plans, and other sources of funding determine how much council tax needs to be raised. Unusable reserves derive from technical accounting adjustments and cannot be used to support spending. The movement in reserves statement analyses the changes in each of the authority's reserves between 2021/22 and 2022/23.

3.4 **Comprehensive income and expenditure statement**

The comprehensive income and expenditure statement reports on how the Authority performed during the year and whether its operations resulted in a surplus or deficit. It is produced in a standard format and is made up of five broad sections:

- Cost of services: Presented in the management structure of the Council. It includes service specific income and expenditure.
- Other operating income and expenditure: Includes the surplus or deficit from the sale of property, plant, and equipment.
- Financing and investment income and expenditure: Includes interest payable and receivable and trading account income and expenditure.
- Taxation and general grant income and expenditure: Includes revenue from council tax, business rates and government revenue and capital grants.
- Other comprehensive income and expenditure: Includes items which are not allowed to be accounted for elsewhere, such as increases in the value of land and buildings and changes in the actuarial assessment of pension assets/liabilities.

3.5 **Balance Sheet**

The balance sheet is a 'snapshot' of the authority's financial position at a point in time, showing what it owns and owes at 31 March 2023. It is divided into two halves that, as the name suggests, balance. These are assets less liabilities (the top half) and reserves (the bottom half).

3.6 **Cash flow statement**

The cash flow statement sets out our cash receipts and payments during the year, analysing them into operating, investing, and financing activities. Cash-flows are related to income and expenditure but are not equivalent to them. The difference arises from the accruals concept, whereby income and expenditure are recognised in the comprehensive income and expenditure statement when the transactions occurred, not when the cash was paid or received.

3.7 **Accounting Policies and Notes to the Core Financial Statements**
The accounting policies set out the accounting rules the authority has followed in compiling the financial statements. They are largely specified by International Financial Reporting Standards and the Local Authority Accounting Code of Practice. We have limited discretion to amend them. The Notes to the accounts provide further detail for the figures within the core statements as well as other information we are required to include in the Statement of Accounts.

4. KEY EXTERNAL AUDIT FINDINGS AND AMENDMENTS TO THE STATEMENT OF ACCOUNTS

4.1 Audit findings and amendments to the 2022/23 financial statements are detailed in Appendix A - *The final 2022/23 Audit Findings report, including the Audit Opinion from Grant Thornton*. The audit findings/amendments set out within the GT report have been reflected within the revised statement of accounts appended to this report. The Committee is asked to note and agree to these amendments in the final 2022/23 Statement of Accounts, which have been agreed by officers. A small number of disclosure adjustments, to improve the presentation of the financial statements have also been agreed.

4.2 The findings from the external audit are set out in detail within the GT's 2022/23 Audit Results Report (Appendix A), which is a separate report, and Members are asked to note the summary below.

Nos.	Issue	Management Response
1	Trial balance mapping	This is a new requirement to populate the GT's mapping template and the council is in the process of replacing its financial management systems, which will enable mapping automation of the accounts to the financial statements and populating GT templates.
2	Journal Authorisation	Controls around segregation of duties and journal authorisation will be reviewed and action taken to ensure that the control around segregation of duties are operation effectively.
3	2021/22 - Debtor and creditor opening balances	Issue relates to the reporting facilities available within the current finance system. The Council is in the process of upgrading and replacing the current system that will enable robust reporting on the debtors and creditors balances with easier extractions of relevant data.

Nos.	Issue	Management Response
4	2021/22 - Cleansing of the fixed asset register	The council is reviewing its accounting and depreciation policies following which the Council will consider whether any assets need to be written out of the fixed asset register or change the assets economic useful life.
5	2020/21 - HRA componentisation	The council would review its accounting policy and consider what level of componentisation would be required.

4.3 Audit amendments – the summary of all adjusted misstatements are set out within the table below, and full details are provided within the GT's 2022/23 Audit Results Report (Appendix A).

Description	**Impact on Total Net Expenditure**	**Statement of Financial Position**
	£	**£**
Valuation of land and building understated – this was due to the application of rental income in the valuer's calculation of the Manor Road Multi-storey car park.	(310,059)	310,059
Valuation of investment property overstated –– valuation of the industrial unit 1 & 2 were incorrectly recorded.	158,250	(158,250)
Valuation of investment property overstated – due to incorrect entry of industrial unit 3a and 4a in the asset register.	159,900	(159,900)
Valuation of investment property understated - due to the reconciliation of the Connect 38 office valuation amount within the fixed asset register and the valuation report at the year end.	(1,247,200)	1,247,200
Overall Impact	**(1,230,109)**	**1,230,109**

4.4 The issues identified within 2022/23 audit will form the basis of continuous improvement programme in the build up to the production of next year's accounts, focusing on effective control, measurement, and project planning that will ensure the account closure and final audit deadlines are achieved.

4.5 Plant Property and Equipment (PPE) transactions will be monitored to ensure errors are identified as soon as possible and manual journal transactions will be reviewed by a senior member of staff prior to posting. There will be additional controls whereby cross checking of data are carried out between what was valued by the external valuers and reconciliation to the fixed asset register.

4.6 **Analytical Review** - The Council's financial statements are prepared in line with the Statement of Recommended Practice/CIPFA Code of Practice and are subject to internal quality assurance arrangements that review areas of highest risk. The statement of account was subjected to a series of analytical reviews procedures by the external auditors to identify any unusual movements or trends for further investigation. The audit work did not identify any material issues or unusual transactions to indicate any deliberate misreporting of the Council's financial position. Some of the significant movements within the comprehensive income and expenditure statement (CIES) are as follows –

Analytical Review - CIES Extract

2021/22				2022/23			
Gross Exp.	**Gross Income**	**Net Exp.**		**Gross Exp.**	**Gross Income**	**Net Exp.**	
£000s	**£000s**	**£000s**	**Description**	**£000s**	**£000s**	**£000s**	**Comments**
9,686	(6,264)	3,422	Estates & Operations	16,506	(6,790)	9,716	Otterpool impairment of assets (£2m), Mountfield Industrial estate impairment of assets (3.5m)
9,060	(3,111)	5,949	Place	9,529	(4,257)	5,272	Increase in income from Waste Collection £400k and Otterpool Income £580k.
6,784	(32,157)	(25,373)	Taxation and non-specific grant income	6,317	(27,263)	(20,946)	£2.4m reduction in Non-ring fenced government grants and £4.1m reduction in capital grants and contributions.
		(8,713)	Re-measurement of net defined liability	-	-	(61,192)	£67m increase due to a change in financial assumptions, £5m increase due to change in demographic assumptions, and £18m reduction due to an increased gain on defined benefit obligation.

5. LETTER OF REPRESENTATION 2022/23

5.1 Each year, on completion of the audit of the Council's Financial Statements, the Interim Director Governance and Finance Services (S151) is required to submit a Letter of Representation to the Council's external auditor. The letter formally and publicly confirms the accuracy and completeness of the presented Statement of Accounts.

5.2 A copy of the draft Letter of Representation for 2022/23 is attached at Appendix C, and on receipt of the signed Letter of Representation, the

Council's external auditor will formally issue an opinion on the Financial Statements.

6. INFORMING THE AUDIT RISK ASSESSMENT – 2022/23

6.1 The purpose of the report (Appendix D) is to contribute towards the effective two-way communication between the Council's external auditors and Folkestone and Hythe District Council, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where the Auditors are required to make inquiries of the Audit and Governance Committee under auditing standards.

6.2 Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

6.3 This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Governance Committee and supports the Committee in fulfilling its responsibilities in relation to the financial reporting process.

6.4 As part of our risk assessment procedures the auditors are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

7. CONCLUSION

7.1 The Committee is asked to note the Grant Thornton's final 2022/23 Audit Findings report (ISA 260) on the 2022/23 Statement of Accounts and the 2022/23 Annual Report on Value for Money.

7.2 To note the auditor's report on Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23, which contribute towards the effective two-way communication between the Council's external auditors and Folkestone and Hythe District Council, as 'those charged with governance'.

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

8.1 **Legal Officer's Comments** (AK)
There are no legal implications arising directly out of this report that are not already referred to in the report.

8.2 **Finance Officer's Comments** (OO)
This report has been prepared by Financial Services and all financial matters contained within the body of the report.

8.3 **Diversity and Equalities Implications** ()
There are none arising directly from this report.

9. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

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

Ola Owolabi, Chief Financial Services Officer
Telephone: 07731 347103
Email: ola.owolabi@folkestone-hythe.gov.uk

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

10. Appendices:

- Appendix A - The final 2022/23 Audit Findings report, including the Audit Opinion from Grant Thornton in accordance with the International Standard of Auditing (ISA 260).
- Appendix B - Updated Statement of Accounts for 2022/23
- Appendix C - The 2022/23 Letter of Representation.
- Appendix D - Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23

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The Audit Findings Report for Folkestone and Hythe District Council

Year ended 31 March 2023

March 2023

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

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

Sophia Brown

For Grant Thornton UK LLP

April 2024

Please note, blue text in this report denotes updates/changes to the audit findings report since we presented the report to Audit & Governance Committee on 13 March 2024,

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Folkestone and Hythe District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial statements

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

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

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

Our audit work was completed remotely during December 2023 to February 2024.

Our findings are summarised on pages 29 to 32. On page 29 we have identified 4 adjustments to the financial statements that result in a £1.24m adjustment to the Council's Comprehensive Income and Expenditure Statement – there is no impact to usable General Fund reserves. We also raise disclosure adjustments detailed in Appendix D, pages 30 to 32.

Our audit fieldwork is substantially complete, subject to review, and there are no matters of which we are aware, at this stage, that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- Finalisation of I&E by nature note and Creditors note disclosure adjustments.
- Consistency check on final version of accounts.
- Clearance of technical queries raised in the GT 'hot review' of the original draft financial statements.

Closing procedures

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

We have raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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

Subject to the completion of the outstanding work, as outlined above, our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our Value for Money work, which is summarised on pages 21-22, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our Whole of Government Accounts work once submission arrangements have been issued by the National Audit Office.

Significant matters	The Council originally published draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally, and management provided a revised set of draft 2022-23 financial statements in January 2024. During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule. Please refer to 'Timeline for 2022-23 audit' on page 6 for further details.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021-22 accounts by the extended deadline of 30 November 2022. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as possible as soon as possible, and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk).

We would like to thank everyone at the Council for their support in working with us.

National context – level of borrowing

All councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on council budgets, there are concerns as councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

2. Financial statements

Overview of the scope of our audit

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

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

Audit approach

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

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

Conclusion

Our audit fieldwork is substantially complete, subject to review (refer to detail on page 3), and we anticipate issuing an unqualified audit opinion following the Audit & Governance Committee meeting on 14 May 2024.

Acknowledgements

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

Timeline for the 2022-23 audit

In May 2023 we agreed with management, that due to audit resource restrictions, the 2022-23 audit would commence in October 2023. The Council published its draft 2022-23 financial statements in September 2023. The Statement of Accounts did not balance internally and as part of the audit risk assessment framework we then carried out a detailed review (or 'hot review) for the draft financial statements. We confirmed to management that issues identified in the hot review would need to be resolved before we could commence our audit fieldwork. Hot review findings were shared management in November 2023 and management provided a revised set of draft 2022-23 financial statements on 12 January 2024. Our audit fieldwork has been carried out on this revised 2022-23 Statement of Accounts

During the course of the audit, we experienced significant difficulties in mapping the trial balance to the financial statements, and also challenges in obtaining year end listings to support income and expenditure, and debtor and creditor balances. This caused delays to our audit fieldwork and put the audit timeframe 3 weeks behind schedule. For example, we were not able to issue a complete journals sample until 20 February 2024. We note that issues with debtor and creditor balances were communicated in our 2021-22 Audit Findings Report and relate to the prior year recommendation on page 27 of this report.

The audit team has worked closely with your finance team on the above issues. Control finding recommendations relating to these issues are included in Appendix B and audit adjustments identified are included in Appendix D.

2. Financial statements

Our approach to materiality

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

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

We set out in this table our determination of materiality for Folkestone and Hythe District Council and group.

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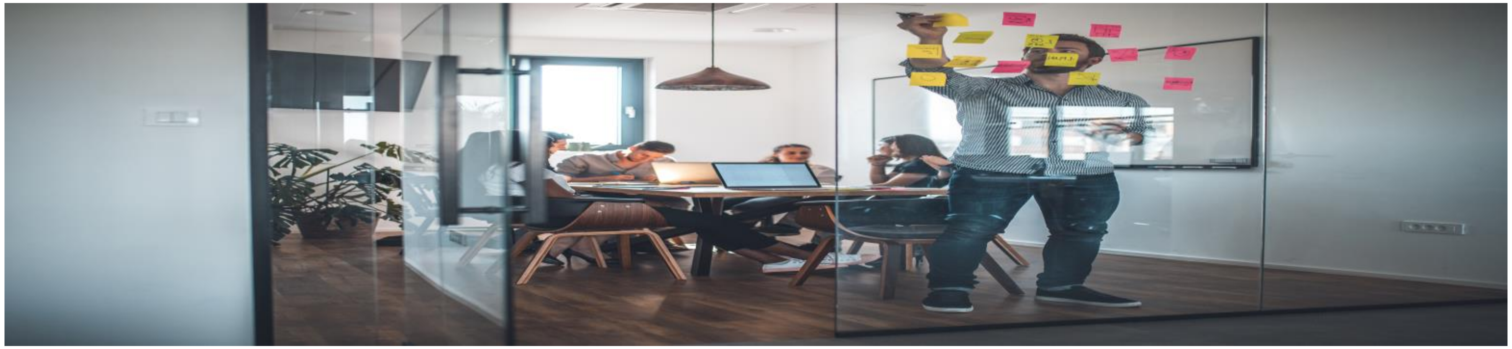
	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	2,194,300	2,187,800	We have determined financial statement materiality for the group and Council based on a proportion of the gross expenditure of the group and Council for the year ended 31 March 2023. Materiality of our audit equates to 2% of your gross expenditure for the period for group and Council.
Trivial matters	109,700	109,400	We are obliged to report uncorrected and corrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at 5% of materiality.
Materiality for specific transactions, balances or disclosures senior officer remuneration	50,000	50,000	We have identified senior officer remuneration and termination benefits as disclosures where we will apply a lower materiality level, as they are considered sensitive disclosures. Materiality of £50,000 has been set in this area.



2. Financial statements – significant risks

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

Risks identified in our Audit Plan	Relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 240 and nature of the revenue streams at Folkestone & Hythe District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including that of Folkestone & Hythe District Council, mean that all forms of fraud are seen as unacceptable. There have been no changes to our assessment as reported in the Audit Plan. To gain assurance over revenue, we: • Documented our understanding of the revenue business process; • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year; and • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. Our audit work is complete, and we have not identified any issues in respect of this risk that require reporting.
Management override of controls	Council and group	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. To address this risk, we: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work is complete, and we have not identified any issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of the pension fund net liability	Council	The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. We have pinpointed this significant risk to the assumptions applied by the professional actuary in their calculation of the net liability, noting that the impact of the Local Government Pension Scheme 2022 triennial valuation will impact the Council's 2022-23 pension fund net liability. We have concluded that there is not a significant risk of material misstatement due to the source data used by the actuary in their calculation we will reconsider this if it becomes apparent at the year-end that there are significant special events relating to the source data (such as bulk transfers, redundancies or other significant movements of staff) which would need to be given special consideration during the audit. Despite not being considered a significant risk we still carry out testing and consideration of the source data to obtain sufficient and appropriate audit evidence that there is no material misstatement.
		To address this risk, we: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtained assurances from the auditor of Kent County Council Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our audit work is complete, and we have not identified any issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings (including council dwellings and investment properties)	Council	The Council has the following types of properties that are valued: Other land & buildings: The Council re-values its land and buildings on a rolling five-yearly basis. Council dwellings: The Council measures its dwellings at fair value, determined using the basis of existing use value for social housing and is re-valued on a cyclical approach using the Beacon methodology. Investment Properties: The council re-values its investment properties on an annual basis at fair value. The valuations of land and buildings and council dwellings and investment properties represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for investment properties included with other land and buildings) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which is one of the most significant assessed risks of material misstatement.
		To address this risk, we : • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Wrote to the valuer to confirm the basis on which the valuation was carried out. • Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. Our audit work is complete, audit adjustments identified are detailed in Appendix D and have been corrected in the final version of the financial statements. We have not identified any other issues in respect of this risk that require reporting.

2. Financial statements – significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Level 3 financial assets and liabilities	Council	The Council has reviewed the fair value of the finance assets as part of the IFRS 9 assessment in preparing the draft accounts and concluded that the soft loans for private sector housing improvement purposes and the equity investment in Oportunitas Limited are Level 3 assets. By their nature Level 3 assets and liabilities valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 financial assets and liabilities by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We therefore identified valuation of Level 3 financial assets and liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement.
		To address this risk, we: • Gained an understanding of the Council's process for valuing hard to value financial assets and liabilities evaluate the design of the associated controls; • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuation provided for the assets and liabilities; • Considered the competence, expertise and objectivity of any management experts used; and • Challenged management about the disclosure of the Level 3 financial assets. Our audit work is complete, and we have not identified any issues in respect of this risk that require reporting.

2. Other risks identified

Risks identified in our Audit Plan	Relates to	Commentary
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk that the Council may manipulate expenditure to that budgeted by under-accruing non-pay expense incurred during the period or not record expenses accurately to improve financial results. In line with the Public Audit Forum Practice Note 10, having considered the risk in relation to fraud in expenditure recognition and the nature of the Council's expenditure streams we determine that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition; • Opportunities to manipulate expenditure recognition are very limited; and • The culture and ethical framework of local authorities, including Folkestone and Hythe District Council, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in manual accruals of expenditure, and the potential volume of large accruals at year end, there is an increased risk of error in the completeness of expenditure recognition.
		To address this risk we: • Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspected a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year. We compared listings of accruals(creditors) to the previous year to ensure completeness of accrued items. • Investigated manual journals posted as part of the year end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction. Our audit work is complete, and we have not identified any issues in respect of this risk that require reporting.

2. Financial statements – key findings arising from the group audit

Component	Findings	Group audit impact
Folkestone & Hythe District Council	We plan to issue an unmodified audit opinion for Folkestone & Hythe District Council. No material issues were identified which will have an impact on the group.	None
Opportunitas Limited	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park LLP	Our work is in progress. No material issues identified to date which will have an impact on the group.	None
Otterpool Park Development Company Ltd	Our work is in progress. No material issues identified to date which will have an impact on the group.	None

2. Financial statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of land and buildings, including investment properties and council dwellings	The Council carries out a rolling programme of revaluations that ensures that all property, infrastructure assets, plant and equipment required to be measured at current value is re-valued at least every five years. Investment properties, surplus properties and assets held for sale are re-valued every year. Other land and buildings includes specialised assets which are required to be valued at depreciated replacement cost (DRC), reflecting the cost of a modern equivalent asset delivering the same service provision. Non-specialised assets are required to be valued at existing use in value (EUV). The Council engaged Wilks Head & Eve to complete the valuation of other land and buildings as at 31 March 2023, on a five yearly cyclical basis. The total year end valuation of land and buildings was £27.673m, a net increase of £0.589m from 2021-22 (£27.084m). Council dwellings were valued on existing use value, determined using the basis of existing use value for social housing (EUV-SH). The council re-values its investment properties on an annual basis at fair value. Management has considered the year end value of non-valued properties, based on market review provided by the valuer as at 31 March 2023, to determine whether there has been a material change in the total value of the properties. Management's assessment of assets not revalued has not identified a material change to the properties' 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 current 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.	To address this risk, we considered and completed the following in the course of our testing: • assessment of management's expert; • completeness and accuracy of the underlying information used to determine the estimate; • impact of any changes to valuation method; • consistency of estimate against our internal valuer's market report; and • obtaining assurance that the disclosure in the PPE note is not materially misstated Refer to adjustments identified for the PPE and Investment Property notes in Appendix D – all adjustments have been amended in the revised financial statements. We have obtained sufficient appropriate audit evidence to corroborate that valuation of land and buildings, including investment properties and council dwellings, is not materially misstated.	● Light purple

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Assessment

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

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Valuations of net pension liability – LGPS	The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'. At 31 March 2023 the Council has a net pension liability of £13.1m (2021-22 £72.5m) relating to the Local Government Pension Scheme, as administered by Kent Pension Fund. Folkestone and Hythe District Council uses an external actuary Barnett Waddingham to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes. A full valuation is required every three years. The latest full actuarial valuation was completed in 2022-23 for the LGPS. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements.	• We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate. • We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations. • We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable. • The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered:	Light purple

Assumption	Actuary Value	PWC range	Assessment
Discount rate	4.80%	4.8- 4.85%	Within expected ranges
Pension increase rate	2.95%	2.65 – 2.95%	
Salary growth	3.95%	3.95%	
Life expectancy – Males currently, aged 45 Future pensioners	21.6 22.3	19.5 – 22.1 20.9 – 23.4	
Life expectancy – Females currently aged 45 Future pensioners	23.5 25.0	22.9 - 24.5 24.3 – 25.9	

Assessment

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

2. Financial statements – key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit comments	Assessment
Minimum Revenue Provision - £3.263m (2021-22 £1.211mm)	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt, known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £3.263m a net increase of £1.211m from 2021-22.	We considered and completed the following in the course of our testing: • Whether the MRP has been calculated in line with the statutory guidance; • Whether the Council's policy on MRP complies with statutory guidance; • Assessed whether any changes to the Council's policy on MRP has been approved by Full Council; and • Reasonableness of the change in MRP charge. We note that the 2022-23 MRP now includes provision of £1.4m in respect of the Otterpool Scheme to ensure that it is compliant with Regulations. No further issues to report, estimate is reasonable.	Light purple

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Assessment

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

2. Financial statements – information technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks
E-Financials	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green	Management override of controls

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Assessment

- Red – Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Yellow – Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- Green – IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Grey – Not in scope for testing

2. Financial statements – other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	Per work to date we have not identified any related parties which have not been disclosed. Per Appendix D we identified that group intercompany income/expense is material and should be disclosed within the Related Parties note as related party transactions.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We requested from management permission to send a confirmation requests to relevant Investments held with third parties. This permission was granted, and the requests were sent out with all requests having been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review to date has not found any material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	During the audit we encountered some difficulties in obtaining timely responses from the Council, due to impact from issues described on page 7, which delayed audit progress. As a result, we allocated additional audit resource to this audit engagement. Overall, the audit and finance teams are working constructively together to resolve outstanding audit queries to achieve the completion of the audit.

2. Financial statements – other communication requirements

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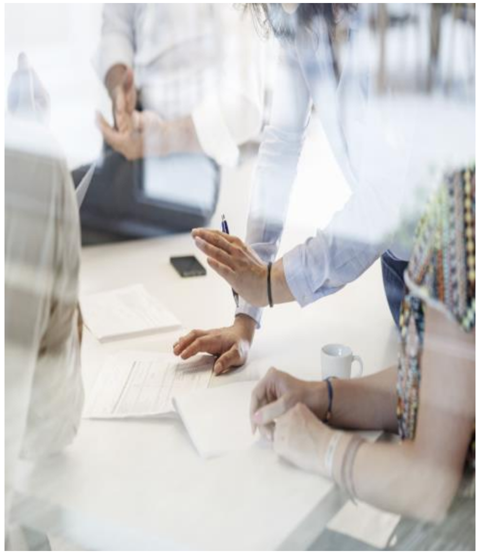
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern; and • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial statements – other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work completed has not identified any inconsistencies to report.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • If the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • If we have applied any of our statutory powers or duties; or • Where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that detailed work is not required as the Council does not exceed the threshold specified by the NAO.
Certification of the closure of the audit	We expect to certify the completion of the audit when outstanding objections are resolved.



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3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022-23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Improving economy, efficiency and effectiveness

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

Financial sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM – our procedures and conclusions

We have completed our VFM work, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

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

4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Assurance Process	43,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital Receipts return	TBC	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is lower in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Council that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management role covering financial, accounting or control-related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Council.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Council, senior management or staff that would exceed the threshold set in the Ethical Standard.

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

Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – audit of financial statements

C. Prior year audit recommendations – follow up

D. Audit adjustments

E. Fees and non-audit services

F. Draft audit opinion

G. Auditing developments

A. Communication of audit matters to those charged with governance

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Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action plan – audit of financial statements

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed recommendations with management and will report on progress with these recommendations during the course of the 2022-23 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Trial balance mapping** As part of our testing procedures, we are required to obtain a mapped trial balance that aligns with the Council's financial statements (FS). The current mapping structure proved challenging to trace back to the FS which significantly delayed the audit. Linked to this, the use of fees and charges income and operating expenditure as balancing figures in the Expenditure and income analysed by nature disclosure resulted in material adjustments to the presentation of the disclosure note.	Management should implement a trail balance mapping structure that aligns with both the opening trial balance, transaction listings for the year, and closing trial balance to ensure the financial statements tie through for completeness and presentation purposes. **Management response** The Council is in the process of replacing its financial management system that will aid / support in the automated mapping of accounts to the financial statements. In the interim, we have agreed a mapping with the auditors that correlates to the presentation in the financial statements.
Medium	**Journal authorisation** Based on our review of manual journals, we have identified that it is possible for journals preparers to self-authorise journals. This has occurred because the intended approver was unavailable, but the journal posting was necessary for the timely closure of accounts. This raises concerns about the system's susceptibility to manipulation by any preparer or authoriser, indicating a control deficiency.	Management should ensure that the control around segregation of duties is working effectively to avoid self-authorisation of journals. **Management response** The Council will review the implementation of the control with the technology team and ensure that the control around segregation of duties is operating effectively.

