

Statement of Accounts 2018/19



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Narrative Report

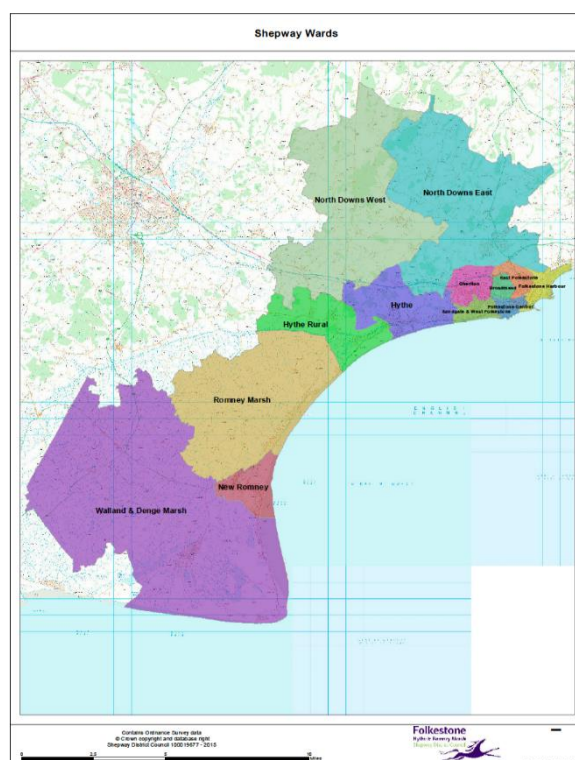
ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

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.

The district was formerly known as Shepway District Council but elected to change its name to Folkestone & Hythe District Council with effect from 1st April 2018.



Our People

The majority of the district's 111,200¹ residents live in urban areas (60.6%), with the remaining 39.4% 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), relatively low wage levels and affordable land/building costs relative to the wider South East region, a large working age population and a high quality natural environment. Economic weaknesses include its relative remoteness, relatively low rates of entrepreneurship and few residents with higher skills².

¹ 2016 Mid-Year Population Estimates - ONS

² Shepway Economic Development Strategy 2015-2020

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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 level and the majority of Districts 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 to:

Invest for the next Generation whilst Delivering More of What Matters.



Key Objectives

Our vision builds on previous plans and reinforces the importance to the Council, and district, of making sure we have a place fit for our communities now and in the future. This vision is directly reflected in the ambition we have set out for Otterpool Park and other key development projects that will transform our district. In addition, delivering more of what matters is just that; focusing our limited resources on the important services and valued functions for our residents, businesses and visitors.

Our external focus is reflected in 4 (of the 6) strategic objectives:

- More Homes - Provide and enable the right amount, type and range of housing;
- More Jobs - Work with businesses to provide jobs in a vibrant local economy;
- Appearance Matters - Provide an attractive and clean environment; and
- Health Matters - Keep our communities healthy and safe.

In addition, we have two strategic objectives that focus on the Council as an organisation, which reflect the issues facing local government as a whole. These are:

- Achieving Stability - Achieve financial stability through a commercial and collaborative approach; and
- Delivering Excellence - Deliver excellent customer service through commitment of staff and members.



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 2018/19 was through the Executive which consisted of the Leader, Deputy Leader and a further eight Portfolio Holders. The managerial leadership is made up of the Corporate Leadership Team (CLT: Head of Paid Service and two Corporate Directors). CLT is supported by 4 Assistant Directors and 4 Chief Officers.

There are 13 wards and 30 Councillors representing the District. Local Councillors are elected for 4 year terms by the local community to represent its views. The Council elects all its Councillors at the same time and an election was held on 2 May 2019 which changed the political make-up of the Council to:

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- 13 Conservative group members;
- 6 Labour group members;
- 6 Green group members;
- 2 UKIP group members; and
- 1 Independent member.

Governance Arrangements

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

Non-executive members sit on groups that consider key Council business. The Overview & Scrutiny Committee (OSC) consider all financial papers ahead of their debate at Cabinet. The OSC has an important and defined role in the budget making process and contribute to its formulation prior to consideration by Cabinet.

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

Further detail regarding the Governance of the Council can be found within the Annual Governance Statement on pages 113-130.

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 Position 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.

A balanced budget was set for both 2018/19 and 2019/20.

Achievements and Services delivered in year included

- £50k scheme for World War 1 Centenary events supported 17 local projects
- 34 new council homes were delivered in Gurkha Way, Military Road Folkestone and Roman Way, Cheriton
- Public consultation was undertaken on the district's Core Strategy and Heritage Strategy
- £700k of Folkestone Community Works funding was deployed to boost employment in east and central Folkestone
- Planning Permission application submitted for 8,500 new homes at Otterpool Park
- 70 long term empty homes were brought back into use
- A MHCLG joint grant funding bid with Dover & Thanet District Council's successfully brought £371k into the area to assist with access to the Private Rented Sector for homeless households
- Radnor Park awarded Green Flag Award following redevelopment
- £3m grant funding from Homes England's Accelerated Development Fund awarded towards Biggins Wood and Princes Parade
- Retained Customer Service Excellence Accreditation, being awarded a further four compliance plusses
- Launch of new Area Officer initiative which has received two silver awards in respect of community tools – place and transformation in environmental services.

RISKS AND OPPORTUNITIES

Future service provision

Our Corporate Plan outlines the clear commitment and intentions of the Council to become more commercially minded through the strategic objective:

Achieving Stability – To achieve financial stability through a commercial and collaborative approach.

To deliver this objective, we have stated that we will:

- Ensure strong financial discipline
- Explore alternative income streams including commercial opportunities
- Develop an investment strategy for the longer-term benefit of the district
- Explore opportunities including working collaboratively to achieve efficiencies, reduce costs and improve resilience
- Optimise the financial benefit from major developments in the shorter and medium term
- Identify 'Invest to Save' opportunities

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

Financial risks are highlighted separately within the Budget Strategy, Budget Setting, Budget Monitoring and Medium Term Financial Planning reports.

What are we currently working on?

The following give some examples of how we are addressing our commercial agenda:

Princes Parade Development - The Council has long-held ambitions to replace the popular, but old and failing swimming pool in Hythe. Since 2002 the Council has been working to secure a suitable site and financial commitment to build a new pool and recreation area. Feasibility studies were undertaken on the potential sites, and in April 2016 Cabinet decided the basis of a planning application would be for a new pool, recreation centre, up to 150 new homes and new public open space. Work has continued during the year and outline planning permission is being finalised for the site.

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

Mountfield Road Industrial Estate, New Romney - The proposal to extend Mountfield Road Industrial Estate, New Romney is seeking