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Controls

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

C. Prior year audit recommendations – follow up

We identified the following issues in our 2021-22 and 2020-21 audits of the group and Council's financial statements, which resulted in three recommendations being reported in our 2021-22 Audit Findings Report (AFR). Our planned audit includes a review of these recommendations, and we have reported in our Audit Findings Report whether management has implemented our recommendations, or they are still ongoing.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
High	2021-22 Debtor and Creditor opening balances As part of our Debtor and Creditor work, we noted that there were several opening balances that were not valid for the period under audit. **Audit update 2022-23: This area remains an issue for 2022-23 and has contributed to significant delays in our debtor and creditor work this year.**	This issue relates to the reporting available from the current finance system. The Council is in the process of upgrading and/or replacing this system that will aid/support in reporting on the debtors and creditors balances to facilitate easier extractions of relevant populations. In the interim, Finance are investigating with the technology team what is possible from the existing system to mitigate the challenges currently faced.
Medium	2021-22 Cleansing of the fixed asset register As part of our review of the fixed asset register, we identified vehicle, plant and equipment assets with a nil net book value (NBV) that had a total historic cost of £7.7m, with an offsetting balance of £7.7m of accumulated depreciation. The balance sheet records the net book value and is correct. The Council's depreciation policy would indicate that the assets held at nil NBV are no longer in use. Good practice would require these assets to be written out of the fixed assets register or re-lifted if they are still operational.	The Council is reviewing its accounting and depreciation policies. Upon completion of this, we will consider whether any assets need to be written out of the fixed asset register or re-lifed.
Medium	2020-21 HRA componentisation As part of our HRA valuation work, we noted that management has written out £4.3m of capital expenditure works (i.e Kitchen and bathroom replacements) as impairment instead of componentising each part of the assets with the cost that should be depreciated separately. That is to say, management will need to write out the old components from the Gross book value and the accumulated depreciation before adding on the new component for yearend valuations.	The Council is reviewing its accounting policy and considering what level of componentisation is required.

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Controls

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

D. Audit adjustments – adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below, along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £	Statement of Financial Position £	Impact on total net expenditure £	Management comment
Valuation of land and buildings understated by £310,059 We noted an error in the application of rental income in the valuer's calculation of the Manor Road Multi-Storey Car Park. This was due to a rent review, prior to the beginning of the financial year, not taken into account by the valuer. The new rental figure required a change to the EUV calculation, resulting in an upwards amendment to the valuation by 310,059.20.	(310,059)	310,059	(310,059)	Adjusted
Valuation of investment property – Industrial Units 1 & 2, Mountfield Road, was overstated by £158,250 We noted that the valuation of Industrial Units 1 & 2, Mountfield Road was incorrectly recorded. Incorrect entry of £250,050k made as a debit to the asset and credit to the CIES. Agreed with management and erroneous posting written out. Correct entry then made of £91,800, Dr Asset Cr CIES.	158,250	(158,250)	158,250	Adjusted
Valuation of investment property – Light Industrial Units 3a & 4a, Mountfield Road, was overstated by £159,900 We noted that Light Industrial Units 3a & 4a, Mountfield Road had incorrect entry of £53,000 made as a debit to the asset and credit to the CIES. Agreed with management and erroneous posting written out. Correct entry then made of £-106,900, Dr CIES Cr Asset.	159,900	(159,900)	159,900	Adjusted
Valuation of investment property - Connect 38 Offices, was understated by £1,247,200 The amount entered in the fixed asset register for Connect 38 Offices at year end was £17,249,200. The actual year end value, per the valuer, was £18,496,420, a difference of +£1,247,200.	(1,247,200)	124,7200	(1,247,200)	Adjusted
Overall impact	(1,230,109)	1,239,109	(1,239,109)	Adjusted

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D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

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

Disclosure	Auditor recommendations	Adjusted?
Capital expenditure and capital financing – Note 32 a) In the prior year amounts we noted a casting error. The total increase/(decrease) in Capital Financing Requirement was shown as £6.407m but should be £6.233m.	Amounts in Note 32 to be corrected. **Management response** Agreed to amend	Yes
Expenditure and income analysed by nature (note to support the CIES) Collection Fund income of £22.808m and expenditure of £6.204m was incorrectly included in fees & charges income/operating expenditure, respectively. It should be separately disclosed in the Expenditure and income by nature note. Grant income was overstated by £0.851m in the mapped listing. This was offset against fees and charges income, which was adopted as a balancing figure in producing Expenditure and income by nature note.	Expenditure and income by nature should be corrected. **Management response** Under discussion with team	To be updated
Expenditure and income analysed by nature (note to support the CIES) Depreciation was overstated by £2.128m in the mapped listing. This was offset against operating expenditure, which was adopted as a balancing figure in producing the Expenditure and income by nature note.	Expenditure and income by nature should be corrected. **Management response** Agreed to amend	Yes
Movement in Reserves Statement (MIRS) The movement in reserves shown on balance sheet is £47.968m with net expenditure in the CIES is £48.596m. There is difference of £0.628m which must be corrected for the accounts to internally balance. The adjustments between accounting and funding basis figures in the MIRS should net to zero but in the draft financial statements it net to £6.6m.	MIRS to be corrected. **Management response** Agreed to amend	Yes

Disclosure	Auditor recommendations	Adjusted?
Collection Fund note – Business Rates (Decrease)/Increase in provision for Business Rates appeals disclosed as £13,000. Per NNDR-3, the movement of for Business Rates appeals noted as £2.032m. Due to this amendment, following balances will also change: - Total expenditure balance to £12.246m (previously shown as £14.291m). - Surplus deficit for the year balance to -£10.908m (previously shown as -£8.863m). - Closing surplus deficit amounts carried forward to £1.725m (previously shown as £0.320m). These changes will also require a change in the total balance column.	Amounts in Collection Fund note to be corrected. **Management response** Agreed to amend	Yes
Officers' Remuneration – Note 13 Salary, including fees and allowances for Director of Transition & Transformation 2022-23 is reported as £6,970 in the accounts. Through our testing we have noted that this figure should be £9,760. Employee in the 50,000 to 54,999 band was incorrectly omitted from Note 13. Management agreed to adjust the note, increasing the number of employees in this band from 29 to 30.	Note 13 to be corrected. **Management response** Agreed to amend	Yes
Group accounts – Group Balance Sheet In our testing we noted that investment property under non-current assets is reported as £11.865m. Per the Opportunitas Ltd (subsidiary) balance sheet, the value of investment property is £9.504m and assets under construction is £2.362m. This split should be reflected in the group balance sheet.	Group Balance Sheet to be corrected. **Management response** Under discussion with management	To be updated
Defined benefit pension schemes – Note 29 Asset and Liability Matching Strategy The percentages disclosed in the asset and liability matching strategy should be: - Equity - 64% (shown as 64% in the draft financial statements) - Bonds - 13% (shown as 14% in the draft financial statements) - Properties - 10% (shown as 12% in the draft financial statements)	Note 29 to be corrected. **Management response** Agreed to amend	To be updated
Housing Revenue Account notes a) The figure for net interest on the net defined liability (HRA Note 9) in the draft financial statements was £0.484m instead of £0.150m. b) The value included in Note 2 Vacant possession was not updated in the draft financial statements, prior year balance was still being reported. Management has agreed to revised to correct value of £690.7m.	HRA notes to be corrected. **Management response** Agreed to amend disclosure for consistency	Yes

D. Audit adjustments – presentation and disclosure

Presentation and disclosure changes

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

Disclosure	Auditor recommendations	Adjusted?
Group CIES and Movement in Reserves Statement We noted that an adjustment of £0.327m made under '(Surplus) or deficit on revaluation of non-current assets' (Note 31), however this is not supported by subsidiaries financials. On inquiring with the Council, management asserted that there appeared to be a discrepancy in transactions correctly recorded in the Council's accounts but appearing not be accurately recorded in the subsidiary accounts.	**Management response** No amendment required to Council's single entity accounts or the consolidated group accounts.	N/A

E. Fees and non-audit services

We confirm below our final fees charged for the audit. Fee for non audit fee will be confirmed when we commence the work.

Description	Proposed 2022-23 fee £
Revised 2022-23 scale fee published by PSAA	54,054
Additional work on Value for Money under the new NAO Code	9,000
Increased audit requirements of revised ISA 540	2,100
Increased journal testing procedures	3,000
Base audit fee 2021-22	**68,154**
New issues for 2022-23 • Introduction of ISA 315 • Payroll change of circumstances procedures • Collection Fund – reliefs testing	 3,000 500 750
Total proposed audit fee 2022-23 (excluding VAT)	**72,404**
Fee proposed to account for additional work due to complexity/delays in trial balance mapping, Journals, Debtors and Creditors (subject to PSAA approval)	TBC
Total proposed fee	**TBC**

F. Draft audit opinion

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

Report on the audit of the financial statements.

Opinion on financial statements

We have audited the financial statements of Folkestone and Hythe District Council (the 'Authority') and its subsidiary (the 'group') for the year ended 31 March 2023, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the notes to the financial statements including a summary of significant accounting policies, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement, the notes to the Collection Fund accounts, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, and notes to the group accounts including a summary of significant group accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

F. Draft audit opinion

In our evaluation of the Director of Corporate Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

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

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

Our responsibilities and the responsibilities of the Director of Corporate Services with respect to going concern are described in the relevant sections of this report.

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

F. Draft audit opinion

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority and the Director of Corporate Services

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

F. Draft audit opinion

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

We enquired of management and the Audit & Governance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit & Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and fraud in income and expenditure recognition. We determined that the principal risks were in relation to manual journals that altered the Authority's financial performance for the year, post year-end and closing journal entries. We considered whether there was any potential management bias in accounting estimates or any significant transactions with related parties which could give rise to an indication of management override. Our audit procedures included:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on significant journals at the end of the financial year which had an impact on the Authority's financial performance,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of net pensions liability; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

F. Draft audit opinion

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
- knowledge of the local government sector in which the group and Authority operates; and
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

F. Draft audit opinion

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Folkestone and Hythe District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2023. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2023

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Sophia Brown, Key Audit Partner

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

London

[Date]

G. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible.
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance.
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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Statement of Accounts 2022-23

Folkestone & Hythe District Council

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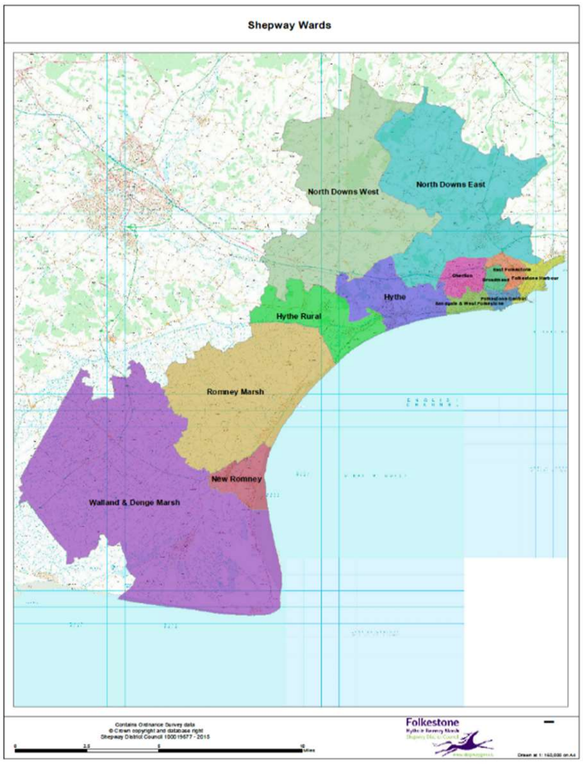
Narrative Report

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 113,320[1] residents live in urban areas (63%), with the remaining 37% to be found living in rural areas.

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

Economic and Environmental Factors

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

The district has a number of economic strengths, including its good transport links (M20 motorway, High Speed rail links to London, and proximity to the Channel Tunnel), affordable land/building costs relative to the wider South East region, a large working age population and a high-quality natural environment. Economic weaknesses include its relative remoteness, relatively low rates of entrepreneurship and few residents with higher skills[2].

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

[1] 2020 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.

GOVERNANCE
Our Political Leadership
The political leadership of the Council during the financial year 2022/23 was through the Executive which consisted of the Leader, Deputy Leader and a further seven Portfolio Holders providing cross-party representation. The Cabinet was made up of 5 Conservative party members, 2 Folkestone & Hythe Independent Party members, 1 Green party member and 1 Liberal Democrat member.

There are 13 wards and 30 Councillors representing the District, the political make-up of the Council for the period was:

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

Our Managerial Leadership

The managerial leadership is made up of the Corporate Leadership Team ("CLT"); Chief Executive [the Head of Paid Service] and three Corporate Directors. CLT is supported by 1 Assistant Director and 9 Chief Officers.

Governance Arrangements

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

Non-executive members sit on groups that consider key Council business. Overview & Scrutiny Committee meetings are held 6 times a year with a committee work plan to include clearly scoped topics and Finance & Performance Sub-Committee (FPSC) meet quarterly to consider budget and performance monitoring reports. The FPSC consider the majority of financial papers ahead of their debate at Cabinet and has an important and defined role in the budget making process and contributes to its formulation prior to consideration by Cabinet.

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

Further detail regarding the Governance of the Council can be found within the Annual Governance Statement on pages 118-145.

A MOVE TO THE COMMITTEE SYSTEM FOR FHDC

Folkestone & Hythe District Council is to move to a committee system for decision-making from May 2024. Councillors agreed to step away from the existing cabinet structure at the full council meeting on 21 June 2023 and set up a Constitutional Working Group to explore options.

A new Committee System Working Group will now work to put together detailed proposals for Council to agree by March 2024, with the new system to take force from May 2024. The Constitution Working Group will consist of the leader of each constituted group (or their nominee) plus one independent councillor. It will present recommendations on the composition and terms of reference of committees to full council by January 2024.

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 2022/23 and 2023/24.

Annual Performance Report 2022-23

The Council has continued to pursue an ambitious corporate agenda in 2022-23, which is a testament to the hard work and resilience of teams across the organisation in contributing towards the priorities set out in the Corporate Plan.

Some of the highlights from the year include:

- The granting of outline planning permission for a new garden town at Otterpool Park that will provide 8,500 homes, a new town centre, shops, leisure, educational and cultural facilities, and employment land.
- The council's successful application to the Government's Levelling Up Fund (LUF) resulted in an award of £19.8 million. The bid was submitted in early July 2022 following extensive public consultation on projects to deliver the priorities set out in the Folkestone Place Plan. The awarded funds will enable a sustainable, attractive, and welcoming gateway to be created for Folkestone town centre as well as ensure the second phase of Folca is progressed by establishing new uses for the site.
- The successful re-application for the Customer Service Excellence (CSE) accreditation during the year. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations.
- A new Statement of Community Involvement (SCI) was developed by the council to set out how residents are consulted on local planning matters. The draft document was consulted on between October and November 2022 and was adopted by the council in December 2022. The new SCI will ensure community involvement is effective at all stages of the planning process.
- The council working alongside the local Ukrainian community, and a small number of local volunteers and Kent County Council to support the delivery of Ukrainian language lessons for children at Sunflower House, Folkestone.
- A successful application to the UK Shared Prosperity Fund, with the Council being awarded the sum of £1million. The funds will be allocated in phases across the next 3 years, with £100,035 being awarded for the financial year 2022-23. The funds allocated in this period were utilised partly to give support to low-income households with energy-efficient solutions to help reduce their costs. In addition, funds were used to contribute to the Rainbow Centre's mobile van and pantry project as well as to the community hubs across the district to support those who are most in need.

- The Folkestone and Hythe Place Panel has met 8 times during the year to consider proposals for development across the district. The independent advice, which often reinforces officer views, supports the Council's aim of securing high-quality, sustainable design, and regeneration across the district.
- The completed rollout of electric vehicle (EV) charging points in the district's car parks. A total of 103 EV charging points were installed in 26 car parks across Folkestone & Hythe and the upgrade of the six existing points and the 23 charging points provided by commercial businesses means EV owners now have even greater choice and more flexibility to charge their vehicles.
- Successful retention of the prestigious Green Flag Award for The Lower Leas Coastal Park, Kingsnorth Gardens, Radnor Park, and the Royal Military Canal.
- The formation of the Carbon Innovation Lab (CI-Lab), an informal group of invited stakeholders, including businesses, community groups and special interest groups, to share ideas and collaborate to promote and deliver low-carbon initiatives and to draft a District Wide Carbon Plan.
- The council joined the UK100, a network of local authorities, to help achieve its climate change objectives during the year.
- The successful award of £2million from the Government's Social Housing Decarbonisation Fund (SHDF) in 2022 to install energy efficiency upgrades for some of the council's housing stock.
- 14 new homes were made available for affordable rent in Radnor Park Road, Folkestone in late 2022.

RISKS AND OPPORTUNITIES

Future service provision

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

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

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

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

The Council has a Strategic Risk Management Policy in place, an updated version was agreed by Cabinet in March 2023. 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 gives some examples of our strategic projects which contribute towards a sustainable financial future for the Council:

Otterpool Park – The Council has formed Otterpool Park Limited Liability Partnership ("the LLP") to act as the master developer for the Project in accordance with this Business Plan and the agreements it has with the Council, principally the Strategic Land Agreement and the financing arrangements. Otterpool Park is a new garden town, which will be central to shaping a sustainable future for the district. It is recognised as a priority within the Council's Corporate Plan 2021-30 'Creating Tomorrow Together' and will make a significant contribution to achieving positive outcomes.

Otterpool Park LLP (the LLP) was established in May 2020 with the principal objective of acting as the master developer for the delivery of the project. The Members' Agreement establishing Otterpool Park LLP sets out the process for the approval of the LLP's business plan. The current LLP Business Plan was agreed by Cabinet on 26 January 2022. This remains relevant and it is appropriate that the LLP continue to deliver the Otterpool Park project on that basis until an updated Business Plan is agreed. Through the updated Business Plan the LLP is seeking agreement from the Council in relation to funding, land acquisition, contract spend and the principle of a joint venture proposal for the town centre element. The LLP Board, through the Business Plan, is requesting that the Council agree to a significant increase in the borrowing facility made available to the LLP by the Council.

The level of funding sought represents a significant undertaking at a scale which has not previously been considered in the Council's Medium Term Financial Strategy (MTFS), or Medium-Term Capital Programme (MTCP). The increase in the loan facility will require consideration of the Cabinet and agreement of the Council with relevant associated documents updated accordingly. Officers are currently undertaking due diligence and a financial assessment of the updated Business Plan (with input from external specialist advisors) including a risk analysis and consideration of alternative funding options which may be available to the Council and/or LLP.

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

Town Centre Regeneration – In September 2021 Cabinet agreed on the Folkestone Town Centre Place Plan which sets clear 'missions' to overcome the decline in Folkestone's town centre to ensure it has a sustainable and vibrant future and focuses on six action areas within the town centre. The Council submitted a 'levelling up' application in August 2022 which was successful and the council was awarded ~£20m. 'Folkestone: A Brighter Future' is an ongoing project to make use of the awarded funds.

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, library, flexible workspace and civic centre offices. The building was last used as a mass vaccination centre to aid the rollout of the national vaccination programme in response to the pandemic which came to an end in Autumn 2022; it is now being scoped for remediation work to enable its future use aligned to the proposals set out above and which will be considered by Members. In September 2021 Cabinet agreed to the delivery of a new health centre provision by Premier Primary Care Ltd as phase 1 of the redevelopment and further use of the building is being explored.

Biggins Wood – The Council purchased a former brickworks site that has been vacant for over 20 years. Due to remediation costs, this site did not prove attractive to the private sector. Planning permission was secured to build 77 homes with employment space. With close proximity to Jct 13 (M20) this is an example of how we could bring a redundant site back into use to provide much-needed new homes and flexible modern commercial space with easy access to main transport routes. The site was in the process of being sold to a developer as at July 2023.

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 December 2022, the decision was taken to pause spending and review the project. A decision was taken in June 2023, extending the existing planning permission to allow the project to be reviewed under the new administration and to allow meaningful engagement with the community. A further decision in February 2024 was taken to secure the site ahead of public consultation on the future of the development.

The December 2022 decision report details the reasons for the pause, which in summary are:

- A high degree of economic uncertainty, coupled with exceptionally high inflationary pressures that have impacted on the council's overall ability to absorb modest funding pressures and financial risk within its budget and Medium-Term Financial Strategy (MTFS).
- Significantly increased project costs from successive delays caused by external factors, inflationary pressures on supply chains and the development market, scheme refinements to improve the performance of the leisure centre, unexpected additional costs some of which were borne from legislative changes, and the need for a sufficient financial contingency. These factors combined to increase the estimated costs of the full project to between £47m-£49m.

- Recent significant and unforeseen increases in council borrowing costs which have risen within a short period of time from 2% to nearly 5%.
- Substantial increases in utility tariff costs resulting from the war in Ukraine and the potential impact on future revenue budgets if tariffs remain at this level when the new leisure centre becomes operational.

Council Offices Relocation – Cabinet agreed in January 2021 that detailed work be carried out on proposals to provide a customer access point and to relocate the civic offices. The access point is part of the Council's long-term proposal to move out of the Civic Centre which has been prompted by the drive to reduce its carbon footprint and has been accelerated by the successful way in which staff have delivered services whilst working from home during the pandemic. In June 2021 Cabinet agreed that a new Customer Access Point would be established initially within the Civic Offices and subsequently within FOLCA in Folkestone Town Centre. The potential relocation of the Civic Offices is being taken forward separately.

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 2027. The MTFS was reported to Council on the 23rd of November 2022 and significantly shaped the annual budget setting cycle for 2023/24.

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 covers key areas of the Council's finances and in particular updates the financial projections which are of importance at this stage of the process and considers emerging issues including legislative requirements and the new corporate plan. Every effort has been taken to incorporate the impact of the recovery from the pandemic both on the Council's finances and the wider economic impact as well as other key factors such as utilities cost rises and the impact of Otterpool over the medium term. However, the MTFS is a high-level planning document, and it is accepted that there will be a need to continue to monitor and review our assumptions on these projections and be agile.

There is long-term pressure upon the finances of the Council as the MTFS shows. The pressures are a combination of continued downward projections of central government support for local authorities, inflationary cost pressures, increased borrowing costs due to interest rate rises and demand for services. Despite a strong recovery, there are also still concerns about COVID-19 and its impact on residents and businesses in the District.

The current MTFS forecasts a cumulative funding gap of £18.5 million over its lifetime to 2026/27. Much of this pressure is faced year on year and therefore needs to be addressed through the base budget in the early part of each year. The Council does have reserves to help mitigate the impact of the deficits in the MTFS, but these reserves will diminish over time and are not sufficient (at this point in time) to absorb the deficit over the four-year period. It should also be noted that the Council has a Reserves Policy, which sets out the required level of reserves.

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 Council's KPIs was reported to the July 2023 Cabinet meeting.

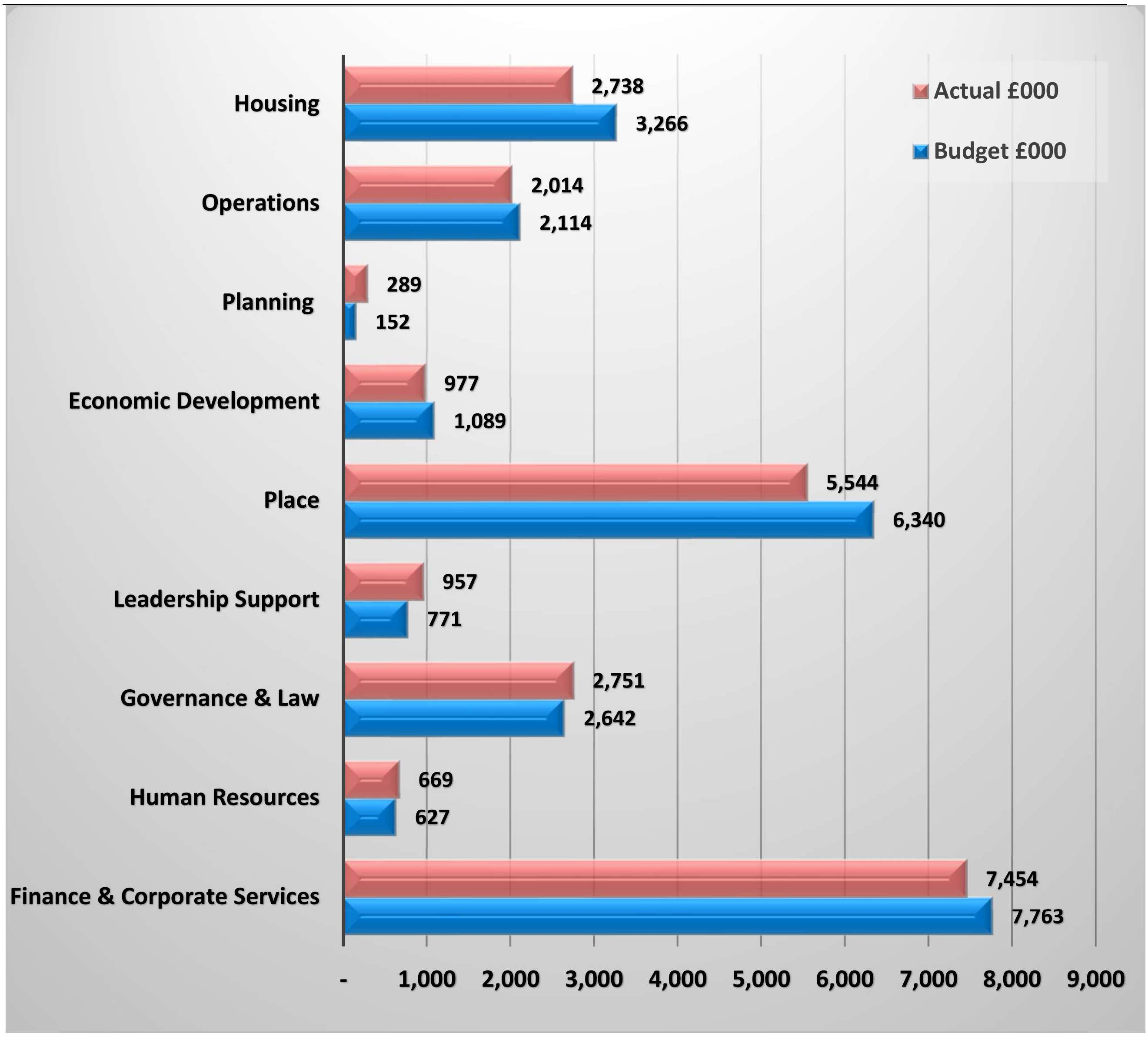
The Council's outturn performance includes:

Performance Indicator	Actual 2022/23	Target	Status	2021/22 Comparison
Percentage of Council Tax due collected in year	**97.12%**	97.3%	No	*(2021/22: 96.30%)*
Percentage of Non-Domestic Rates due collected in year	**98.26%**	97.5%	Yes	*(2021/22: 96.81%)*
Average number of days taken to process new claims for Housing Benefit	**11.7 Days**	17	Yes	*(2021/22: 12.2 days)*
Average time for anti-social or offensive graffiti to be removed from the time of being reported	**48 hours**	48 Hrs	Yes	*(2021/22: 30 hours)*
Percentage of compliant air quality monitoring sites	**100%**	100%	Yes	*(2021/22: 100%)*
% of major planning applications to be determined within statutory period *(including any agreed extension of time)*	**92% (average)**	60%	Yes	*(2021/22: 86% - Average)*
Average number of households in Temporary Accommodation	**27**	35	Yes	*(2021/22: 29)*
Average number of rough sleepers in the period	**10**	6	No	*(2021/22: 5.63)*

FINANCIAL PERFORMANCE

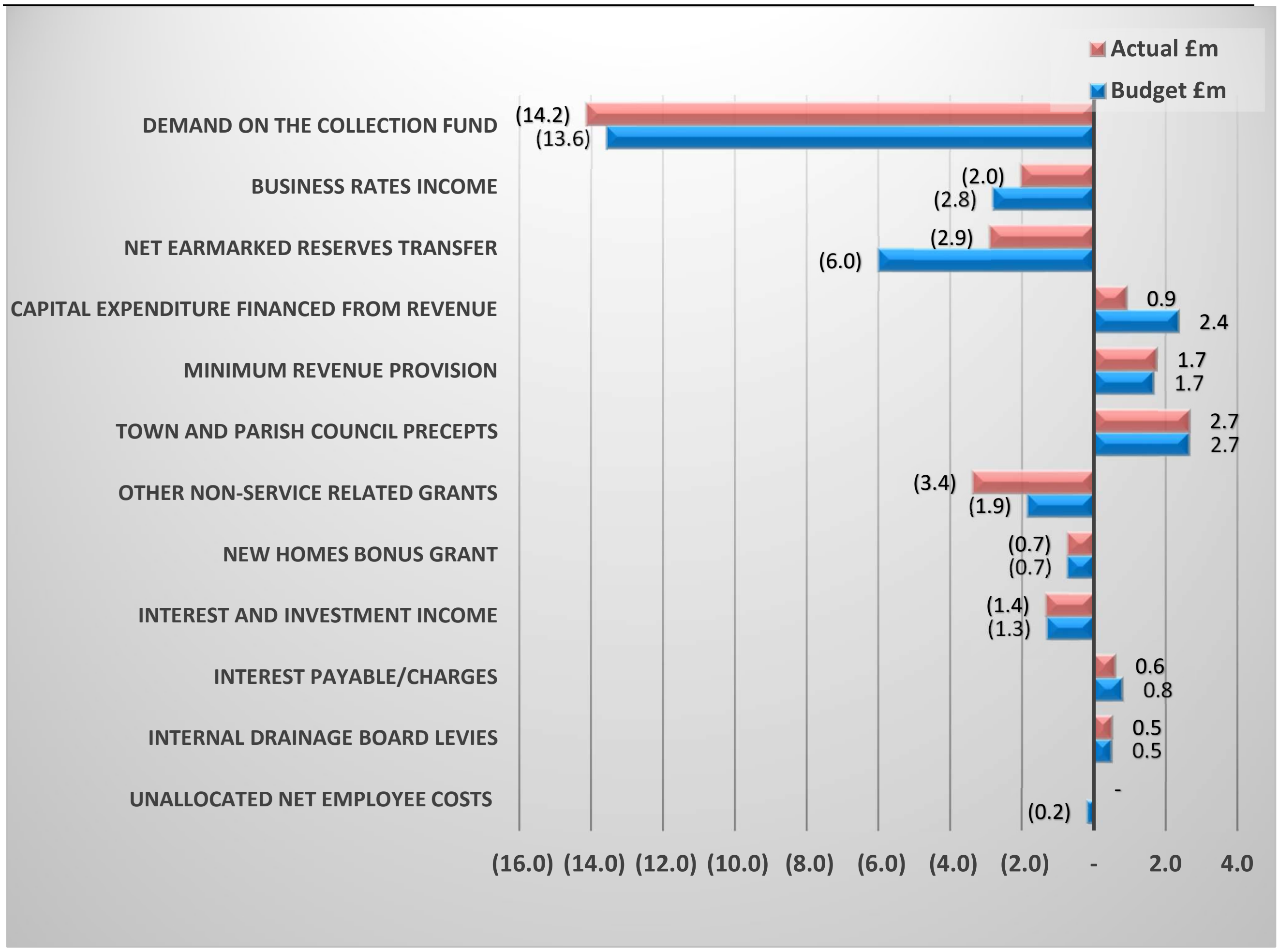
General Fund – Revenue

The latest approved budget for the net cost of services to deliver the core services of the council and meet its strategic objectives was £24.7m. Delivering expenditures in line with agreed budgets is an important performance indicator and this was achieved in 2022/23 as outlined below:



The total net cost of services for 2022/23 of £28.2m can be identified on the Expenditure and Funding Analysis (EFA) as £19.8m before the credit adjustment in respect of the HRA of £3.6m, under the heading of "As reported for resource management".

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



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

The final GF outturn shows a net provisional outturn for the year of £5.204m against the latest approved budget of £6.196m. In overall terms, this represents a favourable underspend variance of £0.993m compared to the latest approved 2022/23 budget.

It is important to note that this underspend position is net of any budget carry-forward proposals and is after any previously agreed transfers to fund capital expenditure from revenue, together with the application of any approved reserves in-year to fund items including Covid reliefs previously awarded by the Government to businesses impacted by the pandemic and carried forward to 2022/23. Relevant transfers have also been made to fund project expenditure from reserves such as Climate Change and High Street innovation fund. The GF provisional outturn also includes the application of any budget carry forwards brought forward from the financial year 2021/22. Finally, the GF Outturn also includes all necessary accounting adjustments for accruals, prepayments, transfer payments and the set-aside of any amounts needed for provisions such as bad debts, plus the costs of borrowing, treasury management income and any grant income received from central government or other public sector bodies.

Further detail can be found in the Outturn report to Cabinet in July 2023.

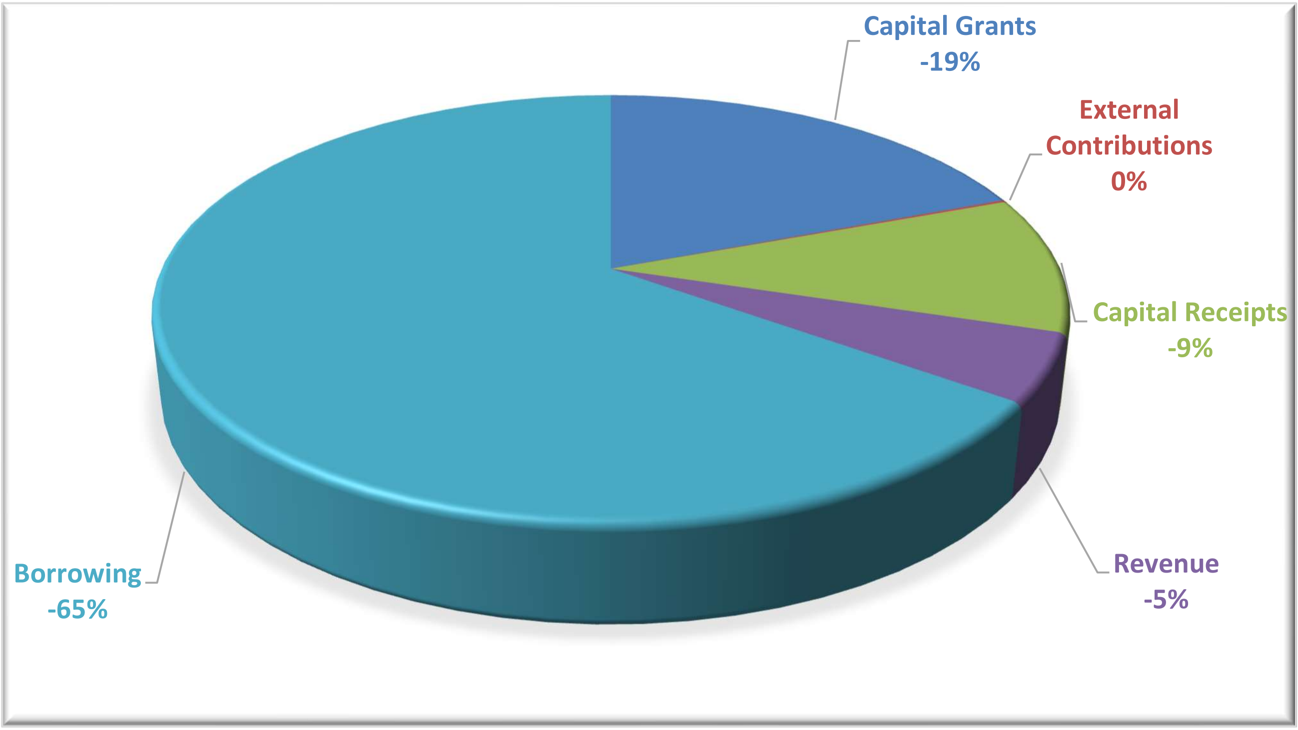
General Fund Capital

The General Fund Capital summary position is outlined below:

Description	Latest Budget 2022/23	Actual 2022/23	Variance Budget to Outturn
Service Units	£'000	£'000	£'000
Operations	6,314	4,654	(1,660)
Corporate Services	2,194	2,077	(117)
Housing	1,555	1,634	79
Place	10,813	9,264	(1,549)
Governance, Law, Service Delivery	9	0	(9)
Total Capital Expenditure	**20,885**	**17,629**	**(3,256)**

The outturn for 2022/23 of £17.629m compared with the previous projected position of £20.885m reported to Cabinet on the 25th of January 2023. As the analysis in the table above shows, the main reason for the projected variance is slippage in spending upon capital schemes which will require the reprofiling of expenditure from 2022/23 to 2023/24. Some capital schemes are more difficult to project accurately in terms of the timing of expenditure and, in some cases, the final cost. This is particularly the case with some of the property-related initiatives where external factors such as negotiations over price, conveyancing and planning can have an impact on the timing and final cost of a scheme. The Council remains on track to deliver the schemes within its overall approved Medium Term Capital Programme.

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, Coast protection, Land remedial works, District streetlights, EDRF capital project; etc.

Further details can be found in the July 2023 Cabinet report.

Housing Revenue Account

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

HRA Net Revenue Expenditure 2022/23	Latest Approved Budget 2022/23	Provisional Outturn 2022/23	Variance
	£000's	£000's	£000's
Income	(17,258)	(17,205)	53
Expenditure	13,059	13,409	350
HRA Share of Corporate Costs	175	189	14
Net Cost of HRA Services	**(4,024)**	**(3,607)**	**417**
Interest Payable/Receivable	1,722	1,508	(214)
Pension Interest Cost	100	484	384
HRA Surplus/Deficit	**(2,302)**	**(1,615)**	**687**
Revenue Contribution to Capital	6,658	4,961	(1,697)
HRA share of pension reserve movement	(295)	(283)	12
Decrease/(Increase) to HRA Reserve	**4,061**	**(3,063)**	**(998)**

The table above shows that overall, the draft position is a projected decrease in net expenditure of £998k for the HRA against budget, and the main the main reason for the variance is a £1.7m reduction in the revenue contribution to capital expenditure required. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisitions programme.

A summary of the capital programme outturn is noted below:

HRA Capital Programme 2022/23	Latest Approved Budget 2022/23	Final Outturn 2022/23	Variance
	£000's	£000's	£000's
HRA Capital programme	**14,825**	**9,746**	**(5,079)**

The main reason for the variance compared to the latest approved budget is an underspend on the current year's planned programme due to delays in the New Builds/Acquisitions;

Thermal Insulations; Re-roofing; Re-wiring, etc. These schemes have been re-profiled and works on various projects are due to commence in 2023/24.

TREASURY MANAGEMENT OUTLOOK

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

The Council also takes a robust view of capital investments, and this is included as part of a medium-term capital programme and is refreshed annually during the budget process. For the current General Fund and Housing Revenue programme agreed in February 2023, there is capital investment planned for the next three years totalling £129.0million. This sits alongside the planned revenue budget and use of reserves which are considered by the Council throughout its budget process to ensure a sustainable approach to its finances.

Future financial resilience

The Council has coped well with various challenges, and it had maintained a level of reserves which has and continues to provide it with some protection against the difficult economic times and short-term gaps in funding. The table below shows the Council’s reserve position for 2022/23.

Reserves	**Balance at**	**Movement**	**Balance at**	**Notes**
	31-Mar-22		**31-Mar-23**	
	£000s	**£000s**	**£000s**	
Earmarked				
Business Rates	(2,662)	1,005	**(1,657)**	To support the Business Rate Retention scheme
Leisure Reserve	(447)	(50)	**(497)**	Leisure improvements - £250k ringfenced - maintenance
Carry Forwards	(1,356)	(942)	**(2,298)**	Previous years unused Budget carried forward
Vehicles, Equipment and Technology	(287)	10	**(277)**	Vehicle, equipment & technology replacement
Maintenance of Graves	(12)	-	**(12)**	Amounts in perpetuity for grave costs
New Homes Bonus	(1,997)	1,588	**(409)**	Residual amount of remaining NHB
Corporate Initiatives	(959)	273	**(686)**	To support corporate plan and initiatives
IFRS Reserve	(5)		**(5)**	Accounting code changes support
Economic Development	(1,985)	62	**(1,923)**	Regeneration of District - capital and match funding required
Community Led Housing	(310)	57	**(253)**	Community Housing and affordable - ringfenced
Lydd Airport	(9)	-	**(9)**	Support costs ay Lydd Airport

Homelessness Prevention	(958)	33	**(925)**	Flexibly fund homelessness
High Street Regeneration	(1,575)	342	**(1,233)**	Regeneration in High Street areas - LU2
Climate Change	(4,880)	224	**(4,656)**	Achieve Carbon net zero by 2030- capital and revenue funding
COVID Recovery	(3,526)	3,496	**(30)**	Collection fund deficit 22/23 & 21/22
Total Earmarked Reserves	**(20,943)**	**6,073**	**(14,870)**	
Total General Fund Reserve	**(6,008)**	**382**	**(5,625)**	

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

The Statement of Accounts shows the General Fund balance (resources not earmarked for any specific purpose) at the end of 2022/23 of £5.625m. Note, however, that £942k of underspend achieved re the 2022/23 General Fund outturn position has been carried forward in the carry-forward reserve.

In addition to the General Fund balance, the level of earmarked General Fund reserves included in the Balance Sheet at £14.870m also underpins the financial resilience of the Council. These reserves are held to manage future risks and expenditure priorities. Information about the reserves is presented at Note 6 in the Statement of Accounts and the level of reserves and balances are a key element in the CIPFA Financial Resilience Index.

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 2023.

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.

Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2022/23.

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, Lydia Morrison.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts by 31st May.

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 *2022/23 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 2023 and its income and expenditure for the year then ended.

Signed:

Lydia Morrison, ACMA
Interim Finance Director

Date: dd May 2024

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 ddth MMM 2024.

Signed:

Councillor Liz McShane
Chairman, Audit and Governance Committee

Date: xx MMM 2024

Core Financial Statements

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

	General Fund Balance £000s	Housing Revenue Account £000s	Capital Receipts Reserve £000s	Major Repairs Reserve £000s	Capital Grants Unapplied Account £000s	Total Usable Reserves £000s	Unusable Reserves £000s	Total Authority Reserves £000s
2022/23								
Balance at 31 March 2022	**(26,977)**	**(10,065)**	**(9,069)**	**-**	**(7,923)**	**(54,034)**	**(190,551)**	**(244,585)**
Movement in reserves during 2022/23								
Total Comprehensive Income and Expenditure	12,628	5,277	-	-	-	17,905	(67,138)	**(49,233)**
Adjustments between accounting basis and funding basis under regulations (Note 5)	(6,147)	(2,215)	1,210	-	1,146	(6,005)	6,005	**-**
(Increase) or Decrease in 2022/23	**6,481**	**3,062**	**1,210**	**-**	**1,146**	**11,900**	**(61,133)**	**(49,233)**
Balance at 31st March 2023 carried forward	**(20,495)**	**(7,003)**	**(7,859)**	**-**	**(6,777)**	**(42,134)**	**(251,684)**	**(293,818)**

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

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

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.

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2021/22				2022/23		
Gross Expenditure £000s	**Income £000s**	**Net Expenditure £000s**		**Gross Expenditure £000s**	**Income £000s**	**Net Expenditure £000s**
			Continuing Operations			
1,271	(306)	966	Leadership Support	1,097	(188)	908
3,275	(386)	2,889	Governance & Law	3,526	(295)	3,231
845	(128)	717	Human Resources	842	(141)	701
36,752	(31,643)	5,108	Finance Customer & Support	34,152	(28,750)	5,402
591	(721)	(130)	Strategic Development	-	-	-
1,838	(675)	1,164	Economic Development	1,252	(555)	697
1,697	(1,288)	409	Planning	1,645	(1,249)	396
9,686	(6,264)	3,422	Operations	16,506	(6,790)	9,716
5,584	(6,004)	(420)	Housing	5,610	(5,750)	(141)
9,060	(3,111)	5,949	Place	9,384	(4,112)	5,272
8	-	8	Transition & Transformation	-	-	
20,384	(18,866)	1,517	Local Authority Housing (HRA)	19,597	(17,579)	2,018
90,993	**(69,392)**	**21,601**	**Cost of Service**	**93,609**	**(65,408)**	**28,200**
3,297	(837)	2,460	Other Operating Expenditure (Note 9)	4,439	(75)	4,365
5,821	(342)	5,478	Financing and Investment Income and Expenditure (Note 10)	10,483	(4,084)	6,399
6,603	(32,157)	(25,554)	Taxation and Non-specific Grant Income (Note 11)	6,204	(27,263)	(21,058)
106,713	**(102,727)**	**3,984**	**(Surplus) or Deficit on Provision of Services**	**114,735**	**(96,830)**	**17,905**
		(45,395)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 31)			(5,946)
		(8,713)	Re-measurement of net defined liability (Note 29)			(61,192)
		(54,108)	**Other Comprehensive Income and Expenditure**			**(67,138)**
		(50,124)	**TOTAL Comprehensive Income and Expenditure**			**(49,233)**

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'.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

31-Mar-22 £000s		Note	31-Mar-23 £000s
220,220	Council dwellings	16	227,963
27,084	Other land and buildings	16	27,983
4,710	Vehicles, plant, furniture and equipme	16	4,626
9,390	Infrastructure assets	16	8,481
3,461	Community assets	16	3,461
81,202	Surplus assets	16	75,854
8,036	Assets under construction	16	7,804
2,998	Heritage assets	17	2,998
29,356	Investment property	18	30,594
206	Intangible assets	-	210
18,962	Long term investments	19	14,555
9,032	Long term debtors	20	16,585
414,657	**Long Term Assets**		**421,115**
-	Short term investments	-	-
-	Assets held for sale	-	-
9	Inventories	-	11
15,502	Short term debtors	21	17,615
14,730	Cash and cash equivalents	22	10,745
30,240	**Current Assets**		**28,370**
(40,602)	Short term borrowing	23	(44,755)
(20,567)	Short term creditors	24	(24,571)
(3,089)	Capital grants received in advance	15	(3,554)
(2,011)	Provisions	25	(1,198)
(70,542)	**Current Liabilities**		**(74,078)**
(57,155)	Long term borrowing	26	(62,322)
(72,548)	Net pensions liability	29	(13,098)
(4,272)	Long term creditors	24	(6,101)
(67)	Provisions	25	(67)
(129,770)	**Long Term Liabilities**		**(81,588)**
244,585	**Net Assets**		**293,818**
(54,034)	Usable reserves	30	(42,135)
(190,551)	Unusable reserves	31	(251,684)
(244,585)	**Total Reserves**		**(293,818)**

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 2023.

Lydia Morrison, ACMA
Interim Director of Corporate Services   Date: XX April 2024

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.

2021/22 £000s		**Note**	**2022/23 £000s**
(3,984)	Net surplus or (deficit) on the provision of services		**(17,905)**
12,994	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	**31,081**
(10,514)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	35	**(1,955)**
(1,504)	Net Cash flows from operating activities		**11,221**
(12,000)	Net Cash flows from Investing Activities	36	**(23,697)**
25,914	Net Cash flows from Financing Activities	37	**8,486**
12,410	**Net increase or (decrease) in cash and cash equivalents**		**(3,985)**
2,320	Cash and cash equivalents at the beginning of the reporting period		14,730
14,730	Cash and cash equivalents at the end of the reporting period	22	**10,745**

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 2022/23 financial year and its position at the year-end of 31 March 2023. 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 2022/23* 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 Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

1.6 Exceptional Items

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

1.7 Overheads and Support Services

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

1.8 Reserves

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

1.9 Property, Plant and Equipment

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

Recognition

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

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

Measurement

Items of PPE are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where relevant.

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposal

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

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

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

1.10 Borrowing Costs

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

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

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

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

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

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

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

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

1.11 Heritage Assets

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

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

Heritage assets are then carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant, including replacement cost, purchase cost and insurance valuation. There is no requirement for valuations to be carried out or verified by an external valuer, nor is there any prescribed minimum period between valuations, but the carrying amounts of heritage assets carried at valuation must be reviewed with sufficient regularity to ensure they remain current. In some cases, it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available.

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

1.12 Investment Property

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

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

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

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

1.13 Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

1.14 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These costs are charged on an accrual's 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 pension's liability is analysed into the following components:
  i) Service cost comprising:
    - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
    - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the

(Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs

- net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.

ii) Re-measurements comprising:

- the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.

iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated in accordance with the relevant standards. This means that in the MiRS there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The debit balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

1.15 Events after the Reporting Period

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

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

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

1.16 Financial Assets

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

Financial assets are classified into one of three categories:

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

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

1.17 Financial Liabilities

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

1.18 Provisions

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

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

1.19 Value Added Tax

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

1.20 Interests in Companies and Other Entities

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

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

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

a) IFRS 16 Leases

b) Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.

c) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.

d) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

e) Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

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:

Folkestone Parks and Pleasure Grounds Charity

The Council is the sole trustee of the Folkestone Parks and Pleasure Grounds Charity, a charitable trust that owns and operates certain parks and pleasure grounds previously managed by the Council. It has been determined that the Council does not control, jointly control, have significant influence over, or have the right to variable returns from the Charity, the inclusion of the Charity in the group accounts is not required. Councillors who sit on the Board of Trustees act on behalf of the Trust in their decision making, rather than in the interests of the Council. Further information is disclosed in Note 39 on page 97.

Princes Parade Development

The Council owns a development site at Princes Parade, Hythe which the Council is planning to develop for Housing and Amenity use including the development of a new Leisure Centre. Due to the current difficult economic conditions for development projects, particularly the market for housing and increasing levels of interest rates, the Council has decided to pause the development of the site to consider potential options. The Council has incurred capital expenditure on this site totalling of £4.3m. Depending on future decisions to be taken by the Council, in relation to these options it may be necessary to charge some of this capitalised expenditure to the revenue budget, if the expenditure ultimately becomes abortive.

Oportunitas Limited

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

Otterpool Park LLP and Otterpool Park Development Company

In 2019/20 the Council set up a delivery vehicle to deliver its objectives for the Otterpool Park Garden Town. FHDC and Otterpool Park Development Company Ltd were appointed members in February 2020, with FHDC owning 99.9% of the company. In 2022/23 the transactions for this project are material and its results have been consolidated into the group accounts.

The Council is required by the Minimum Revenue Provision Regulations 2019 to set aside statutory provision for debt repayment for capital expenditure financed by borrowing. The Council has assessed the prudence of their estimate for the Otterpool scheme and has set aside an additional sum of £1.4m in 2022/23 as a result of this exercise. Further similar and increasing provisions will need to be made from the Council’s revenue budget annually in future years to fund the Otterpool scheme as it is currently envisaged.

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

Item	Uncertainties	Effect if actual results differ from assumptions
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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £270k for every year that useful lives had to be reduced.
Pension liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 1% increase in the discount rate assumption would result in a decrease in the pension liability of £10m. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 29.
Fair value measurements	When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk. Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in Notes 19 and 27.	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments. For instance, Oportinutas is currently valued at nil for fair value, however a reduction of 2.8% in the discount rate (from 11.3% to 8.5%) in a value above nil. More information regarding sensitivity of fair value measurements is set out in Note 27.

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 2022/23	**General Fund Balance**	**Housing Revenue Account**	**Major Repairs Reserve**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Movement in Unusable Reserves**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs (transferred to or from the Pensions Reserve)	(1,459)	(283)				1,742
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	(1,935)					1,935
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	3,858					(3,858)
Holiday pay (transferred to the Accumulated Absences Reserve)	36	6				(42)
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)	(13,490)	(8,382)				21,872
Total Adjustments to Revenue Resources	**(12,989)**	**(8,659)**	**-**	**-**	**-**	**21,648**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	204	1,113		(1,743)		426
Transfer of capital grants and contributions to capital grants unapplied	2,533	374			(2,219)	(688)
Administration costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)						-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	-	-		-		-
Posting of HRA resources from revenue to the Major Repairs Reserve			(3,087)			3,087
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	3,207					(3,207)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	905	4,961				(5,865)
Total Adjustments to between Capital and Revenue Resources	**6,848**	**6,448**	**(3,087)**	**(1,743)**	**(2,219)**	**(6,248)**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				2,953		(2,953)
Use of the Major Repairs Reserve to finance capital expenditure			3,087			(3,087)
Application of capital grants to finance capital expenditure	-	-			3,365	(3,365)
Cash payments in relation to deferred capital receipts	(6)	(4)				10
Total Adjustments to Capital Resources	**(6)**	**(4)**	**3,087**	**2,953**	**3,365**	**(9,395)**
Total Adjustments	**(6,147)**	**(2,215)**	**-**	**1,210**	**1,146**	**6,005**

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2021/22	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:						
Pension costs (transferred to or from the Pensions Reserve)	(3,870)	(800)	-	-	-	4,670
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	(2,064)	-	-	-	-	2,064
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	1,692	-	-	-	-	(1,692)
Holiday pay (transferred to the Accumulated Absences Reserve)	74	12	-	-	-	(86)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(5,292)	(7,758)	-	-	-	13,050
Total Adjustments to Revenue Resources	**(9,460)**	**(8,546)**	**-**	**-**	**-**	**18,006**
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	129	1,728	-	(2,619)	-	762
Transfer of capital grants and contributions to capital grants unapplied	-	-	-	-	(4,911)	4,911
Administration costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-	-	-	-	-	-
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,408)	-	-	2,408
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,211	-	-	-	-	(1,211)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	932	4,288	-	-	-	(5,220)
Total Adjustments to between Capital and Revenue Resources	**2,053**	**6,016**	**(2,408)**	**(2,400)**	**(4,911)**	**1,650**
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,767	-	(1,767)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	5,679	-	-	(5,679)
Application of capital grants to finance capital expenditure	6,363	1,989	-	-	2,183	(10,535)
Cash payments in relation to deferred capital receipts	(5)	(4)	-	-	-	9
Total Adjustments to Capital Resources	**6,358**	**1,985**	**5,679**	**1,767**	**2,183**	**(17,972)**
Total Adjustments	**(1,049)**	**(545)**	**3,271**	**(633)**	**(2,728)**	**1,684**

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 2022/23. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

Earmarked Reserves	Balance at 01-Apr-21 £000s	Transfers In £000s	Transfers Out £000s	Balance at 31-Mar-22 £000s	Transfers In £000s	Transfers Out £000s	Balance at 31-Mar-23 £000s
General Fund							
Business Rates	(2,723)	(706)	767	(2,662)	-	1,005	**(1,657)**
Leisure Reserve	(547)	(50)	150	(447)	(50)	-	**(497)**
Carry Forwards	(691)	(999)	334	(1,356)	(1,253)	311	**(2,298)**
Vehicles, Equipment and Technology	(283)	(150)	146	(287)	(150)	160	**(277)**
Invest to Save	-	-	-	-	-	-	**-**
Maintenance of Graves	(12)			(12)	-	-	**(12)**
New Homes Bonus	(2,341)	(830)	1,174	(1,997)	(745)	2,333	**(409)**
Corporate Initiatives	(598)	(497)	135	(959)	-	273	**(686)**
IFRS Reserve	(8)	-	3	(5)	-	-	**(5)**
Otterpool Park Garden Town	-	-	-	-	-	-	**-**
Economic Development	(1,991)	(287)	293	(1,985)	-	62	**(1,923)**
Community Led Housing	(365)	-	55	(310)	-	57	**(253)**
Lydd Airport	(9)	-	-	(9)	-	-	**(9)**
Homelessness Prevention	(488)	(895)	425	(958)	-	33	**(925)**
High Street Regeneration	(2,070)	-	495	(1,575)	-	342	**(1,233)**
Climate Change	(4,946)	-	66	(4,880)	-	224	**(4,656)**
COVID	(6,501)	(2,871)	5,846	(3,526)	-	3,496	**(30)**
	(23,573)	**(7,285)**	**9,889**	**(20,968)**	**(2,198)**	**8,296**	**(14,870)**

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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

Notes Supporting the Comprehensive Income And Expenditure Statement

Folkestone & Hythe District Council

7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2022/23 (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.

		2022/23			
	As reported for resource management	**Adjustment to arrive at the net amount chargeable to the General fund and HRA**	**Net Expenditure Chargeable to the General Fund and HRA Balances**	**Adjustments between the Funding and Accounting Basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Leadership Support	957		957	(49)	908
Governance & Law	2,751	(1)	2,750	481	3,231
Human Resources	669		669	32	701
Finance Customer & Support	7,454		7,455	(2,053)	5,402
Strategic Development					
Economic Development	977		977	(280)	697
Planning	289		289	107	396
Operations	2,014		2,014	3,258	5,272
Housing	2,738		2,738	(2,879)	(141)
Place	5,544		5,544	4,172	9,716
Transition & Transformation					
Local Authority Housing (HRA)	(3,608)		(3,608)	5,626	2,018
Net Cost of Services	**19,784**	**(1)**	**19,785**	**8,415**	**28,200**
Other Income and Expenditure	(17,408)	6,020	(11,388)	1,093	(10,295)
(Surplus) or Deficit on Provision of Services	**2,376**	**6,019**	**8,397**	**9,508**	**17,905**
Opening General Fund and HRA Balance			**(37,042)**		
Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in Year			**9,543**		
Closing General Fund and HRA Balance at 31 March*			**(27,499)**		

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

2021/22

	As reported for resource management	Adjustment to arrive at the net amount chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	**£000s**	**£000s**	**£000s**	**£000s**
Leadership Support	904	185	1,089	(123)	966
Governance & Law	2,396	360	2,756	133	2,889
Human Resources	634	136	770	(53)	717
Finance Customer & Support	5,540	(48)	5,492	(384)	5,108
Strategic Development	(206)	128	(78)	(52)	(130)
Economic Development	1,078	99	1,177	(13)	1,164
Planning	178	378	556	(147)	409
Operations	2,487	(143)	2,344	1,078	3,422
Housing	2,016	(2,358)	(342)	(78)	(420)
Place	5,654	621	6,275	(326)	5,949
Transition & Transformation	(8)	26	18	(10)	8
Local Authority Housing (HRA)	1,654	(6,518)	(4,864)	6,382	1,518
Net Cost of Services	**22,327**	**(7,133)**	**15,194**	**6,407**	**21,601**
Other Income and Expenditure	(18,970)	6,880	(12,804)	(4,812)	(17,616)
(Surplus) or Deficit on Provision of Services	**3,357**	**(253)**	**2,390**	**1,595**	**3,984**

Opening General Fund and HRA Balance	**(39,432)**
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	**2,390**
Closing General Fund and HRA Balance at 31 March*	**(37,042)**

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

Expenditure and Income Analysed by Nature

	2021/22 £000s	2022/23 £000s
Expenditure		
Employee Benefits Expense	23,485	21,998
Other Services Expense	56,054	66,277
Depreciation, Amortisation & Impairment	11,604	19,471
Interest Payments	4,221	4,343
Precepts & Levies	3,297	3,165
(Gain) / Loss on Disposal of Assets	(837)	(519)
Total Expenditure	**97,824**	**114,735**
Income		
Fees, Charges & Other Service Income	(31,499)	(42,850)
Interest & Investment Income	(14)	(1,362)
Income from Council Tax & NDR	(14,564)	(16,603)
Government Grants & Contributions	(47,762)	(36,014)
Total Income	**(93,839)**	**(96,830)**
(Surplus) or Deficit on Provision of Services	**3,984**	**17,905**

8. Material Items of Income and Expense

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

2021/22 Gross Expenditure £000s	Income £000s	Net Expenditure £000s		2022/23 Gross Expenditure £000s	Income £000s	Net Expenditure £000s
			Other Housing Services			
19,374	(19,280)	94	Housing Benefit	18,286	(18,214)	72
7,958	(7,713)	246	Housing Rebates	7,721	(7,480)	241

9. Other Operating Expenditure

Other Operating Expenditure	2021/22 £000s	2022/23 £000s
Parish precepts	2,594	2,659
Internal Drainage Board levies	484	506
Payments to the Government Housing Capital Receipts Pool	219	(0)
Gains or losses on the disposal of non-current assets	(837)	(519)
Movement in fair value of surplus assets	-	1,719
	2,460	**4,365**

10. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2021/22 £000s	2022/23 £000s
Interest payable and similar charges	1,907	2,911
Net interest on net defined liability	1,491	1,432
Investment property rental income	(1,073)	(1,294)
Interest receivable and similar income	(861)	(1,394)
Financial Instruments fair valuation adjustments	2,095	4,577
Investment asset write off	-	-
Income and expenditure in relation to investment properties and changes in their fair value (see Note 18)	1,919	167
	5,477	**6,399**

11. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2021/22 £000s	2022/23 £000s
Council tax income	(13,370)	(14,152)
Non domestic rates	(1,194)	(2,451)
Non-ring fenced government grants	(6,084)	(3,681)
Capital grants and contributions	(4,906)	(775)
	(25,554)	**(21,058)**

12. Members' Allowances

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

Members Allowances	2022/23	2023/24
	£000s	£000s
Allowances	339	324
Expenses	11	13
Total	350	337

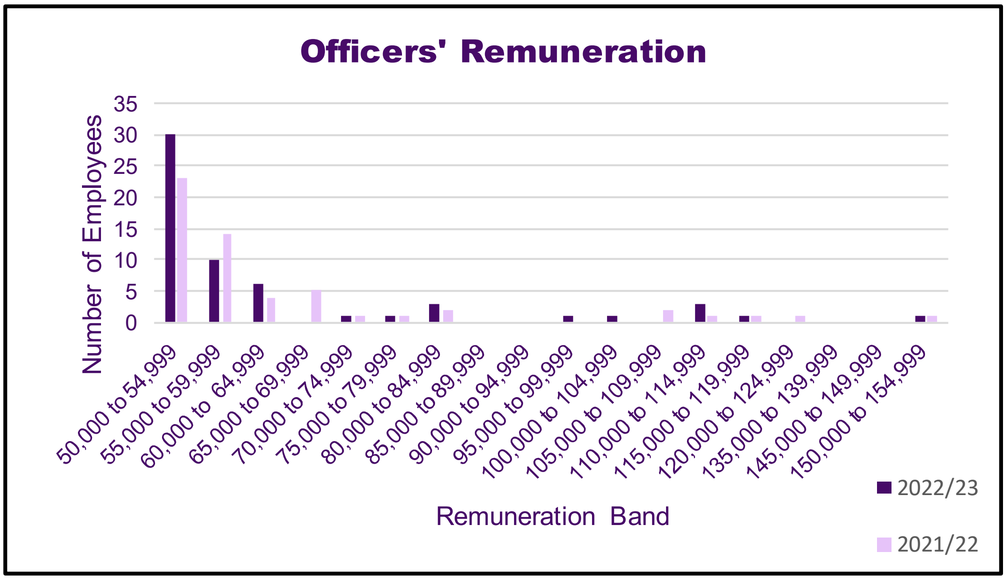
13. Officers' Remuneration

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

		Salary, including fees and allowances	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£
Chief Executive - Dr Susan Priest	2022/23	150,761	25,725	**176,486**
	2021/22	153,066	24,500	**177,566**
Director of Place	2022/23	113,398	19,160	**132,558**
	2021/22	110,115	18,492	**128,607**
Director of Corporate Services+	2022/23	113,407	18,542	**131,949**
	2021/22	109,665	18,492	**128,157**
Director - Housing & Operations	2022/23	113,398	19,160	**132,558**
	2021/22	109,920	18,492	**128,412**
Director of Transition and Transformation ++++	2022/23	9,761	1,652	**11,413**
	2021/22	117,181	19,828	**137,009**
Director of Development +++	2022/23	-	-	**-**
	2021/22	120,326	19,828	**140,154**
Assistant Director Governance, Law & Regulatory Services ++	2022/23	102,979	17,675	**120,654**
	2021/22	101,617	17,328	**118,945**

+ S151 Officer / Director left FHDC in March 2023
++ Monitoring Officer
+++ Director left FHDC March 2022
++++ Director left FHDC April 2022

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**	
£	**2021/22**	**2022/23**	**2021/22**	**2022/23**	**2021/22**	**2022/23**	**2021/22 £000s**	**2022/23 £000s**
0-20,000	**-**	**1**	**1**	**4**	**1**	**5**	**13**	**43**
20,001-40,000	**-**	**-**	**1**	**-**	**1**	**-**	**41**	**-**
40,001-60,000	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
60,001-100,000	**-**	**-**	**-**	**1**	**-**	**1**	**-**	**107**
100,001-150,000								
Total	**-**	**1**	**2**	**5**	**2**	**6**	**54**	**150**

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

14. External Audit Costs

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

External Audit Fees	**2021/22 £000s**	**2022/23 £000s**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	74	74
Fees relating to prior years audits	(2)	27
Rebate of PSAA fees	(9)	-
Fees payable for the certification of grant claims and returns for the year	20	17
	83	**119**

15. Grant Income

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

Grant Income	2021/22 £000s	2022/23 £000s
Credited to Taxation and Non Specific Grant Income		
Business rates reliefs	4,399	6,211
Covid related grants	690	- 3,611
Non-service related grants	159	336
New Homes Bonus Grant	836	745
Capital Grants and Contributions	4,906	775
	10,990	**4,455**
Credited to Services		
REFCUS related Grants	1,335	1,303
KCC sundry grants	3,590	2,282
Council Tax Reduction Scheme grants	166	162
DWP – benefits subsidy	18,447	16,892
- rent rebate Subsidy	7,666	7,426
- benefits administration	330	330
Covid related grants	2,914	319
Other grants and contributions	2,324	2,845
	36,772	**31,559**

*Prior year comparatives restated to include Apprenticeship Levy funding

Capital Grants Received in Advance

Capital grants received which are subject to conditions relating to specific projects are held as Capital Grants received in advance. These amounts are not credited to the Comprehensive Income and Expeniture Statement until conditions attached to the grant has been satisfied.

	2021/22	2022/23
	£000	£000
DLUHC - Brownfield Release Fund	(2,000)	(2,465)
Environment Agency - Coast Protection	(1,030)	(1,030)
Other Grants and Contributions	(59)	(59)
Balance at 31 March	**(3,089)**	**(3,554)**

Notes Supporting the Balance Sheet

16. Property, Plant and Equipment

Measurement

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued as at 31 March 2023 by an external independent valuer, Wilks Head & Eve Chartered Surveyors, and increased in value by £0.44m compared to their value at 31 March 2022.

The external valuer also reviewed the value of the Council's surplus assets as at 31 March 2023, resulting in a decrease of £5.3m due to the value of the Council's land holdings at Otterpool Park having decreased by 9.1%. These will be subject to disposal to enable the development of the new Garden Town to proceed.

The Council's housing assets were also re-valued as at 31 March 2023 by Wilks Head & Eve Chartered Surveyors. Council dwellings were valued at £227m at 33% of the open market value based on their existing use value for social housing, an increase of almost 3% (£7m) compared to 31 March 2022. The valuation adjustment to the existing use value for social housing is in accordance with Ministry of Housing, Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents.

The external valuer also advised that, based on rental income values, the value of the various housing non-dwelling assets categories (garages, parking spaces and stores) have been valued at £4.7m, an increase of £0.6m compared to their value at 31 March 2022.

Contractual Commitments

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

- Heating replacement programme 2023-2026 – approximately £649k per annum
- Garage refurbishment works 2022-2024 - approximately £0.10m per annum
- FRA Remedial works programme 2022-2024 - approximately £0.80m per annum
- Door entry systems and entrance doors programme 2022-2024 - approximately £0.34m per annum
- UPVC windows and doors replacement programme 2023-2025 - approximately £0.73m per annum
- External Planned Works programme 2021-2024 – approximately £0.35m per annum
- Cyclical External Redecoration programme 2020-2025 - approximately £0.42m per annum

The Council has entered into a contract for the acquisition of new HRA dwellings direct from the developer through 2 stage payments and the value of these commitments at 31st March 2023 is:

Shepway Close, Folkestone £0.56m per annum

Property, Plant and Equipment	**Council Dwellings**	**Land and Buildings**	**Vehicles, Plant and Equipment**	**Community Assets**	**Assets Under Construction**	**Surplus Assets**	**Total**
2022/23	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Cost or Valuation							
At 1 April 2022	**220,220**	**29,120**	**14,135**	**3,461**	**8,036**	**81,202**	**356,174**
Additions	8,761	1,112	780	-	3,403	1,437	15,493
Additions - AUC	576	3,058	-	-		-	3,634
Completions - AUC	-	-	-	-	(3,634)	-	(3,634)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,810	904	-	-	-	(4,768)	5,947
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,956)	318	-	-	-	(580)	(2,218)
De-recognition - Disposals	(661)	-	-	-	-	-	(661)
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-
Other reclassifications	-	-	-	-	-	-	-
Depreciation written out to services on revaluation	(2,934)		-	-	-	-	(2,934)
At 31 March 2023	**233,817**	**34,512**	**14,915**	**3,461**	**7,804**	**77,291**	**371,801**
Depreciation and Impairment							
At 1 April 2022	**-**	**(2,036)**	**(9,424)**	**-**	**-**	**-**	**(11,460)**
Depreciation charge for the year	(2,934)	(322)	(864)	-	-	-	(4,121)
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,934		-	-	-	-	2,934
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(5,854)	(4,170)	-	-	-	(1,437)	(11,460)
At 31 March 2023	**(5,854)**	**(6,529)**	**(10,288)**	**-**	**-**	**(1,437)**	**(24,107)**
Balance Sheet amount at 31 March 2023	**227,963**	**27,983**	**4,627**	**3,461**	**7,804**	**75,854**	**347,693**

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year
**Infrastructure Assets are valued on the basis of Net Book Value.
The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets where there is replacement expenditure is nil.

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total
2021/22	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation							
At 1 April 2021	**185,603**	**28,110**	**12,500**	**3,461**	**2,034**	**70,499**	**302,207**
Additions	9,516	1,211	1,635	-	6,002	-	18,364
Revaluation increases/(decreases) recognised in the Revaluation Reserve	35,212	(134)	-	-	-	10,317	45,395
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,315	178	-	-	-	385	1,878
De-recognition - Disposals	(156)	-	-	-	-	-	(156)
Assets reclassified (to)/from Held for Sale	(810)	-	-	-	-	-	(810)
Deprecation written out to service on revaluation	(2,253)	-	-	-	-	-	(2,253)
At 31 March 2022	**228,427**	**29,365**	**14,135**	**3,461**	**8,036**	**81,201**	**364,625**
Depreciation and Impairment							
At 1 April 2021	**-**	**(1,687)**	**(8,734)**	**-**	**-**	**-**	**(10,421)**
Depreciation charge for the year	(2,263)	(313)	(691)	-	-	-	**(3,267)**
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,253	(37)	-	-	-	-	**2,216**
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(8,197)	(244)	-	-	-	-	**(8,441)**
At 31 March 2022	**(8,207)**	**(2,281)**	**(9,425)**	**-**	**-**	**-**	**(19,913)**
Balance Sheet amount at 31 March 2022	**220,220**	**27,084**	**4,710**	**3,461**	**8,036**	**81,201**	**344,712**

This represents the reversal of cumulative depreciation and impairment written out for assets that have subsequently been revalued during the year
The authority has determined in accordance with Regulation 30M of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022 that the carrying amounts to be derecognised for infrastructure assets where there is replacement expenditure of nil.

Infrastructure Assets	**21/22**	**22/23**
Opening NBV as at 1 April	10,346	9,390
Additions	387	440
Depreciation/Impairment	(1,343)	(1,349)
Closing NBV as at 31 March	**9,390**	**8,481**

In accordance with the Temporary Relief offered by the Update to the Code on infrastructure assets, this note does not include disclosure of gross cost and accumulated depreciation for infrastrure assets because historical reporting practices and resultant information deficits mean that this would not faithfully represent the asset position to the users of the financial statements. This does not impact the balance sheet as this reports net book value.

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

	21/22	**22/23**
Infrastructure Assets	9,390	8,481
Other PPE Assets	344,712	347,692
Total PPE Assets	**354,102**	**356,173**

17. Heritage Assets

The Council's heritage assets are held at cost as there is no requirement for regular revaluation of heritage assets. The Council's heritage assets were valued by an external independent valuer – BPS Chartered Surveyors, as part of the purchase of the asset in 2019/20. The Council deem this value to remain current and reflective of the lack of material changes to the asset since purchase.

Cost or Valuation	Buildings £000s	Other Items £000s	Total Assets £000s
At 1 April 2022	2,900	98	2,998
Additions	-	-	-
Disposals	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-
At 31 March 2023	**2,900**	**98**	**2,998**

18. Investment Properties

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

Investment Property	2021/22 £000s	2022/23 £000s
Rental income from investment property	(1,190)	(1,428)
Direct operating expenses arising from investment property	185	134
Net (gain)/loss	**(1,005)**	**(1,294)**

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	2021/22 £000s	2022/23 £000s
Cost or Valuation		
At 1 April	28,396	29,356
Additions – acquisitions	669	377
Additions – construction	2,210	1,029
Net gain/(loss) from fair value adjustments	(1,808)	862
Impairment reversals and write off recognised in the CIES	(111)	(1,029)
Reclassification to Capital Debtor	-	-
Reclassification to PPE-Surplus Asset	-	-
At 31 March	**29,356**	**30,595**

Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2023 are as follows:

2022/23 Recurring fair value measurements using:	Other significant observable inputs		Other significant observable inputs	
	(Level 2) 31-Mar-22 £000s	Fair value at 31-Mar-22 £000s	(Level 2) 31-Mar-23 £000s	Fair value at 31-Mar-23 £000s
Otterpool Park - Residential Properties	7,695	7,695	8,489	8,489
Otterpool Park - Land	1,153	1,153	1,153	1,153
Agricultural Land	32	32	32	32
Offices	16,831	16,831	18,496	18,496
Commercial Units	1,945	1,945	2,114	2,114
Commercial Land	1,700	1,700	310	310
Total at Fair Value	**29,356**	**29,356**	**30,595**	**30,595**
Assets Under Construction	154	154	-	-
Total Investment Properties	**29,510**	**29,510**	**30,595**	**30,595**

Otterpool Park – Residential Properties refers to existing properties on the land owned by the Council in the Otterpool Park area. These properties do not form part of the Otterpool Park LLP development.

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

Significant observable inputs – Level 2

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

Significant unobservable inputs - Level 3
There were no assets categorised as Level 3 in 2022/23.

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

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

19. Long Term Investments

Long Term Investments	2021/22* £000s	2022/23 £000s
Bond, equity & property funds	16,105	14,114
Shares in unlisted companies	6,159	6,359
Changes in FV of equity investments in companies	(3,301)	(5,918)
	18,962	**14,555**

20. Long Term Debtors

Long Term Debtors	2021/22 £000s	2022/23 £000s
Loan to Oportunitas Limited	4,222	5,640
Loan to Otterpool Park LLP	1,250	8,045
Expected Credit Loss (Loans to Companies)	(46)	(369)
Other Adjustments	-	(430)
Soft Loans (see Note 28)	1,797	1,739
Other Loans	927	1,090
Capital Prepayment (Otterpool Land Options)	773	773
Lease Receivables	109	98
	9,032	**16,585**

21. Short Term Debtors

Short Term Debtors	**2021/22 £000s**	**2022/23 £000s**
Trade Receivables	4,183	2,928
Receivables from Related Parties	7,789	8,155
Prepayments	791	705
Other Receivables	2,002	2,017
Council Taxpayers	1,890	2,889
Business Ratepayers	686	1,398
Sundry Debtors	1,104	1,644
	17,341	**19,737**
Impairment of debt		
Trade Receivables	(993)	(1,059)
Other Receiveables	(847)	(1,063)
Total	**(1,840)**	**(2,122)**
Balance as at 31 March	**15,502**	**17,615**

An analysis of the age profile of sundry trade debtors is given in the table below which form part of the debtors figures shown above;

Age of Debt	**2021/22 £000s**	**2022/23 £000s**
0 to 30 days	333	676
31 to 60 days	14	25
61 to 90 days	279	11
over 90 days	478	932
Total	**1,104**	**1,644**

22. Cash and Cash Equivalents

Cash and Cash Equivalents

	2021/22 £000s	2022/23 £000s
Bank Accounts	(405)	500
Money Market Funds	15,135	10,245
Total	**14,730**	**10,745**

23. Short Term Borrowing

Short Term Borrowing

	2021/22 £000s	2022/23 £000s
PWLB Loans	5,000	14,833
Loans from other authorities	35,500	29,500
Accrued loan interest	102	422
	40,602	**44,755**

24. Short Term & Long Term Creditors

Short Term Creditors

	2021/22 £000s	2022/23 £000s
Trade Payables	1,312	105
Payables to Related Parties	12,261	9,332
Receipts in Advance	1,047	1,270
Accrued Creditors	1,864	7,086
Other Payables	2,926	2,673
Council Taxpayers	878	2,005
Business Ratepayers	280	2,099
	20,567	**24,571**

Long Term Creditors

	2021/22 £000s	2022/23 £000s
Receipts in Advance	4,272	6,101
	4,272	**6,101**

25. Provisions

Provisions	Balance 31-Mar-22 £000s	Provisions made £000s	Amounts used £000s	Balance 31-Mar-23 £000s	Short term liability £000s	Long term Liability £000s
Business rate appeals	(2,011)	(772)	1,585	**(1,198)**	(1,198)	**-**
Other	(67)	-	-	**(67)**	-	(67)
	(2,078)	**(772)**	**1,585**	**(1,265)**	**(1,198)**	**(67)**

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

26. Long Term Borrowing

Long Term Borrowing	2021/22 £000s	2022/23 £000s
PWLB Loans	47,155	52,322
Loans from other authorities	10,000	10,000
	57,155	**62,322**

27. Financial Instruments

Financial Instruments - Classifications

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

Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

Financial Instruments - Balances

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

	Long Term		Short Term	
Financial Liabilities	**31-Mar-22**	**31-Mar-23**	**31-Mar-22**	**31-Mar-23**
	£000s	**£000s**	**£000s**	**£000s**
Loans amortised cost:				
- Principal sum borrowed	(57,155)	(62,321)	(40,500)	(44,333)
- Accrued interest	-	-	(102)	(422)
Total Borrowing	(57,155)	(62,321)	(40,602)	(44,755)
Liabilities at amortised cost:				
- Trade payables	-	-	(4,020)	(7,916)
Included in Creditors	-	-	(4,020)	(7,916)
Total Financial Liabilities	**(57,155)**	**(62,321)**	**(44,622)**	**(52,671)**

The total short-term borrowing includes £422k (£102k 2021/22) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £19.618m (£20.137m 2021/22) short-term creditors that do not meet the definition of a financial liability.

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

Financial Assets	Long Term 31-Mar-22 £000s	Long Term 31-Mar-23 £000s	Short Term 31-Mar-22 £000s	Short Term 31-Mar-23 £000s
At amortised cost:				
- Principal	-	-	-	-
- Accrued interest	-	-	-	-
At fair value through profit & loss:				
- Fair value	18,962	14,555	-	-
Total investments	18,962	14,555	-	-
At amortised cost:				
- Principal	-	-	(405)	500
At fair value through profit & loss:				
- Fair value	-	-	15,135	10,245
Total Cash & Cash Equivalents	-	-	14,730	10,745
At amortised cost:				
- Trade receivables	-	-	5,318	3,467
- Lease receivables	109	98	10	11
- Loans made for service purposes	6,855	8,467	387	193
- Loss allowance Expected Credit Loss	(46)	(2)	(55)	(66)
Included in Debtors	6,918	8,564	5,660	3,606
Total Financial Assets	**25,880**	**23,118**	**20,390**	**14,350**

The debtors line on the Balance Sheet includes £15.137m (£9.841m 2021/22) short-term debtors that do not meet the definition of a financial asset.

Material Soft Loans

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

The movements on material soft loan balances are:

	2021/22 £000s	2022/23 £000s
Opening carrying amount of soft loans on 1st April	**2,019**	**1,797**
Amounts repaid to the Council	(148)	(84)
Amounts written off	(49)	-
Increase/(decrease) in discounted amount due to passage of time	(25)	25
Closing Carrying Amount of Soft Loans on 31st March	**1,797**	**1,738**

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 2023, using the following methods and assumptions:

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

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

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

Financial Liabilities	Fair Value Level	Balance Sheet 31-Mar-22 £000s	Fair Value 31-Mar-22 £000s	Balance Sheet 31-Mar-23 £000s	Fair Value 31-Mar-23 £000s
Financial liabilities held at amortised cost:					
Long-term loans from PWLB	**2**	47,155	52,699	52,321	48,883
Other long-term loans	**2**	10,000	9,774	10,000	10,402
Short-term loans from PWLB	**2**	5,000	5,100	14,833	14,837
Short-term loans	**2**	35,500	35,388	29,500	29,326
Total		**97,655**	**102,961**	**106,655**	**103,448**
Liabilities for which fair value is not disclosed *		4,122		8,338	
Total Financial Liabilities		**101,777**		**114,993**	
Recorded on balance sheet as:					
Short-term creditors		4,020		7,916	
Short-term borrowing		40,602		44,755	
Long-term borrowing		57,155		62,321	
Total Financial Liabilities		**101,777**		**114,993**	

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

	31-Mar-22	31-Mar-23
Short term Liabilities		
Trade Creditors	4,020	7,916
Borrowing (inc accrd interest)	102	422
	4,122	**8,338**

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

Financial Assets	Fair Value Level	Balance Sheet 31-Mar-22 £'000	Fair Value 31-Mar-22 £'000	Balance Sheet 31-Mar-23 £'000	Fair Value 31-Mar-23 £'000
Financial assets held at fair value					
Money market funds	1	10,135	10,135	10,245	10,245
Structured loans and deposits	1	5,000	5,000	-	-
Bond, equity and property funds	1	16,105	16,105	14,050	14,050
Shares in unlisted companies	3	2,857	2,857	441	441
Financial assets held at amortised cost					
Long-term loans to companies	3	6,353	6,592	13,975	13,975
Soft Loans	3	1,797	1,797	1,739	1,739
Lease receivables	3	109	109	98	98
Total		**42,356**	**42,596**	**40,548**	**40,548**
Assets for which fair value is not disclosed*		**6,082**		**4,943**	
Total Financial Assets		**48,438**		**45,491**	
Recorded on balance sheet as:					
Long-term investments		18,962		14,555	
Long-term debtors		9,032		16,585	
Short-term debtors		5,714		3,607	
Cash and cash equivalents		14,730		10,745	
Total Financial Assets		**48,438**		**45,491**	

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

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

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

Financial Asset - Equity Investment in Oportunitas Limited

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

Key quantitative assumptions used for valuation:

- Time period - 2-year period of business plan, plus an in-perpetuity calculation
- Discount Rate – 11.3%: the return on capital of similar companies traded on the London Stock Exchange, plus a 1% risk premium
- Corporation Tax – 25% on realised profits excluding that due to upward revaluations
- Inflation – 5.6% in 2023/24, 1.9% in 2024/25 and 2% in perpetuity
- Property price inflation – -5.0% in 2023/24 and 2024/25 7.1% (based on historical average increase in Folkestone local area)
- Rental yield - 6% rental yield in perpetuity based on company business plan

Sensitivity Analysis

Assumption	Change Required for Above Nil Fair Value
Discount rate	To reduce to 8.5%
Inflation	To rise to 8.2%
Short term property price inflation	To rise to 18.7%
Long term property price inflation	To rise to 12.4%
Rental yield	To rise to 9.1%

Financial Asset – Long term loan to Oportunitas Limited

The fair value has been estimated by discounting future cash flows for the loan at the rate for an equivalent loan made on 31 March 2022. This rate has been estimated using the BBB corporate bond curve.

Financial Asset - Equity Investment in Otterpool Park LLP

Valuation method – Fair Value deemed to be current value as at 31st March 2023 due to uncertainties around projected future cash flows due to the early stages of the project at the time of preparing the accounts.

Reconciliation of Movement for Level 3 Financial Assets Held at Fair Value	
	£'000
Balance 1 April	**2,857**
Otterpool Equity Purchased 22/23	200
Unrealised valuation loss	(2,617)
Balance 31 March	**441**

Financial Instruments - Gains and Losses

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

Financial Instruments Income,Expense,Gains and Losses 2022/23	**Financial Liabilities measured at amortised cost** £000s	**Financial Assets at Amortised Cost** £000s	**Financial Assets at Fair Value Profit & Loss** £000s	**22/23 Total** £000s	**21/22 Total** £000s
Interest expense	1,939	-	-	1,939	1,866
Losses from changes in fair value	4,577	-	-	4,577	2,901
(Gains)/Losses on derecognition impairment losses	369	-	-	369	(43)
Total Expense in Surplus or Deficit on the Provision of Services	**6,884**	**-**	**-**	**6,884**	**4,723**
Interest and dividend income	-	(473)	(895)	(1,369)	(874)
Gains from changes in fair value	-	-	-	-	(805)
Total Income in Surplus or Deficit on the Provision of Services	**-**	**(473)**	**(895)**	**(1,369)**	**(1,679)**
Net (gain)/loss for the year	**6,884**	**(473)**	**(895)**	**5,515**	**3,044**

28. Borrowing Costs

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

In 2022/23 £540k of borrowing costs were capitalised using a capitalisation rate of 1.42%.

29. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

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

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

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

Pension Transition Arrangements Age Discrimination – In 2015, the Government introduced reforms to public sector pensions, with most public sector workers moving into new pension schemes. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial and fire fighter's schemes as part of the reforms breached age discrimination rules and in June 2019 the Supreme Court denied the Government's request for an appeal. In July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS (Local Government Pension Scheme). An allowance for this was included in the accounting results for 31st March 2020. These results, including the allowance, have been rolled forward and re-measured to provide accounting results as at 31st March 2023.

Transactions Relating to Retirement Benefits

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

Balance Sheet

Net Pension assets as at	**31-Mar-22 £000s**	**31-Mar-23 £000s**
Present Value of the defined obligation	195,626	138,576
Fair Value of the Fund Assets	(123,078)	(125,478)
Net defined benefit liability / (asset)	**72,548**	**13,098**

Comprehensive Income and Expenditure for the year

The amounts recognised in the profit and loss statement are:	**Year to 31-Mar-22 £000s**	**Year to 31-Mar-23 £000s**
Service Cost	6,950	4,875
Net interest on the defined liability (asset)	1,491	1,098
Administration expenses	72	75
Total Loss / (profit)	**8,513**	**6,048**

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

	Year to 31-Mar-22 £000s	**Year to 31-Mar-23 £000s**
Opening defined benefit obligation	196,941	195,626
Current service cost	6,926	4,818
Interest cost	3,790	5,276
Change in financial assumptions	(8,977)	(76,186)
Change in demographic assumptions	-	(5,304)
Experience loss / (gain) on defined benefit obligation	493	18,866
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(4,502)	(5,533)
Past service costs, including curtailment	24	57
Contribution by scheme participants and other employers	931	956
	195,626	**138,576**

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

	Year to 31-Mar-22 £000s	Year to 31-Mar-23 £000s
Opening fair value of scheme assets	120,350	123,078
Interest on assets	2,299	4,178
Return on assets, less interest	229	(2,580)
Actuarial gains / (losses)	-	1,148
Administration Expenses	(72)	(75)
Contributions from employer including unfunded	3,843	4,306
Contributions by scheme participants	931	956
Estimated benefits paid plus unfunded net of transfers	(4,502)	(5,533)
Settlement prices received / (paid)	-	-
	123,078	**125,478**

Re-measurement of net assets (defined liability)

	Year to 31-Mar-22 £000s	Year to 31-Mar-23 £000s
Return on fund assets in excess of interest	229	(2,580)
Other actuarial gains / (losses) on assets	-	1,148
Change in financial assumptions	8,977	76,186
Change in demographic assumptions	-	5,304
Experience loss (gain) on defined benefit obligation	(493)	(18,866)
	8,713	**61,192**

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 2023.

The significant assumptions used by the actuary have been:

Statistical assumptions	2021/22	2022/23
Mortality assumption		
Longevity at 65 for current pensioners		
-men	21.6 yrs	21.1 yrs
-women	23.7 yrs	23.5 yrs
Longevity at 65 for future pensioners		
-men	23.0 yrs	22.3 yrs
-women	25.1 yrs	25.0 yrs
Rate of inflation - CPI	3.20%	2.95%
Rate of increase in salaries	4.20%	3.95%
Rate of increase in pensions	3.20%	2.95%
Rate for discounting scheme liabilities	2.60%	4.80%

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	£000s	£000s
Adjustment to Discounted rate	1.00%	0.50%	0.00%	-0.50%	-1.00%
Present value of total obligation	119,682	128,556	138,576	149,940	162,887
Projected Service Cost	1,818	2,160	2,560	3,031	3,587
Adjustment to Long term Salary increments	1.00%	0.50%	0.00%	-0.50%	-1.00%
Present value of total obligation	140,487	139,511	138,576	137,680	136,822
Projected Service Cost	2,577	2,569	2,560	2,552	2,543
Adjustment to Pension increases and deferred valuations	1.00%	0.50%	0.00%	-0.50%	-1.00%
Present value of total obligation	161,202	149,163	138,576	129,236	120,970
Projected Service Cost	3,596	3,027	2,560	2,164	1,809
Adjustment to Life expectancy assumptions		1yr	None	-1yr	
Present value of total obligation		144,335	138,576	133,079	
Projected Service Cost		2,653	2,560	2,470	

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 (13%). 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 on 31st March 2025, with the most recent valuation completing on 31st March 2022.

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

Projection for the year to 31 March 2023	**Year to 31-Mar-23 £000s**	**Year to 31-Mar-24 £000s**
Service cost	6,103	2,560
Net Interest and defined liability / (asset)	1,836	540
Administration Expenses	72	75
Total loss / (profit)	**8,011**	**3,175**
Employer Contributions	**3,865**	**3,721**

The weighted average duration of the defined benefit obligation for scheme members is 19 years 2022/23 (19 years 2021/22).

30. Usable Reserves

	2021/22 £000s	2022/23 £000s
General Fund Reserve	(6,008)	(5,625)
Earmarked Reserves	(20,969)	(14,870)
Housing Revenue Reserve	(10,065)	(7,003)
Major Repair Reserve	-	-
Capital Receipt Reserve	(9,069)	(7,859)
Capital Grants Unapplied	(7,923)	(6,777)
Total	**(54,034)**	**(42,135)**

31. Unusable Reserves

Unusable Reserves	2021/22 £000s	2022/23 £000s
Revaluation Reserve	(126,365)	(130,681)
Pooled Investment Funds Adjustment Account	(1,010)	950
Capital Adjustment Account	(139,544)	(134,956)
Financial Instruments Adjustment Account	25	-
Deferred Capital Receipts reserve	(119)	(109)
Collection Fund Adjustment Account	3,407	(451)
Pensions Reserve	72,548	13,098
Accumulated Absences Account	507	465
	(190,551)	**(251,684)**

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	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(81,934)**		**(126,365)**
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(45,394)		(5,946)
Difference between fair value depreciation and historic cost depreciation	706		1,384	
Revaluation balances on assets sold or scrapped	257		246	
Amount written off to the Capital Adjustment Account		963		1,630
Balance as at 31 March		**(126,365)**		**(130,681)**

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

Pooled Investment Funds Adjustment Account

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

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

Pooled Investment Funds Adjutsment Account	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(204)**		**(1,010)**
Transfer from Available for Sale Reserve		-		-
Upward revaluation of investments	(806)		-	
Downward revaluation of investments	-		-	1,960
		(806)		-
Balance as at 31 March		**(1,010)**		**950**

Capital Adjustment Account

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

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

Capital Adjustment Account	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(138,158)**		**(139,544)**
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	13,088		17,298	
Revaluation (gains)/losses on Property, Plant and Equipment	1,059		5,265	
Amortisation of intangible assets	11		44	
Revenue expenditure funded from capital under statute	1,463		1,523	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	966		661	
Capital debtors written down	775		426	
Equity Valuation (gains)/losses				
		17,362		**25,217**
Adjusting amounts written out of the Revaluation Reserve		(962)		(1,631)
Net written out amount of the cost of non-current assets consumed in the year		**16,400**		**23,586**
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,779)		(2,953)	
Use of the Major Repairs Reserve to finance new capital expenditure	(5,679)		(3,087)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(3,438)		(688)	
Application of grants to capital financing from the capital Grants Unapplied Account	(2,187)		(3,365)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(1,211)		(3,207)	
Capital expenditure charged against the General Fund and HRA balances	(5,220)		(5,865)	
		(19,514)		**(19,166)**
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		**1,728**		**167**
Balance as at 31 March		**(139,544)**		**(134,956)**

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	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**13**		**25**
Repaid renovation advances	-		-	
Amortised interest on renovation advances	12		(25)	
Net write down deferred discounts to revenue	-	12	-	(25)
Balance as at 31 March		**25**		**-**

Deferred Capital Receipts Reserve

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

Deferred Capital Receipts Reserve	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**(129)**		**(119)**
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	10		10	
Gain on sale of assets	-	10	-	10
Balance as at 31 March		**(119)**		**(109)**

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.

	2021/22	2022/23
	£000s	£000s
Balance at 1 April	**5,100**	**3,407**
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	(1,693)	(3,858)
Balance as at 31 March	**3,407**	**(451)**

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.

	2021/22 £000s	2022/23 £000s
Balance at 1 April	**76,591**	**72,548**
Remeasurement of Net defined Liability	(8,713)	(61,192)
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	8,513	6,048
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,843)	(4,306)
Balance as at 31 March	**72,548**	**13,098**

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	2021/22		2022/23	
	£000s	£000s	£000s	£000s
Balance at 1 April		**593**		**507**
Settlement or cancellation of accrual made at the end of the preceding year	(593)		(507)	
Amounts accrued at the end of the current year	507		465	
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		**(86)**		**(42)**
Balance as at 31 March		**507**		**465**

32. Capital Expenditure and Capital Financing

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

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

Capital Expenditure and Financing	**2021/22 £000s**	**2022/23 £000s**
Opening Capital Financing Requirement	126,944	133,177
Capital Investment		
Property, Plant and Equipment	18,751	15,932
Heritage assets		
Investment Properties	2,879	1,406
Intangible assets	38	48
Loans to and equity in subsidiary	1,040	1,500
Loans to and equity in LLP	1,250	6,750
Other loans	344	275
Capital Debtors - prepayments	100	-
Revenue expenditure funded from capital under statute	1,463	1,523
Sources of Finance		
Capital Receipts	(1,778)	(2,953)
Government grants and other contributions	(5,632)	(4,053)
Sums set aside from revenue:		
Direct Revenue Contributions	(10,899)	(8,949)
Previous Year Financing Adjustment	(112)	(56)
Revenue provision for debt repayment	(1,211)	(3,207)
Closing Capital Financing Requirement	**133,177**	**141,393**
Increase in underlying need to borrow (unsupported by Government financial assistance)	7,618	11,479
Revenue provision for debt repayment	(1,211)	(3,207)
Other adjustments	(174)	(56)
Increase / (decrease) in Capital Financing Requirement	**6,233**	**8,216**

33. Nature and Extent of Risks arising from Financial Instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2021.

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

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

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

Credit Risk: Overview

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

Exposure Category	31/03/2022 £'000	31/03/2023 £'000
Treasury Investments	31,240	(288)
Trade Receivables	4,106	4,572
Lease Receivables	119	(58)
Service Loans	5,491	22,036
Service Loan Commitments	2,470	970
Total Credit Risk Exposure	**43,425**	**27,232**

Credit Risk: Treasury Investments

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

A limit of £5m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £3m applies. The Council also sets limits on investments in certain sectors. No more than £15m in total can be invested for a period longer than one year.

The Chief Finance Officer can also apply additional selection criteria to further restrict the investment counterparties available to the Council and/or the maximum duration of investments.

The table below summarises the credit risk exposure of the Council's investment portfolio by credit rating:

Credit Rating	31-Mar-22		31-Mar-23	
	Long-term £000s	Short-term £000s	Long-term £000s	Short-term £000s
AAA		15,135		10,245
Unrated pooled funds	16,105		16,459	
Total Investments	**16,105**	**15,135**	**16,459**	**10,245**

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.

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
v. Otterpool Park LLP

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 & Otterpool Park LLP have been calculated by reference to published historical default rates for the construction and building sector, the recovery rate for secured and unsecured loans, current market conditions and examination of the latest financial statements and business plan for Oportunitas Limited & Otterpool Park LLP. Only 12-month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £415k. This sum has been taken to the Surplus or Deficit on the Provision of Services. A reconciliation of the opening to closing 12 month expected credit loss allowances is as follows:

	12 month expected credit losses £'000
Opening Allowance 01/04/2022	46
Change in risk	369
Closing Allowance 31/03/2023	**415**

Liquidity Risk

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

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

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

	Discounted (Principal)		Undiscounted (Principal plus interest)	
Time to maturity	**31-Mar-22 £000s**	**31-Mar-23 £000s**	**31-Mar-22 £000s**	**31-Mar-23 £000s**
Less than 1 year	40,500	44,334	42,647	47,743
1 to 2 years	14,000	4,834	15,739	7,234
2 to 5 years	12,001	24,501	16,304	29,814
5 to 10 years	16,012	16,179	20,746	21,183
10 to 20 years	2,001	3,667	8,182	9,834
20 to 40 years	13,141	13,141	17,763	17,169
Total	**97,655**	**106,655**	**121,382**	**132,977**

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council depending on how variable and fixed rates move across differing financial instrument periods. For example, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense will rise.
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income will rise.
- Investments at fixed rates – the fair value of the assets will fall

Investments classed at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value have no impact on the Comprehensive Income and Expenditure Statement (CIES). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed at fair value will be reflected in the CIES.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. An upper limit of £187,000 on the 12-month revenue impact of a 1% rise and £245,000 of a 1% fall in interest rates was set for 2022/23

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2023 would be:

	£000s
Increase in interest payable on variable rate borrowings	48
Increase in interest receivable on variable rate investments	(10)
Impact on Comprehensive Income and Expenditure	**38**
Decrease in fair value of loans and receivables and bonds	-
Decrease in fair value of fixed rate borrowings	(3,986)

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	-	-	(242)
Diversified Income Funds	(169)	(107)	(22)
Total	**(169)**	**(107)**	**(264)**

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 taxpayer.

Foreign Exchange Risk

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

34. Section 106 Receipts and Planning Condition Contributions

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

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

Opening Balance 01-Apr-22	New Contributions	Amounts Applied	Closing Balance 31-Mar-23
£000s	**£000s**	**£000s**	**£000s**
(2,701)	(1,306)	213	(3,794)

The balances at 31 March 2023 are held within the following areas of the balance sheet:

	2021/22 £000s	2022/23 £000s
Liabilities:		
Long term creditors – receipts in advance	(2,339)	(3,314)
Capital grants received in advance – current	(65)	(65)
Reserves:		
Capital grants unapplied reserve	(297)	(415)
	(2,701)	**(3,794)**

Notes Supporting the Cash Flow Statement

35. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2021/22 £000s		2022/23 £000s
241	Interest received	919
(1,981)	Interest paid	(1,938)
645	Investment income	895

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

2021/22 £000s		2022/23 £000s
4,610	Depreciation and impairment	5,469
6,710	Impairment and downward revaluations	14,707
11	Amortisation	44
(43)	Change in impairment for bad debts	(2)
(2,312)	Increase/(decrease) in creditors	5,662
(5,308)	(Increase)/decrease in debtors	(1,280)
(1)	(Increase)/decrease in inventories	(2)
4,670	Movement in pension liability	1,742
1,809	Movement in investment property values	(862)
966	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	661
1,883	Other non-cash items charged to the net surplus or deficit on the provision of services	4,944
12,994		**31,081**

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

2021/22 £000s		2022/23 £000s
(8,711)	Capital grants credited to the surplus or deficit on the provision of services	(775)
(1,803)	Proceeds from the sale of property, plant and equipment	(1,180)
-	Any other items for which the cash effects are investing or financing cash flows	-
(10,514)		**(1,955)**

36. Cash Flow Statement – Investing Activities

2021/22 £000s		2022/23 £000s
(22,165)	Purchase of property, plant & equipment, investment property and intangible assets	(18,028)
(1,040)	Purchase of short-term and long-term investments	(200)
(1,687)	Other payments for investing activities	(8,325)
1,803	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,180
-	Proceeds from investments	-
11,089	Other receipts from investing activities	1,676
(12,000)	**Net cash flows from investing activities**	**(23,697)**

The other payments for investing activities relates to cash loan payments to Otterpool LLP & Oportunitas Ltd.

37. Cash Flow Statement – Financing Activities

2021/22 £000s		2022/23 £000s
25,000	Cash receipts of short- and long-term borrowing	54,000
(6,300)	Repayments of short- and long-term borrowing	(44,681)
7,214	Other payments for financing activities	(833)
25,914	**Net cash flows from financing activities**	**8,486**

Other Notes

38. Related Party Transactions

The Council is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or to have secured the ability to limit another party's ability to bargain freely with the Council.

The UK Government exerts significant influence over the general operations of the Council. It is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g., housing benefits).

Details of transactions with government departments are set out in note 15 on page 57.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2022/23 is set out in note 12 (page 54). 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 2022/23, other than those disclosed in note 13 (pages 55).

The Council is Corporate Trustee of the Folkestone Parks and Pleasure Grounds Charity. It is responsible for providing the majority of the Charity's funding by financing its net cost. The Corporate Trustee duties of the Council are carried out by its executive councillors. The Charity's management support and grounds maintenance is carried out by the Council officers. Further details of the Trust and the Council's contribution are set out in note 39 (page 95). Payment of £520k was made to the Charity in respect of Special Expenses. The Council received £57k from the Charity in respect of loan repayments. Balances due to/from the Charity at 31st March 2023 are £321k and £452k respectively.

The Council has three subsidiaries; wholly owned Oportunitas Limited, a company that commenced trading in 2014/15; wholly owned Otterpool Park Development Company Ltd (OPDCL); and Otterpool Park LLP (OPLLP) of which the Council owns 99.9%. OPLLP, set up by the Council to deliver its objectives for the Otterpool Park Garden Town, was incorporated on 15th August 2019 and FHDC and OPDCL were appointed members on 4th February 2020. Group financial statements, consolidating the results of the companies with those of the Council, have been prepared and are set out on pages 109-118.

Payment of £1.5m was made in 2022/23 to Oportunitas Limited in respect of share purchases. The Council received £236k from Oportunitas in respect of loan repayments. The Council also has charges over all properties owned by Oportunitas Limited.

Payment of £6.5m was made in 2022/23 to OPLLP in respect of a company loan and £200k in respect of equity.

No payments were made in 2022/23 to OPDCL in respect of a contribution towards operating costs.

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	2021/22 £000s	2022/23 £000s
Amounts due to Central Government	11,921	9,015
Amounts due to East Kent Spatial Development Company	-	-
Amount due to Oportunitas Limited	1	-
Amount due to Folkestone Parks Charity	339	290
Amounts due from Central Government	4,375	6,082
Amounts due from Kent County Council	3,415	2,073
Amount due from Oportunitas Limited	4,207	5,675
Amount due from Folkestone Parks Charity	509	452

39. Trust Funds

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone and Sandgate parish areas. The funds do not represent assets of the Council and have not been included in the balance sheet; however, the Council does hold £233k of investments, net of cash, on behalf of the charity.

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 £520k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£539k 2021/22).

Income to the Charity therefore includes a contribution of £520k from the Council (£539k in 2021/22). The remainder of the charity's income is derived from charges for services, grants and investment income.

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

40. Interests in Companies and Other Entities

Oportunitas Limited

The Council wholly owns Oportunitas Limited, a company set up for housing and regeneration purposes. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 109.

The Council holds 2,515 shares in the company at a cost of £4.9m and has loans outstanding of £5.8m from it.

Company turnover was £474k in 2022/23 (£351k 2021/22). Oportunitas made a profit on ordinary activities of £101k in 2022/23 (loss of £76k in 2021/22). Its holdings in investment property were £11.9m at 31st March 2023 (£10.0m 31/03/2022).

Otterpool Park LLP

The Council owns 99.9% of OPLLP, a company set up to deliver its objectives for the Otterpool Park Garden Town. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 109.

The Council's member capital in the company is £1.5m and has loans outstanding of £7.8m.

Company turnover was £131k in 2022/23 (£143k 2021/22). OPLLP made an operating loss of £622k in 2022/23 (£635k in 2021/22). It held tangible assets of £68k at 31st March 2023 (£41k 31/03/2022).

Otterpool Park Development Company LLP

The Council wholly owns OPDCL, a company set up to deliver its objectives for the Otterpool Park Garden Town and a member of OPLLP.
Company turnover was (£5k) in 2022/23 (£NIL 2021/22) and made an operating loss of £5k in 2022/23 (£NIL 2021/22).

41. The Council Acting as Agent

In 2022/23 the Council acted as an intermediary in its role as agent to administer grants to businesses and households as part of the Government's financial support package provided in response to macroeconomic changes in the energy market. Where the Council acts as agent year-end balances only are reflected in the accounts as either a debtor or creditor.

The Council acted as agent for the following grant schemes:

Grant	Purpose of Grant	Opening Balance 01-Apr-22 £000s	New Grants £000s	Expended £000s	Closing Balance 31-Mar-23 £000s	Balance Sheet Analysis
Business Rates Grant Schemes	Payments to business ratepayers for periods of enforced closure by Government regulations	(360)	-	360	0	
Council Tax Energy Rebate Scheme	Payments to households to help with the cost of rising energy bills	(5,991)		5,315	(675)	Creditor
		(6,351)	**0**	**5,676**	**(675)**	

42. Contingent Assets

Contingent Asset
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.

There are no material contingent assets identified at the Balance Sheet Date.

Contingent Liability
A contingent liability is a liability that may occur depending on the outcome of an uncertain future event. Contingent liabilities are recorded if the contingency is likely, and the amount of the liability can be reasonably estimated.

There are no material contingent liabilities identified at the Balance Sheet Date.

43. Events after the Balance Sheet Date

The accounts were authorised for issue on the 31st of August 2023, which is the date that the Director of Corporate Services signed the Balance Sheet. Events after the balance sheet date (31st March 2023) been considered up to the 31st of August 2023 when the accounts were authorised for issue. If any significant events take place before the 31st of August 2023 which provide information about conditions existing at 31st March 2023, identify that any material adjustments are needed to reflect the impact of this information, the financial statements and notes are amended.

There have been no post balance sheet events identified which require amendments.

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

2021/22 £000s		2022/23 £000s
	Income	
(15,366)	Dwelling Rents (Gross)	(15,844)
(280)	Non dwelling rents (Gross)	(285)
(1,017)	Charges for services and facilities	(1,023)
(52)	Contributions towards expenditure	(52)
(1,989)	Capital Grants and Contributions	(374)
(18,704)		**(17,579)**
	Expenditure	
3,959	Repairs and maintenance	3,974
6,898	Supervision and management	6,202
20	Rents, rates, taxes and other charges	11
10,668	Depreciation and impairment of non-current assets (HRA Note 6)	9,121
(1,469)	Valuation change	1,719
24	Debt management costs	26
(36)	Increase / (Decrease) in bad debt provision	75
20,064		**21,128**
1,360	**Net (surplus)/deficit of HRA Services as included in the whole authority CIES**	**3,549**
160	HRA services share of Corporate and Democratic Core	189
1,520	**Net (surplus)/deficit of HRA services**	**3,737**
(762)	(Gain)/loss on sale of HRA non-current assets	(452)
1,520	Interest payable and similar charges	1,526
(14)	Interest and investment income	(17)
255	Net interest on the net defined liability (HRA Note 9)	484
2,519	**(Surplus)/Deficit for the year on HRA Services**	**5,277**

Movement on the Housing Revenue Account Statement

2021/22 £000s		2022/23 £000s
2,519	Deficit on the HRA Income and Expenditure Statement	5,277
(4,794)	Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (HRA Note 8)	(7,345)
762	Gain or (loss) on sale of HRA non-current assets	452
4,287	Capital expenditure funded by the HRA	4,961
(800)	HRA share of contributions to or from the Pensions Reserve (HRA Note 9)	(283)
1,974	**Net (increase) or decrease before transfers to or from Reserves**	**3,062**
-	Transfer from the Major Repairs Reserve	-
1,974	**(Increase) or Decrease in year on the HRA**	**3,062**
(12,037)	Balance on the HRA at the end of the previous reporting period	(10,063)
1,974	(Increase) or Decrease in year on the HRA (as shown above)	3,062
(10,063)	**Balance on the HRA at the end of the current reporting period**	**(7,001)**

1. Housing Assets

At 31st March 2023, the Council was responsible for managing 3,390 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows: 1,868
Flats and Bedsits: 1,522

The change in the stock can be summarised as follows:

Stock	2021/22	2022/23
Stock at 1 April	3,388	3,381
Acquisitions	7	19
Sales	(14)	(10)
Stock at 31 March	**3,381**	**3,390**

The Balance Sheet value was as follows:

	2021/22 £000s	2022/23 £000s
Dwellings	220,220	227,963
Other Land and Buildings	6,040	6,636
Infrastructure	966	21,347
Vehicles, Plant, Furniture and Equipment	124	94
Total Operational Assets	**227,350**	**256,040**
Assets under construction	1,559	1,729
Total Non Operational Assets	**1,559**	**1,729**
Total Assets	**228,909**	**257,768**

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 31st March 2023 was £690.7m. 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

	2021/22 £000s	2022/23 £000s
Balance on Major Repairs Reserve as at 1 April	(3,271)	-
Depreciation and impairment of non-current assets	(2,408)	(3,087)
Capital expenditure on land, houses and other property within the HRA	5,679	3,087
Balance on the Major Repairs Reserve as at 31 March	**-**	**-**

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

	2021/22 £000s	2022/23 £000s
Houses	11,044	9,655
Other Property	76	4,022
Intangible Assets	16	48
	11,136	**13,726**

5. Capital Financing

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

	2021/22 £000s	2022/23 £000s
Capital receipts	1,169	1,062
Revenue	4,288	4,961
Decarbonisation Grant	-	640
Major Repairs Reserve	5,679	3,087
	11,136	**9,750**

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

	2021/22 £000s	2022/23 £000s
Houses and Flats	1,571	1,098
	1,571	**1,098**

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

2021/22 Revaluation £000s	2021/22 Depreciation £000s	2021/22 Impairment £000s		2022/23 Revaluation £000s	2022/23 Depreciation £000s	2022/23 Impairment £000s
-	-	-	Land			
1,315	2,263	8,197	Dwellings	(1,956)	2,934	5,854
154	36	63	Other Land and Buildings	236	38	148
-	81	-	Infrastructure	-	84	-
-	28	-	Vehicles, Plant, Furniture and Equipment	-	30	-
1,469	**2,408**	**8,260**		**(1,719)**	**3,087**	**6,002**

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

Additionally in 2022/23 £9.81m was posted to the Revaluation Reserve (£35.21m 2021/22) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

7. Rent Arrears

	31-Mar-22 £000s	31-Mar-23 £000s
Gross rent arrears	505	641
Current tenant arrears (excluding former tenants)	278	343
Provision for doubtful debts	182	241

Gross rent arrears include income related to properties leased by the Council to assist with providing services to prevent homelessness. Income relating to this service is credited to the General Fund.

8. Difference between any other items of Income and Expenditure

	2021/22 £000s	2022/23 £000s
HRA impairment-capital expenditure not adding value	(8,260)	(6,002)
Net valuation changes	1,470	(1,719)
Other movements	-	374
Other changes	-	2
	(6,790)	**(7,345)**

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.

2021/22 £000s		2022/23 £000s
1,197	Current Service Cost	668
255	Net interest on net defined liability	150
1,452	Net charge to the HRA Income and Expenditure Statement	**818**
(800)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(283)
652		**535**
652	Employer Contributions	535
652	Actual amounts charged against the HRA balance for pensions	**535**

HRA CIES	2022/23 £000s
Pension back funding re: current service cost	(201)
Net interest on net defined liability	150
Employers contributions	535
Charged to HRA CIES	**484**

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

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

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.53m (£1.52m 2021/22).

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 (£7k 2021/22).

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.

2021/22				2022/23		
Council Tax £000s	Business Rates £000s	Total £000s		Council Tax £000s	Business Rates £000s	Total £000s
			Amounts required by statute to be credited to the Collection Fund			
(81,137)		(81,137)	Council Tax (Note 1)	(84,354)		(84,354)
8		8	Council Tax benefit	5		5
(68)		(68)	Council Tax S13A 1(C) Discounts	(86)		(86)
	(19,319)	(19,319)	Business Rates income (Note 2)		(21,778)	(21,778)
	263	263	Business Rates transitional protection		(1,376)	(1,376)
(81,197)	**(19,056)**	**(100,253)**	**Total Income**	**(84,435)**	**(23,154)**	**(107,589)**
			Amounts required by statute to be debited to the Collection Fund			
			Council tax precepts and demands:			
54,601		54,601	Kent County Council	57,240		57,240
8,396		8,396	Kent Police and Crime Commissioner	8,937		8,937
3,110		3,110	Kent and Medway Fire and Rescue	3,226		3,226
13,128		13,128	Folkestone & Hythe District Council	13,591		13,591
(1,132)		(1,132)	Surplus/(deficit) distribution	3,408		3,408
302		302	Council Tax bad debts written off	832		832
274		274	(Decrease)/Increase in provision for Council Tax bad debts	386		386
			Payment of Business Rates			
	144	144	Cost of Business Rates collection		145	145
			Share of Business Rates income:			
	14,755	14,755	Central Government (central share)		11,275	11,275
	2,656	2,656	Kent County Council		2,030	2,030
	295	295	Kent and Medway Fire and Rescue		226	226
	11,804	11,804	Folkestone & Hythe District Council		9,020	9,020
	(13,174)	(13,174)	Surplus/(deficit) distribution		(8,860)	(8,860)
	90	90	Business Rates bad debts written off		180	180
	5	5	(Decrease)/Increase in provision for Business Rates bad debts		262	262
	(666)	(666)	(Decrease)/Increase in provision for Business Rates appeals		(2,032)	(2,032)
78,679	**15,909**	**94,588**	**Total Expenditure**	**87,620**	**12,246**	**99,866**
(2,518)	(3,147)	(5,665)	**(SURPLUS)/DEFICIT FOR THE YEAR**	3,185	(10,908)	(7,723)
880	12,330	13,210	(Surplus)/Deficit brought forward	(1,638)	9,183	7,545
(1,638)	9,183	7,545	(Surplus)/Deficit carried forward	1,547	(1,725)	(178)

1. Council Tax

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

2021/22 £		2022/23 £
1,418.76	Kent County Council	1,461.24
218.15	Kent Police Commissioner	228.15
80.82	Kent Fire and Rescue Service	82.35
273.72	Folkestone & Hythe District Council (including Special Expenses charged on Folkestone)	279.09
67.41	Town and Parish Councils	67.88
2,058.86		**2,118.71**

The amount of income generated in 2022/23 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	7,123	2,847	(6,032)
B	12,730	7,109	(15,061)
C	14,259	10,357	(21,944)
D	8,335	7,375	(15,626)
E	5,163	5,825	(12,342)
F	2,742	3,673	(7,783)
G	1,910	2,976	(6,306)
H	95	128	(272)
	52,357	40,292	**(85,367)**
	Contributions from the Ministry of Defence in lieu of council tax		(628)
	In year adjustments		1,640
	Income collectable from council tax payers		**(84,354)**

The 2022/23 tax base approved by Council was 38,485. This figure was arrived at after allowing for contributions in lieu of council tax and provision for bad debts.

2. Income Collectable from Business Rate Payers

The Council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. Since April 2015 Folkestone & Hythe District Council have been a member of the Kent Business Rates Pool with Kent County Council, Kent Fire and Rescue and nine other Kent local authorities in order to minimise the levy payment due to central government and thereby maximise retention of locally generated business rates. In 2021/22 the total amount, less certain reliefs and other deductions, was shared between Central Government (50%), Folkestone & Hythe District Council (40%), Kent County Council (9%) and Kent and Medway Fire and Rescue (1%).

2021/22 £000s		2022/23 £000s
(72,969)	Non domestic rateable value as at 31 March	(73,026)
49.9p	Non-domestic rate multiplier	49.9p
(36,412)	**NNDR income before allowances and other**	**(36,440)**
17,093	Allowances, reduced assessments and other adjustments, including small business rate relief supplement & Covid reliefs	14,662
(19,319)	**Income collectable from business rate payers**	**(21,778)**

The non-domestic rate multiplier for 2022/23 was 49.9p for qualifying properties of less than £51,000 rateable value and 51.2p for all others (2021/22 49.9p and 51.2p respectively).

Group Accounts

GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2022/23										
Balance at 31 March 2022	**(26,977)**	**(10,065)**	**(9,069)**	**-**	**(7,923)**	**(54,034)**	**(190,551)**	**(244,585)**	**(198)**	**(244,783)**
Movement in reserves during 2022/23										
Total Comprehensive Income and Expenditure	12,628	5,277	-	-	-	**17,905**	**(67,138)**	**(49,233)**	25	**(49,207)**
Adjustments between accounting basis and funding basis under regulations	(6,147)	(2,215)	1,210	-	1,146	**(6,006)**	**6,006**	**-**	-	**-**
Increase or Decrease in 2022/23	**6,481**	**3,062**	**1,210**	**-**	**1,146**	**11,900**	**(61,132)**	**(49,233)**	**25**	**(49,207)**
Balance at 31st March 2023 carried forward	**(20,496)**	**(7,003)**	**(7,859)**	**-**	**(6,777)**	**(42,134)**	**(251,683)**	**(293,818)**	**(173)**	**(293,989)**
2021/22										
Balance at 31 March 2021	**(27,395)**	**(12,037)**	**(8,436)**	**(3,271)**	**(5,195)**	**(56,334)**	**(138,128)**	**(194,462)**	**(371)**	**(194,833)**
Movement in reserves during 2021/22										
Total Comprehensive Income and Expenditure*	1,467	2,517	-	-	-	**3,984**	(54,107)	**(50,123)**	173	**(49,950)**
Adjustments between accounting basis and funding basis under regulations	(1,049)	(545)	(633)	3,271	(2,728)	**(1,684)**	1,684	**-**	-	**-**
Increase or Decrease in 2021/22	**418**	**1,972**	**(633)**	**3,271**	**(2,728)**	**2,300**	**(52,423)**	**(50,123)**	**173**	**(49,950)**
Balance at 31st March 2022 carried forward	**(26,977)**	**(10,065)**	**(9,069)**	**-**	**(7,923)**	**(54,034)**	**(190,551)**	**(244,585)**	**(198)**	**(244,783)**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2021/22 Gross Expenditure	2021/22 Income	2021/22 Net Expenditure		2022/23 Gross Expenditure	2022/23 Income	2022/23 Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
			Continuing Operations			
1,271	(306)	966	Leadership Support	1,097	(188)	908
3,275	(386)	2,889	Governance & Law	3,526	(295)	3,231
845	(128)	717	Human Resources	842	(141)	701
37,255	(31,643)	5,612	Finance Customer & Support	34,809	(29,042)	5,767
591	(721)	(130)	Strategic Development	-	-	-
1,838	(675)	1,164	Economic Development	1,252	(555)	697
1,697	(1,288)	409	Planning	1,645	(1,249)	396
9,686	(6,264)	3,422	Estates & Operations	16,651	(6,935)	9,716
5,584	(6,004)	(420)	Housing	5,610	(5,750)	(141)
9,060	(3,111)	5,949	Customer Case Regulatory & Communities	9,384	(4,112)	5,272
8	-	8	Transition & Transformation	-	-	-
20,384	(18,866)	1,517	Local Authority Housing (HRA)	19,597	(17,579)	2,018
91,495	**(69,392)**	**22,103**	**(Surplus)/Deficit on Continuing Operations**	**94,410**	**(65,845)**	**28,566**
3,297	(837)	2,460	Other operating expenditure	4,439	(75)	4,365
6,046	(342)	5,704	Financing and investment income and expenditure	11,158	(4,516)	6,641
6,784	(32,157)	(25,373)	Taxation and non-specific grant income	6,317	(27,263)	(20,946)
107,621	**(102,727)**	**4,894**	**(Surplus) or Deficit on Provision of Services**	**116,325**	**(97,699)**	**18,626**
-	-	**(46,132)**	(Surplus) or deficit on revaluation of non-current assets (Note 30)	-	-	**(6,641)**
-	-	**(8,713)**	Re-measurement of net defined liability (Note 29)	-	-	**(61,192)**
-	-	**(54,845)**	**Other Comprehensive Income and Expenditure**	-	-	**(67,833)**
-	-	**(49,951)**	**TOTAL Comprehensive Income and Expenditure**	-	-	**(49,207)**

GROUP BALANCE SHEET

2021/22 £000s		Note	2022/23 £000s
	Non current assets		
220,220	Council dwellings		227,963
73,266	Property, plant and equipment		130,638
2,998	Heritage Assets		2,998
100,295	Investment property	2	40,098
206	Intangible assets		210
12,803	Long term investments	3	8,196
3,560	Long term debtors	4	2,809
413,348	**Long term assets**		**412,913**
2,102	Inventories	5	8,731
15,455	Short term debtors	6	17,059
14,791	Cash and cash equivalents	7	11,307
32,347	**Current assets**		**37,097**
(40,602)	Short term borrowing		(44,755)
(25,198)	Short term creditors		(24,571)
(3,089)	Grants receipts in advance - capital		(3,554)
(2,011)	Current Provisions		(1,198)
(70,900)	**Current liabilities**		**(74,078)**
(57,155)	Long term borrowing		(62,322)
(72,548)	Net Pensions liability		(13,098)
(309)	Long term liabilities		(6,101)
-	Provisions		(422)
(130,012)	**Long term liabilities**		**(81,943)**
244,783	**Net assets**		**293,988**
(54,232)	Usable reserves		(42,305)
(190,551)	Unusable reserves		(251,684)
(244,783)	**Total Reserves**		**(293,989)**

2021/22 £000s		2022/23 £000s
(4,836)	Net surplus or (deficit) on the provision of services	(18,626)
12,927	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	33,365
(10,514)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(2,665)
(2,424)	**Net cash flow from operating activities**	**12,073**
(12,832)	**Net cash flow from investing activities (Group Note 8)**	**(17,726)**
25,914	**Net cash flow from financing activities**	**2,163**
10,658	**Net increase or decrease in cash and cash equivalents**	**(3,490)**
4,132	Cash and cash equivalents at the beginning of the reporting period	14,790
14,790	**Cash and cash equivalents at the end of the reporting period**	**11,300**

Explanation of Group Financial Statements

Group MiRS

This statement shows the movement in the year on the different reserves held by the Council and its subsidiaries Oportunitas Limited and Otterpool Park LLP, analysed into usable reserves i.e., those that can be applied to fund expenditure or reduce local taxation and other reserves. The Surplus or Deficit on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Group CIES. This is different from the statutory amounts required to be charged to the General Fund balance for council tax setting. The 'Net Increase/Decrease' line shows the statutory General Fund balance before any discretionary transfers to or from earmarked reserves.

Group CIES

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Group MiRS. The statement shows the consolidated position of the Council and incorporates its subsidiaries, Oportunitas Limited and Otterpool Park LLP.

Group Balance Sheet

The Group Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e., those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve, where amounts would only become available to provide services if the assets were sold); and reserves that hold timing differences shown in the Group MiRS line 'Adjustments between accounting basis and funding basis under Regulations'. The Group Balance Sheet shows the consolidated position incorporating the Council's subsidiaries Oportunitas Limited and Otterpool Park LLP.

Group Cash Flow Statement

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

Notes to the Group Financial Statements

The Group Accounts should be read in conjunction with the Council's single entity accounts. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

Note 1 – Accounting Policies

In preparing the Group Accounts the Council has aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the Council on a line-by-line basis; and has eliminated full balances, transactions, income and expenses between the Council and its subsidiaries.

Notes to the Group Financial Statements have been presented where the figures are materially different from those of the Council entity accounts. Where there are no material differences, Notes to the Council's accounts provide then required disclosures.

Note 2 – Investment Properties

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

	2021/22* £000s	2022/23 £000s
Cost or Valuation		
At 1 April	35,007	38,550
Additions – acquisitions	4,726	1,406
Reclassification to Capital Debtor	-	-
Net gain/loss from fv adjustments	(1,072)	1,231
Impairment	(111)	(1,029)
Reclassification to PPE- Surplus Asset	-	-
Disposals		(60)
At 31 March	**38,550**	**40,098**

* 2021/22 restated to account for £2.361m investment assets under construction moved to PPE.

Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2023 are as follows:

2022/23 Recurring fair value measurements using:	Other significant observable inputs (Level 2)	Fair value at 31-Mar-23
	£000s	£000s
Residential Units	17,992	17,992
Agricultural Land	1,185	1,185
Commercial Units	20,920	20,920
Total at Fair Value	**40,098**	**40,098**
Assets Under Construction	-	-
Total Investment Properties	**40,098**	**40,098**

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

Significant observable inputs – Level 2

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

Note 3 – Long Term Investments

Long Term Investments	2021/22	2022/23
	£000s	£000s
Bond, equity & property funds	16,105	14,114
Shares in unlisted companies	-	-
Changes in FV of equity investments in companies	(3,301)	(5,918)
	12,804	**8,196**

Note 4 – Long Term Debtors

Long Term Debtors	2021/22 £000s	2022/23 £000s
Loan to Oportunitas Limited	-	-
Loan to Otterpool Park LLP	-	-
Expected Credit Loss (Loans to Companies)	(46)	(369)
Other Adjustments	-	(521)
Soft Loans	1,797	1,739
Other Loans	927	1,090
Capital Prepayment (Otterpool Land Options)	773	773
Lease Receivables	109	98
	3,560	**2,809**

*Prior year comparatives restated to show Expected Credit Loss

Note 5 – Stock and WIP

	2021/22 £000s	2022/23 £000s
Stock	9	11
Work in progress	2093	8,720
	2102	**8,731**

Work in progress (WIP) relates to Otterpool LLP.

Note 6 – Short Term Debtors

Short Term Debtors	2021/22 £000s	2022/23 £000s
Trade Receivables	3,079	3,262
Receivables from Related Parties	7,789	7,266
Prepayments	791	705
Other Receivables	2,002	2,017
Council Taxpayers	1,890	2,889
Business Ratepayers	686	1,398
Sundry Debtors	1,104	1,644
	17,341	**19,181**
Impairment of debt		
Trade Receivables	(993)	(1,059)
Other Receivables	(847)	(1,063)
Total	**(1,840)**	**(2,122)**
	15,455	**17,059**

Note 7 – Cash and Cash Equivalents

Cash and Cash Equivalents	2021/22 £000s	2022/23 £000s
Bank Accounts	(344)	1,062
Money Market Funds	15,135	10,245
	14,791	**11,307**

Note 8 – Cash Flow Statement – Investing Activities

2021/22 £000s		2022/23 £000s
(24,037)	Purchase of property, plant & equipment, investment property and intangible assets	(19,351)
-	Purchase of short-term and long-term investments	-
(1,687)	Other payments for investing activities	(1,291)
1,803	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,240
-	Proceeds from investments	-
11,089	Other receipts from investing activities	1,676
(12,832)	**Net cash flows from investing activities**	**(17,726)**

Note 9 – Financial Instruments

Financial Liabilities	Long Term 31-Mar-22 £000s	Long Term 31-Mar-23 £000s	Short Term 31-Mar-22 £000s	Short Term 31-Mar-23 £000s
Loans amortised cost:				
- Principal sum borrowed	(57,155)	(62,321)	(40,500)	(44,333)
- Accrued interest	-	-	(102)	(422)
Total Borrowing	**(57,155)**	**(62,321)**	**(40,602)**	**(44,755)**
Liabilities at amortised cost:				
- Trade payables	-	-	(4,195)	(8,091)
Included in Creditors	**-**	**-**	**(4,195)**	**(8,091)**
Total Financial Liabilities	**(57,155)**	**(62,321)**	**(44,796)**	**(52,846)**

Financial Assets	Long Term 31-Mar-22 £000s	Long Term 31-Mar-23 £000s	Short Term 31-Mar-22 £000s	Short Term 31-Mar-23 £000s
At fair value through profit & loss:				
- Fair value	12,803	8,396	-	-
Total investments	**12,803**	**8,396**	**-**	**-**
At amortised cost:				
- Principal	-	-	(344)	500
At fair value through profit & loss:				
- Fair value	-	-	15,135	10,245
Total Cash & Cash Equivalents	**-**	**-**	**14,791**	**10,745**
At amortised cost:				
- Trade receivables*	-	-	5,358	3,510
- Lease receivables*	109	98	10	11
- Loans made for service purposes*	1,383	8,467	357	193
- Loss allowance Expected Credit Loss*	-	-	(55)	(66)
Included in Debtors	**1,492**	**8,565**	**5,670**	**3,649**
Total Financial Assets	**14,295**	**16,961**	**20,461**	**14,393**

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Folkestone & Hythe District (the 'Authority') and its subsidiaries (the 'Group') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Director of Corporate Services conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and Group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Group and Authority and the Group and Authority's disclosures over the going concern period.

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and

SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on Local Authority Accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Governance Committee, concerning the Group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Governance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority and Group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and assessment of the risk of fraud in expenditure recognition. We determined that the principal risks were in relation to journals:
  - Using data analytics, we considered all journal entries for fraud and set specific criteria to identify the entries we considered to be high risk. Such criteria included journals posted after the year end; journals with a material impact on the deficit for the year and journals posted by users with system admins or senior finance officers.
- Our audit procedures involved:
  - evaluating the design effectiveness of managements controls over journals;
  - analysing the journals listing to determine the criteria for selecting high risk unusual journals;
  - testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
  - gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
  - evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, council dwelling, investment property, and defined benefit pensions liability valuations and fair value estimates.
- Assessment of the appropriateness of the collective competence and capabilities of the Group and Authority's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and Group including:
    - the provisions of the applicable legislation

  - guidance issued by CIPFA, LASAAC and SOLACE
  - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and Group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and Group's control environment, including the policies and procedures implemented by the Authority and Group to ensure compliance with the requirements of the financial reporting framework.

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

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

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for the Folkestone & Hythe District Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

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

Sophia Brown

Sophia Brown, Key Audit Partner

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

London

dd MMM 2023

Annual Governance Statement 2022/23

1. SCOPE OF RESPONSIBILITY

1.1 Folkestone and Hythe District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.

1.3 The Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework "Delivering Good Governance in Local Government." A copy of the code is on our website, or a copy can be obtained from the Council offices. This statement explains how the Council has complied with the code and also meets the requirements under the Accounts and Audit Regulations 2015 (SI 2015/184).

2. THE PRINCIPLES OF GOOD GOVERNANCE

2.1 The CIPFA/SOLACE Delivering Good Governance publication (2016) defines the various principles of good governance in the public sector. The document sets out seven core principles that underpin the governance framework and these are set out below:

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

3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise risks to the achievement of the Council's aims and objectives.
- Evaluate the likelihood and impact of those risks.
- Manage those risks efficiently, effectively and economically.

3.3 The information provided in the governance framework includes matters to the year ending 31 March 2023, and up to the date of approval of the annual report and statement of accounts.

Table 1: Overview of the Council's governance framework

<table>
<tr><td colspan="3"><u>Cabinet</u>
Responsible for:
• Discharging executive functions in accordance with the policy framework and budget
• Approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management
• Approving the Anti-Fraud and Corruption Framework
• Receiving regular performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget.</td></tr>
<tr><td><u>Overview & Scrutiny</u>
Responsible for:
• Reviewing the work and decisions of the Cabinet, and all areas of the Council's work.
• Carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents.
• Exercise the power to call in a decision of the cabinet or a cabinet member.</td><td><u>Council</u>
Responsible for:
• Adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework.
• Setting the budget and determining the level of Council Tax
• All the authority's non-executive functions. Functions which have not been delegated, remain the sole responsibility of the whole or full Council.</td><td><u>Audit and Governance</u>
Responsible for:
• Promoting and maintaining the highest standards of conduct by Councillors.
• Monitoring the operation of the Councillors' Code of Conduct.
• Advising, training or arranging to train Councillors on matters relating to the Code where necessary.
• Considering and recommending to Council, when necessary, changes to the financial procedure rules and contract standing orders.
• Providing independent assurance on the adequacy of the risk management framework.</td></tr>
</table>

Finance and Performance Sub Committee

Responsible for:
- To scrutinise the Council's performance against KPIs and make recommendations as appropriate to the Cabinet and / or Overview and Scrutiny Committee.
- To scrutinise the Council's financial monitoring data against budget and make recommendations as appropriate to the Cabinet and / or Overview and Scrutiny Committee.

Decision Making

- All decisions are made in line with legislation and rules set out in Council's Constitution.
- Reports, decisions and minutes of committee meetings published on the Council's website.
- All committee meetings are held in public and webcast. Webcast recordings of previous meetings are available to the public for six months.

Risk Management

- The Councils' Risk Management Strategy ensures proper management of risks
- Risk registers identify both strategic and operational risks
- Regular updates on the management of risk are provided to the Corporate Leadership Team, Audit and Governance Committee and Cabinet.

Statutory Chief Officers

- **Head of Paid Service:** This role resides with the Chief Executive and has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review.

- **Chief Finance Officer (Section 151):** The Director for Corporate Services holds the role of Chief Finance Offer, a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources.

- **Monitoring Officer:** The Assistant Director for Governance & Law holds the role of Monitoring Officer and is responsible for:

    - Maintaining and interpreting the Councils constitution, ensuring lawfulness and fairness of decision-making.
    - Providing advice to all councillors, on the scope of powers and authority to take decisions; maladministration; financial impropriety; probity; and Budget and Policy Framework issues.
    - Conducting investigations, or arrange for investigations to be conducted, into complaints concerning alleged breaches of the councillor's Code of Conduct.

In October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in strategy and policy development, and in decision making by:

- Focusing meetings of the Overview and Scrutiny Committee on critical Council activities.

- Creating a dedicated finance and performance sub-group to meet quarterly.

- Developing a prioritised committee work plan to include about 12 clearly scoped topics by OSC Members, allowing for detailed consideration of the most significant matters facing the Council and considering no more than two of those topics per meeting, in general.

- Ensuring work plan topics have clear lines of enquiry, questions, and to draw on external expertise as necessary.

- Members leading the items at Scrutiny meetings, with relevant portfolio holders in attendance.

- Introducing an established Cabinet and Overview and Scrutiny Protocol to clarify relationships between the two and to help ensure the smooth conduct of Scrutiny work, which was adopted by both groups in October 2020.

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

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

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

- Since 1st February 2020 changes have also been made to the membership of Cabinet which now includes a Councillor from the Green party and a Councillor from the Liberal Democrat party. They joined two councillors from the Independent party, and five conservative members to form the executive under the leadership of the Conservative party. The political composition of executive has continued to remain the same during the 2022/23 year.

Strategic Planning

3.4 The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The latest plan covers the period 2021 to 2030 and was agreed by both Cabinet and Council in February 2021 (report ref: A/20/10). Within this period in the short term there is a focus on COVID recovery, and the Plan will be reviewed in 2024.

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

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

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

3.5 For each service ambition set out above, the Council has committed to a number of priorities within the Corporate Plan that will be delivered over the next three years.

3.6 In order to support the delivery of the corporate plan priorities illustrated above, work has been undertaken during the year with directors, chief officers and their service leads to develop a Corporate Action Plan that documents a series of high level actions under each of the four corporate service ambitions that the Council will work towards achieving during the three year period to 2024. An annual update on the progress against the agreed actions within the plan was presented to Cabinet on 20th October 2022 (Report ref: C/22/52)

3.6 Elected Members of the Council are ultimately responsible for the delivery of the Council's corporate objectives. The Council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.

3.7 Effective communication, both within departments and across the Council is continually supported through the wider management team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.

3.8 On an annual basis, managers are required to develop, and keep under review, a departmental service plan setting out their priorities for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

Transparency

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

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

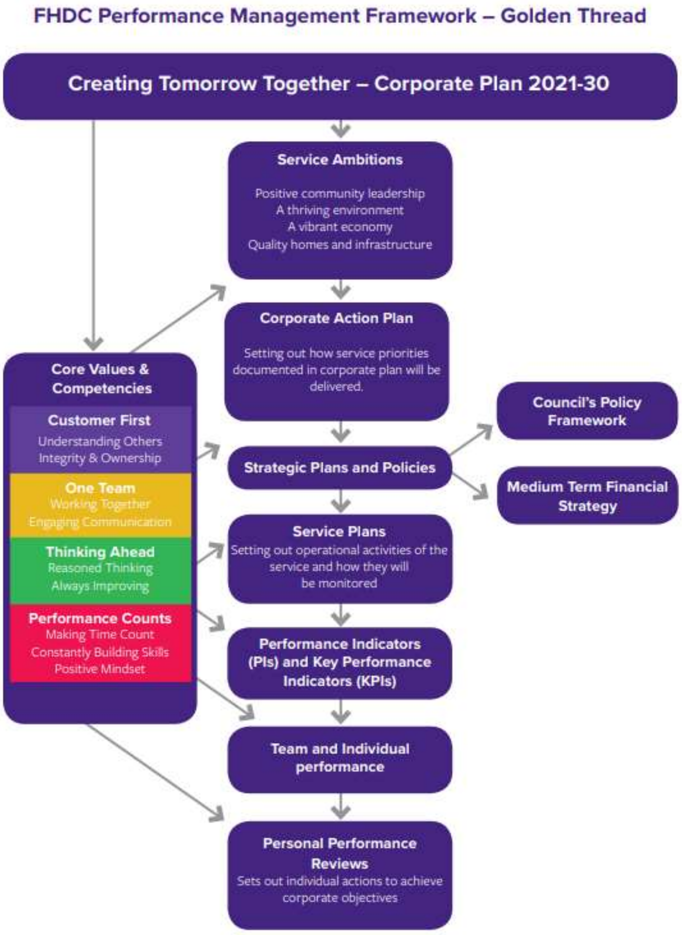
- Senior Staff Salaries
- Organisational Structure Chart
- Payment to suppliers (over the value £250)
- Purchase Orders (£5,000 and over)
- Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
- Grants to Voluntary, Community and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

Performance Management

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

3.12 The Performance Management Framework demonstrates how the Council's corporate vision and objectives are cascaded down through the organisation in what is known as the 'Golden Thread' (See diagram 1). The objectives defined within the corporate plan and our core values help drive the development of strategic policy, operational service plans and the performance of both teams and individual members of staff. This matter is kept under review and a revised version of framework was considered by the Overview & Scrutiny Committee in June 2021 and approved by Cabinet in July 2021 (Report ref: C/21/25).

Diagram 1: FHDC Golden Thread of Performance Management:



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

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

In October 2022, the Council successfully re-applied for the 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 very impressed with the Council's ongoing commitment to customer service and awarded 16 compliance pluses for showing innovative practise, delivering a service that is over and above what the customer could normally expect and showing practise that could be usefully shared with other organisations. This is the highest number of compliance pluses we have been awarded in one go and continues to be great recognition for the service we provide.

Risk

3.15 The Council's Risk Management Strategy (Adopted by Cabinet in March 2022, report ref: C/21/95) is reviewed on annual basis to reflect any changes in the Council's assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.

3.16 In preparing the Council's Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. This is a dynamic process with progress made against any required action in relation to the risks being reported to the Council's Corporate Leadership Team on a regular basis for review and action.

3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition, the committee reviews the Council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. The latest edition of the Risk Policy and Strategy and Corporate Risk Register was considered by the Audit & Governance Committee on 15th March 2023 and then approved by Cabinet on 22nd March 2023 (Report ref: C/22/99). The latest version of the policy adopted a notable change in the monitoring of corporate risk:

The establishment of a Risk Management Group (RMG) that held its inaugural meeting in February 2023. The RMG is made up of Chief Officers & Assistant Directors who will meet on a quarterly basis to discuss emerging corporate risks and updates to risks already recorded on the Corporate Risk Register. The proposed amendments and additions will then be sent to the Corporate Leadership Team for their review.

3.18 Diagram 2 below provides an overview of the latest governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council's operations:

Diagram 2: Reporting Arrangements for Risk Management

Risk Policy and Strategy	Corpoate Risk Register	Operational Risk Registers	Partnership Risk Registers	Project Risk Registers
•Annual Review by CLT •Annual Review by Cabinet •Annual Review by Audit & Governance Committee	•Quarterly review by CLT and RMG •Quarterly Review by Audit & Governance Committee •Annual Review by Cabinet •Emerging/Changing risks highlighted by Directors and Chief Officers	•Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors •Key Risks discussed at Portfollio Holder meetings.	•Ongoing – maintained and reviewed regularly by Partnership lead •Key risks discussed at Partnership Meetings •Annual review by CLT •Inclusion where relevant in Corporate Risk Register •Project Risk	•Ongoing – maintained and reviewed regularly by Project Managers and CO / ADs •Key risks discussed at Portfolio Holder/Project Sponsor Meetings •Annual review by CLT of escalated risks •Annual review of key project risks by Cabinet and Audit & Governance Committee •Inclusion where relevant in Corporate Risk Register

Finance

3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2022/23 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial management of their service areas within the Council, which includes accurate forecasting and the effective monitoring of financial performance against budget considered throughout the year.

3.20 The Council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in '*Delivering Good Governance in Local Government*'.

3.21 The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the Council's Corporate Plan priorities. The MTFS was updated and approved by Council in November 2022 and expresses the aims and objectives of various plans and strategies in financial terms over a four-year period ending 31st March 2026. The MTFS is a key element of sound corporate governance and financial management which is reviewed and agreed by Members on a regular basis.

3.22 In addition, the Finance & Performance Subcommittee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2022/23 financial year at its meeting on 18th January 2022; Cabinet endorsed this at its subsequent meeting (report ref: C/20/64). A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting on 18th January 2022 which provided an update on the Council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.

3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Council's service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. Full Council adopted the relevant strategies for 2022/23 on 23 February 2022 (report references: C/21/54 & C/21/71).

3.24 Regular budget monitoring took place in 2022/23 in order to manage the Council's net revenue budget. Regular meetings were held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to continue to have an additional focus on the Council's revenue budget monitoring during 2022/23 due to the unprecedented impacts of the pandemic on Council finances.

3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports. The level of reserves currently held has been endorsed and reported by the S151 Officer as adequate and in line with the Council's Reserves Policy.

3.26 During the 2022/23 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. These are now well progressed and anticipated to be concluded within the 2022/23 year. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. Further appropriate reports will be made to the Audit and Governance Committee, and appropriate reference has been made here in the 2022/23 Annual Governance Statement.

Partnership and Joint-working

3.27 The Council is continuously looking at innovative solutions to deliver its range of services, including the processes associated with improving service delivery, the ongoing requirements to address the demand for and scale of services, and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with other public bodies and local agencies, including identification of shared service opportunities where appropriate.

3.28 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency. The Partnership Policy underwent review during the year with minor administrative changes being made to the policy that were agreed with the portfolio holder. The updated policy has now been published on the Council's website, staff intranet and communicated with all service leads.

Internal and External Audit

Internal Audit

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

3.30 Internal Audit has responsibility to:

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

3.31 The overall opinion of the System of Internal Controls in operation throughout 2022-23 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July 2023:

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

- As at 31 March 2023 the Internal Auditors completed 347.73 days of review equating to 99.35% of planned completion.

- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2022-23.

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

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

External Audit

3.32 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.

3.33 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.

3.34 The Council in the final stages of concluding its 2020/21 and 2021/22 accounts and audit process and this culminated in the final external audit opinion being presented to the Council at the Audit and Governance Committee meeting in March 2023. It is confirmed that the Council has received an unqualified audit opinion for both years and final details and sign off arrangements are being concluded.

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; and

- invoke disciplinary proceedings and further action as appropriate.

The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework has now been reviewed and updated by the S151 Officer and Monitoring Officer in 2022/23. Furthermore, the comprehensive training on Anti-Fraud and Corruption was provided to all staff on 24 January 2023 with an additional session for Grounds Maintenance staff held on 7th March 2023.

3.35 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; and
- is about to make an unlawful entry into the authority’s accounts.

3.37 The Assistant Director for Governance & Law is the ‘Monitoring Officer’ for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring Officer is required to report to Cabinet and Council where it appears to him/her that the Cabinet or Council and/or officers appointed by them:

- has made or is about to make a decision which contravenes any enactment, or rule of law; and
- has made or is about to make a decision that would give rise to maladministration or injustice as referred to in Part III of the Local Government Act 1974.

4 REVIEW OF EFFECTIVENESS

4.1 The Council has responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of East Kent Audit Partnership's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 In maintaining and reviewing the effectiveness of the governance framework, the key elements are as follows:

- The Audit and Governance Committee, which has responsibility to provide independent assurance on the adequacy of the risk management framework and the associated control environment. The committee provides independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk. It also oversees the financial reporting process and oversees the work of the East Kent Audit Partnership.
- The Council's internal management processes, such as performance monitoring and reporting; budget monitoring and reporting; the staff performance appraisal framework and monitoring of policies, such as the corporate complaints and health and safety policies.
- The opinion on the overall adequacy and effectiveness of the Council's overall control environment from the Head of Internal Audit.
- An annual self-assessment and management assurance statement signed by Directors and senior managers, confirming that the Code of Conduct, Financial Regulations and other corporate governance processes have operated as intended within their directorates throughout the year.
- Reviews carried out by Internal Audit, External Audit and other review bodies which generate reports commenting on the effectiveness of the systems of internal control employed by the Council.
- The Council continues to seek external specialist advice when appropriate on some of our large projects, including Otterpool Park and other major council schemes.

5 HOUSING SERVICE

5.1 In 2022 the Housing Service has been preparing to meet the revised consumer regulations that the Regulator of Social Housing will be introducing and monitoring from 2024. The Housing Service reported compliance on the six key Health & Safety areas of: fire, water, electrical safety, asbestos and lifts. We continue to monitor an extensive set of KPIs, reported monthly to the Housing Leadership Team. Data is scrutinised quarterly by the Corporate Leadership Team (CLT) and the Strategic Tenants Advisory Panel (STAP), and published on the Council's website, so that we report back to our council tenants on performance of the housing service.

The Housing Service is embedding an internal governance process focused on continuous service improvement. As part of this, and as a recommendation from internal audits, in 2022 we provided detailed training on Financial Procedure Rules and Contract Standing Orders to all staff working in the Asset Management section and other departments where staff are responsible for procuring and supervising contracts.

The team has responded to new legislation, i.e., the Charter for Social Housing Residents (White paper), by introducing a Tenant Engagement Strategy which included setting up the STAP as the senior level tenant-led scrutiny panel that contributes to the way the Council monitors and delivers service improvement. In response to changes in the Regulator of Social Housing consumer standards, we are now using the new Tenant Satisfaction Measures to undertake surveying of tenants to determine levels of satisfaction with various aspects of the housing service. We will also be carrying out more perception and transactional surveys and using feedback from tenants to inform the continuous improvement plan. The Council's housing service is also now continuing to improve benchmarking capabilities through HouseMark (industry leaders for the housing sector), to ensure the provision of a good, cost-effective and financially viable services. This will include a focus on health & safety, keeping tenants safe and secure in their homes, and continuing to invest in new energy efficient measures, retrofitting council homes in the coming year.

OTTERPOOL PARK LLP

6.1 The LLP was established on 27 May 2020. The LLP will act as master developer for Otterpool Park. As such, it is envisaged that the LLP will secure planning permissions and put in place infrastructure in order that parcels of land can be sold to housebuilders. This will be the main focus of activity and generator of value, i.e., income to the LLP and in due course financial return to the council. The main documents and mechanisms governing the relationship between the Council and the LLP are:

- The Members' (or Owners') Agreement approved on 27 May 2020 and updated on 20 October 2021 (Cabinet Report ref C/21/41).
- A single overarching Strategic Land Agreement;
- Related agreements including the Phased Delivery Strategy governing the transfer of land from the Council to the LLP (or other parties) pursuant to the Strategic Land Agreement;
- Legal instruments in relation to loans / members' equity;
- Loan agreements in relation to funds provided to the LLP by the Council as debt; and
- The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval).

6.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020 report ref C/20/02).

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

6.4 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan included a draft vision document which set out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document drew on a range of Council documents, primarily the Charter for Otterpool Park (report ref C/17/49). In November 2019, Full Council determined to *"To make available an additional one hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed.",* (report ref A/19/17).

6.5 The first annual update on the Business Plan was approved by Cabinet in January 2022 (Report ref C/21/70). A presentation on an early draft of the second annual update to the Business Plan was considered by Overview and Scrutiny Committee on 8 November 2022. Subsequent to this the Cabinet received an update on 19 April 2023 (Report ref C/22/109) which noted ongoing due diligence and a financial assessment of the updated Business Plan (with input from external specialist advisors). The outcome of this work will be a robust assessment which will support Members' decision making on this matter. It is intended that a report will be further considered by OSC, Cabinet and Council as soon as practicable.

6.6 In line with the terms of the Members' Agreement, at its meeting of 20 October 2022, Cabinet agreed to the establishment of a stewardship vehicle as a Limited Liability Partnership and as a subsidiary of Otterpool Park LLP (Report ref C/22/46). It was noted that a further report will be presented to Cabinet with more detail on the assets proposed to be transferred to the vehicle, the treatment of assets, and funding model supported in a detailed business plan.

7. CONCLUSION

7.1 In line with the Council's responsibilities for its internal control and overall governance environment (paragraph 1.1), the conclusion to the annual review process for the year ended 31 March 2023 and up to the date of approval of the Statement of Accounts is that the arrangements in place are considered to be fit for purpose and in accordance with the Council's governance framework, with no significant areas of the framework requiring attention.

During the year 2021/22 year, the senior team was made aware of potential breaches of the Council's Financial Procedure Rules and Contract Standing Orders. These matters were highlighted, largely, through regular routine checks made by the procurement and finance teams. The potential breaches were thoroughly investigated, and the findings were reported formally to the Audit and Governance committee in December 2022. As a result of the issues identified during the investigations, a Governance action log has prepared by the three statutory officers in order to address the weaknesses identified and to strengthen Governance procedures and processes.

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

7.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 20th July 2023.

Signed:

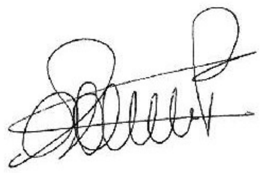
Cllr Tim Prater

Deputy Leader of the Council and

Cabinet Member for Finance and

Governance

Signed:



Dr Susan Priest

Chief Executive

Date: 7th July 2023

APPENDIX 1: Action plan for improvement following review of effectiveness of governance arrangements 2023-24

	Action	Who	Date
1	**Annual Review of Corporate Governance** At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Directors, Assistant Directors/Chief Officers and internal audit's opinion report.	Monitoring Officer	May 2024
2	**Governance Arrangements** To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.	Monitoring Officer	March 2024
3	**Data Retention Policy and General Data Protection Regulation** To keep under review the Data retention policy and the new General Data Protection Policy, ensuring Officers and Members of the Council are aware of their responsibilities.	Monitoring Officer	March 2024
4	**Review of the Overview & Scrutiny Committee function** To keep under review the governance and working arrangements of the committee.	Monitoring Officer	Ongoing
5	**Financial Management Code** Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.	Chief Financial Services Officer & Monitoring Officer	December 2023
6	**Develop temporary corporate policy compliance function** To provide independent oversight and ensure that compliance with key corporate policies is monitored and reported to senior management team.	Corporate Finance Director	August 2023
7	**Corporate Policy Training**		

	Maintain corporate policy training programme and staff understanding of corporate expectations, roll out to new recruits.	Chief HR Officer	Ongoing
8	**Corporate Governance Group** Establish Corporate Governance Group to strengthen internal assurance and compliance with corporate policies.	Corporate Finance Director	July 2023
	Monitor staff surveys and conduct programme of spot checks to ensure that new training and processes to strengthen declarations, management of and conflicts of interest, and adherence to procurement policy are monitored and corporate expectations embedded.	Corporate Governance Group	In place July 2023
9	**Development of the new Programme Management Office Function** Continue to develop the Programme Management approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects.	Chief Officer Corporate Estate & Development	March 2024

APPENDIX 2: Action plan for improvement following review of effectiveness of governance arrangements 2022-23

	Action	Who	Date	Progress Update
1	**Annual Review of Corporate Governance** At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Directors, Assistant Directors/Chief Officers and internal audit's opinion report.	Monitoring Officer and S.151 officer	May 2023	The review of Corporate Governance has been completed for year 2022/2023, this document will remain live and under review until the accounts are signed. The annual review of governance for 2023/24 will be undertaken in early 2024. **Status: Completed**
2	**Governance Arrangements** To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.	Monitoring Officer	March 2023	This is a matter which is being kept under ongoing review. **Status: Ongoing**
3	**Data Retention Policy and General Data Protection Regulation** To keep under review the Data retention policy and the new General Data Protection Policy, ensuring Officers and Members of the council are aware of their responsibilities.	Monitoring Officer	March 2023	The Data Protection Policy and the General Data Protection Policy are being kept under review and will be updated as necessary. **Status: Ongoing**
4	**Review of the Overview & Scrutiny Committee function** To keep under review the governance and working arrangements of the committee.	Monitoring Officer	Ongoing	The governance arrangements of the Overview & Scrutiny Committee is an ongoing action that will be kept under review. **Status: Ongoing**

5	**Financial Management Code** Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.	Chief Financial Services Officer & Monitoring Officer	December 2022	This work will be undertaken in late 2023, as part of a suite of training to be delivered to officers. **Status: Not Completed Scheduled to be completed by December. 2023.**
7	**Otterpool Park Governance Arrangements** Periodically review the assurance framework and governance arrangements between FHDC and Otterpool Park LLP to ensure they reflect the needs of the Council.	S151/ Monitoring Officer	Autumn 2022	Work is underway to review the Governance Arrangements and early discussions have happened with the LLP. The Assurance framework has been reviewed by the Monitoring Officer and S.151 officer and is being kept under review. Similarly, the Governance arrangements for Otterpool are being kept under review by the relevant officers. **Status: In Progress**
8	**Development of the new Programme Management Office Function:** To implement and develop a programme management office approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects.	Programme Management Lead Specialist	March 2023	Work has commenced, with the broad framework having been established but not yet widely rolled out. Function is under review due to funding availability. **Status: On-hold until Programme Management Lead Specialist appointed**
9.	**Review of the Partnership Policy** To review and update the Council's Partnership Policy to ensure it's reflective of current working practices.	Performance & Improvement Specialist	October 2022	The work on reviewing the Partnership Policy has been concluded. Minor changes were made to the policy and signed off by the Portfolio Holder in April 2023. The updated policy has now been published on the Council's website, staff Intranet and circulated to all service leads. **Status Completed.**

Glossary of Terms

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement
MiRS – Movement in Reserves Statement
FVOCI – Fair Value through Other Comprehensive Income
FVPL – Fair Value through Profit and Loss

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

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

Actuarial Gains and Losses – For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:
(a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
(b) the actuarial assumptions have changed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Folkestone
& Hythe
District Council

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Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

14 May 2024

Dear Grant Thornton UK LLP

Folkestone & Hythe District Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of Folkestone & Hythe District Council and its subsidiary undertakings, Oportunitas Ltd, Otterpool Park LLP and Otterpool Development Company Ltd, for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of land and buildings and the valuation of net pensions liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

  a. there are no unrecorded liabilities, actual or contingent;

  b. none of the assets of the group and Council has been assigned, pledged or mortgaged; and

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

  a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements;

  b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

  c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

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

xv. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvi. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Council’s Audit & Governance Committee at its meeting on 14th May 2024.

Yours faithfully,

Name: Lydia Morrison

Position: Interim Director Governance and Finance Services & S151 Officer

Date: 14th May 2024.

Name: Councillor Liz McShane

Position: Chairman of the Audit and Governance Committee

Date: 14th May 2024.

Signed on behalf of the Council

Informing the audit risk assessment for Folkestone and Hythe District Council 2022/23

Sophia Brown
Partner
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E Sophia.Y.brown@uk.gt.com

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Folkestone and Hythe District Council's external auditors and Folkestone and Hythe District Council's , as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the District Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Folkestone and Hythe District Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	Russia's invasion of Ukraine and the subsequent impact on e.g. the energy market was a significant event in Feb 2022 just before the financial year 2022/23; it continued to have a lasting impact throughout the financial year. The impact was felt in the macroeconomy which was exacerbated further following the change in Prime Minister (twice) and the September 'mini-budget'. All of this impacted i) inflation and impact on all expenses (energy, labour, materials etc) ii) borrowing costs. There will also be an impact on income from business rates with many businesses / economy still recovering from the COVID-19 pandemic, now exacerbated by the above.
2. Have you considered the appropriateness of the accounting policies adopted by Folkestone and Hythe District Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The accounting policies are considered to be appropriate for the preparation of financial statements and there are no proposed changes to accounting policies for 2022/23.
3. Is there any use of financial instruments, including derivatives? If so, please explain	Yes. Financial Liabilities: Money Market Funds (short term borrowing/treasury management) Loans borrowed (from the Public Works Loan Board and other lenders) for treasury management purposes Trade payables for goods and services Financial Assets: Investments made for treasury management purposes. Bank account Loans made for service purposes, including Oportunitas Equity investment in Oportunitas Trade receivables for goods and services delivered
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Folkestone and Hythe District Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Wilson matters: Becket Chambers – boundary dispute, Adam Solomon – Littleton Chambers (barrister), Mark Davis – Six Pump Court (barrister) Horatio Waller – FTB Chambers (barrister) James Harrison – Six Pump Court – Closure Orders (barrister) Greville Healy - Falcon Chambers – Pumping station advice (barrister) TG Barnes – Consumer Rights Browne Jacobson – Property, SDLT advice and matters relating to the Otterpool development. Buckles – planning matters, complicated s106 agreement Mills & Reeve – planning matters and complicated s106 agreements Knights LLP – Development Bevan Brittan – governance advice TLT – Contract and Procurement Advice

General Enquiries of Management

Question	Management response
9. Have any of the Folkestone and Hythe District Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Amandeep Khroud is the solicitor to the Council (and Monitoring Officer). Amandeep reports to the Audit and Governance Committee. Nicola Murton is a solicitor who heads up the Legal Services Team and manages the team on a day-to-day basis. The legal services team were consulted on many issues during the last financial year. We use other advisors as and when needed in relation to; civil litigation matters; criminal litigation matters; procurement advice; conveyancing if the matter is very complicated or we do not have the in-house capacity to deal with; and Member conduct.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We calculate an expected credit loss (ECL) for the Council's loan to its housing and regeneration subsidiary company, Oportunitas Limited. In future an ECL calculation will also be required for loans planned to be made to Otterpool Park LLP, a wholly owned subsidiary organisation for the delivery of the Otterpool Park Garden Town development.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Folkestone and Hythe District Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Folkestone and Hythe District Council's management.

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Fraud risk assessment

Question	Management response
1. Has Folkestone and Hythe District Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the District Council's risk management processes link to financial reporting?	The Council feel that the risk of material misstatement in the financial statements due to fraud is minimal/low. The Council has a robust system of internal controls in place that are regularly independently reviewed by the East Kent Audit Partnership (EKAP). The audit plan is drafted with relevant risks in mind. These reviews are reported to the Audit & Governance Committee on a quarterly basis providing assurance. There have been no known incidents during the financial year where material financial fraud is known to have occurred. The audit plan is drafted with reference to both the Council's risk register and known emerging risks in the sector. We undertake the frequency of budget monitoring on a risk-based approach, so that high risk areas such as salaries are monitored more frequently than low volume, low risk transactional areas.
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. On the HRA side, and since the housing service returned in-house, we are starting to explore tenancy fraud (as highlighted in the EKAP fraud training delivered in January 2023).
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Folkestone and Hythe District Council as a whole, or within specific departments since 1 April 2022? If so, please provide details	There have recently been instances of irregularities identified within the Housing department. This matter was subject to separate Internal Audit reviews. Contract management and procurement irregularities were identified following investigation. In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. All significant incidents of fraud identified would subsequently be reported at the next Committee meeting. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required.

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	If there was fraud or suspicion of fraud, both the Finance and Governance Portfolio holder and the Chairperson of the Audit and Governance Committee will be alerted and a report will be taken to the next committee meeting.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Folkestone and Hythe District Council where fraud is more likely to occur?	No As stated above Housing Benefit and Council Tax Reduction are the areas determined as most at risk of fraud. Since the transition of the housing service back to the Council there is an increased risk of tenancy fraud.
6. What processes do Folkestone and Hythe District Council have in place to identify and respond to risks of fraud?	As stated above, the results of the ongoing Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems and confirm any instances of fraud. The Council has a dedicated qualified Fraud investigation resource which is primarily utilised for Housing Benefit & Council Tax Reduction fraud but can also be deployed to investigate other suspected instances of fraud where required. More broadly, the Council also has policies in place for Anti-Corruption, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. The Councils Fraud response plan specifically outlines how Members, staff and members of the public can raise concerns regarding fraud or corruption should they need to and provides a framework for the resulting investigation where required.

Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment for Folkestone and Hythe District Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	The Council is an equal partner in EKAP who employ experienced professional internal auditors. Annually the audit plan is drafted with reference to risk, fraud and emerging Council priorities. The audit plan is developed with Heads of Service & CLT and is considered by the A&G Committee before its adoption. EKAP report on progress against the audit plan quarterly to A&G and present the summary of reports undertaken during the past period which identify the effectiveness of our internal controls and propose recommendations for improvements. There is a potential for override in the processing of accounting journals but there are authorisation processes (segregation of duties) in place to mitigate this risk.
8. Are there any areas where there is potential for misreporting? If so, please provide details	No

Grant Thornton

Fraud risk assessment

Question	Management response
9. How does Folkestone and Hythe District Council communicate and encourage ethical behaviours and business processes of its staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	The Council has policies in place for Anti-Corruption, Fraud Response Plan, Code of Conduct and Whistle Blowing, these documents are available on the website, and mandatory training is undertaken by all staff. Additionally, there is a behaviours and competency framework which staff are expected to adhere to. All tenders for contracts include a questionnaire which asks bidders to confirm that they comply with F&HDC's minimum ethical standards (e.g. equality and diversity, whistleblowing, modern slavery, etc.). Our contract terms for suppliers also require appointed suppliers to commit to these standards and F&HDC's policies. Training is delivered so staff understand how to report concerns and are assured of confidentiality should they report any issues. Staff are encouraged to contact the relevant officers with any concerns with regard to fraud or corruption. There have been no official whistleblowing events during the year.
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Directors, Procurement posts and those awarding major contracts, Revenues & Benefits Officers, Corporate Debt Officers, Officers named on the bank mandate and involved in the treasury management process. All staff are required to undertake mandatory training. Segregation of duties and a two-step authorisation process is in place for treasury management activities. System messages and alerts for unusual activity.
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No. If the Council became aware of related party relationships that could give rise to instances of fraud, this would result in HR, procurement irregularities, etc., investigations. Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.

Fraud risk assessment

Question	Management response
12. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	The results of Internal Control Audits by EKAP are reported quarterly to the Audit & Governance Committee (A&G). EKAP will also undertake follow up audits and report the findings to A&G, bringing members attention to any high risk actions which have not been completed. Additionally the Head of EKAP will bring an annual summary to the July A&G meeting which will outline the level of assurance that can be taken in respect of all the main financial systems, and confirm any instances of fraud. In addition to the process of fraud reporting through EKAP, the S151 Officer & Monitoring Officer would alert the Chair of the Audit & Governance Committee as well as the relevant Cabinet Portfolio Holder, of any significant fraud at the earliest opportunity. All significant incidents of fraud identified would subsequently be reported at the next Committee meeting. The Head of EKAP also has the ability through the Chairman, to report suspicions of fraud to the A&G committee if required. Based on the work undertaken during the year the Head of EKAP has confirmed that the overall assurance for FHDC was sound and the annual report was presented to A&G in July.
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No.
14. Have any reports been made under the Bribery Act? If so, please provide details	No

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Folkestone and Hythe District Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Folkestone and Hythe District Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the District Council's regulatory environment that may have a significant impact on the District Council's financial statements?	During the year various update reports are presented to the Corporate Leadership Team which provide management with confirmation that the laws and regulations have been complied with. Legal provide comments for management and cabinet papers. The annual Managers Assurance Statements specifically asks managers to confirm that laws and regulations have been complied with. All legal officers follow high standards and are trained to identify and deal any issues that may arise. All legal officers regularly attend training courses to ensure that they are up to date with changes in the law. No
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	During the year various update reports are presented to the Audit and Governance Committee and other committees as deemed necessary which provide the relevant committee with confirmation that the laws and regulations have been complied with. These reports include the quarterly and annual EKAP Update reports in addition to the Annual Governance Statement and update reports from Grant Thornton.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details	There have recently been instances of irregularities identified within the Housing department. This matter was subject to separate Internal Audit reviews. Contract management and procurement irregularities were identified following investigation.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	No

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Impact of laws and regulations

Question	Management response
5. What arrangements does Folkestone and Hythe District Council have in place to identify, evaluate and account for litigation or claims?	We do not have policies but each case is reviewed on an individual basis. Each litigation matter is different i.e. housing, planning, or property.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Folkestone and Hythe District Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Folkestone and Hythe District Council ;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the District Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the District Council, or of any body that is a related party of the District Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the District Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Folkestone and Hythe District Council's 2022/23 financial statements? If so please summarise: • the nature of the relationship between these related parties and Folkestone and Hythe District Council • whether Folkestone and Hythe District Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	No material changes.
2. What controls does Folkestone and Hythe District Council have in place to identify, account for and disclose related party transactions and relationships?	A review of the prior year's assessment is undertaken and any changes in circumstances and relationships considered. A review of Council, Cabinet and other Committee reports during the financial year is undertaken to identify any new or changes to existing related parties and group relationships. Councillors and Senior Officers are required to complete annual Related Party Disclosure forms and Managers complete annual Managers Assurance Statements which require disclosure of related party activities.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Related parties are identified through disclosure forms. Beyond the normal controls there are no specific controls in place to approve and authorise transactions with related parties.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Any such transactions would still be required to follow the same authorisation processes as prescribed in the constitution (financial procedure rules).

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Folkestone and Hythe District Council will no longer continue?	Management receives Budget Monitoring Reports on a quarterly basis and the Medium Term Financial Strategy and Reserves Policy are reviewed on an annual basis to assess the ability of FHDC to continue into the foreseeable future and provide the statutory services. The Cash Flow forecasts are regularly monitored by the finance team who perform treasury management activities.
2. Are management aware of any factors which may mean for Folkestone and Hythe District Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No.
3. With regard to the statutory services currently provided by Folkestone and Hythe District Council, does Folkestone and Hythe District Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Folkestone and Hythe District Council to cease to exist?	FHDC is not aware of any factors that will not allow it to deliver the statutory services currently provided by the Council.
4. Are management satisfied that the financial reporting framework permits Folkestone and Hythe District Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a	Management is satisfied that the Council will continue to operate for the foreseeable future.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Where assets and liabilities are based on valuations (e.g. non-current assets, pension liability) or provisions are set aside (e.g. impairment of bad debts, business rates appeals) accounting estimates are made and disclosed in the financial statements. See also Management's response to accounting estimates WP.
2. How does the District Council's risk management process identify and address risks relating to accounting estimates?	The Council's corporate risk register is focussed on strategic risks emerging from the Corporate Plan, MTFS and wider sector. Where relevant these would be highlighted to the finance team so that appropriate changes to the accounting estimates can be made. See also Management's response to accounting estimates WP.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Where accounting estimates have been made they are based on the latest data and information available either internally or externally, using professional judgement and external experts are used where appropriate, for example for non-current asset valuations and pension valuations. See also Management's response to accounting estimates WP.
4. How do management review the outcomes of previous accounting estimates?	The outcomes of previous accounting estimates are reviewed as part of in-year budget monitoring comparing actual outcomes to estimates and analysing data to identify trends and patterns and if any changes to estimation techniques are required.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Finance team ensure they remain up to date with changes to regulations, accounting standards and sector changes and attend relevant training and seminars to fully understand the impact of such changes and in turn consequences for accounting estimates. In addition the council uses specialist advisors where its own team are unable to perform that duty such as the use of valuers for non-current asset valuations and actuary for pension valuations. See also Management's response to accounting estimates WP.
7. How does the District Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	We utilise internal audit to provide us with control environment reviews, including on areas that accounting estimates exist in, such as valuations. As a member of the LGPS, the administering body is KCC and we rely on them for the management of the control environment. Contractual arrangements are in place with third parties. Where we utilise third parties for advice, the Council maintains a dialogue with the advisors to satisfy themselves that the estimates are appropriate.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Representatives from KCC and Barnett Waddingham regularly attend Kent Finance Officers Group to provide updates on the management of the pension scheme. Arrangements in place with EKAP who are used to monitor control activities of all processes. Use of source data from external parties where appropriate and validating them against previous data and information and discussing approach with neighbouring authorities.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	The Committee see the draft accounts in advance of them being asked to adopt them. We would draw their attention to significant changes in accounting estimates.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The methods and models used for calculating accounting estimates are compliant with the Code and the council uses the expertise of external consultants where required.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Finance team use their professional skills and knowledge to arrive at accounting estimates, ensuring that they remain up to date with changes in any areas that may be subject to estimation. Where required, the council uses specialist advisors and experts to provide accounting estimates such as the use of valuers for non-current asset valuations and actuary for pension valuations. The finance team will apply professional judgement, where relevant, to the advice received.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Valuation undertaken by the actuary for the Kent Pension Fund. Finance review the figures provided against their own knowledge of pension payments made by the authority	LGPS member data supplied to the actuary by HR	Barnett Waddingham	The estimate of the defined benefit obligation is sensitive to the actuarial assumptions. The financial statements include a sensitivity analysis. The valuations are undertaken by the actuary and alternative estimates are not relevant.	No
Level 2 investments	Valuation and treatment of investments held at 31 March 2022 based on advise from the council's treasury advisor, Arlingclose.	Advice from Arlingclose Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd Contract awarded following open tender process	The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No
Level 3 investments	Unlisted Shares Valuation undertaken by Arlingclose based on discounted cash flow forecast for latest business plan and a credit assessment of the organisation.	Business Plan financial information supplied by Finance By discussion with Arlingclose to consider their valuation based on the methodology applied. Finance Team will liaise with Arlingclose over any specific concerns	Arlingclose Ltd	Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	Loans borrowed and made at 31 March 2023 for treasury management purposes and are held on the balance sheet at amortised cost (i.e. the value of the principal outstanding plus accrued interest) in accordance with proper accounting practice. Treasury management investments in pooled funds at 31 March 2023 are held at their market value and calculated by reference to information supplied by Arlingclose Loans made for other purposes are held at fair value calculated by Arlingclose which provides for an expected credit loss adjustment	For loans borrowed the source data is the original value of the loan taken up. For treasury management investments made the source data is either the original value or, in the case of pooled funds, the number of units purchased. For loans made for other purposes the source data is the relevant loan agreement.	Arlingclose Ltd The fair value of investments in pooled funds is independently checked to statements provided by the Fund Managers.	Significant changes in any of the unobservable inputs would result in a materially higher or lower fair value measurement for the financial instruments with the gain or loss being recognised in the CIES The council uses specialist external advice provided by Arlingclose for assessing the fair value of loans made for other purposes.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions (including NNDR appeals)	NNDR Appeals – For 2010 RV list the provision is based on outstanding appeals and the forecast success rate based on past experience. For 2017 RV list the provision is based on the assumption made at national level of potential successful appeals, adjusted to reflect local knowledge. This approach is agreed by all Kent authorities.	VoA lists of current outstanding appeals as at 31st March	No	NNDR appeals are difficult to forecast and the outcome of appeals and the financial impact on the Council are monitored regularly. Until appeals against the 2017 RV list since the implementation of 'Check, Challenge, Appeal' are assessed by the VoA it is difficult to assess the impact of successful appeals and use past experience. The agreed approach across Kent is thought to be best method of estimation.	No
Accruals	Accruals are recognised where they exceed £5,000	Purchase orders are GRN'd on the procurement system for goods/serviced received prior to 31st March. Budget holders are asked to notify Finance of any accruals outside of the procurement system.	No	All accruals are reviewed by Finance.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances	Expected credit loss (ECL) on loans made is undertaken by Arlingclose. Methodology is discounted cash flow approach coupled with relevant loan default rates to calculate the ECL	Business plan and loan agreement information provided by Finance	Arlingclose Ltd	Finance Team will liaise with Arlingclose over any specific concerns The council uses specialist external advice provided by Arlingclose to calculate the expected credit loss on loans.	No
Finance lease liabilities	None for 2022/23	N/A	N/A	N/A	N/A

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI liabilities	None for 2022/23	N/A	N/A	N/A	N/A
Land and buildings valuations	Method • Depreciated Replacement Cost (DRC) • Existing Use Value • Existing Use Value - Social Housing (EUV-SH) • Fair Value. Approach • All assets revalued at least every 5 years. • Top 20 non-housing assets by value revalued annually as at 31 March (equates to approximately 80% of the net book value of this category of assets)	• Finance have liaised with Property and Housing to ensure property asset list is up to date. • Finance have undertaken comparison between latest and existing valuations and requested explanations of significant variations from valuer. • HRA Dwellings valuations	External valuer appointed – For 2022/23 Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2022/23 based on underlying guidance from CIPFA and RICS. A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES. An increase in the estimated valuations would result in an increase to the Revaluation Reserve and/or a gain recognised in the CIES The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be relevant	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Heritage assets	Held at cost if asset is non-operational – Assets not subject to depreciation. If operational then valued as per land and buildings (above)	Purchase price of heritage asset acquired	External valuer – Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2022//23 based on underlying guidance from CIPFA and RICS Only one asset classified as Heritage Asset at 31 March 2023 – reasonable comfort value is correct Alternative estimate not applicable for 2022/23.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Method - Fair Value (market value that would be paid for asset in its highest and best use). Properties are not depreciated. Approach – annual review of all investment assets as at 31 March	Finance liaise with Property to ensure property asset list is up to date including use of asset and income received where applicable Finance undertake comparison between latest and existing valuations and request explanations of significant variations from valuer.	External valuer – Wilks Head & Eve LLP	Assessment of degree of uncertainty for 2021/22 based on underlying guidance from CIPFA and RICS A reduction in the estimated valuations would result in a loss recognised in the CIES An increase in the estimated valuations would result in a gain recognised in the CIES The valuations have been undertaken by a RICS qualified external valuer, compliant with the Code requirements and alternative estimates are not considered to be	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Method Useful asset lives basis for different categories of assets. Approach The council uses the CIPFA Asset Register software to calculate the depreciation as this meets the accounting requirements of the Code.	Standard useful lives for categories of assets are used. Useful lives updated when assets are revalued New assets of material value are reviewed to determine which year depreciation should begin Finance undertake checks on information from Asset Register software to ensure depreciation being charged correctly	Useful lives determined through external revaluation process	If the useful life of assets is reduced, the value of depreciation charged increases and the carrying amount of the asset falls.	No

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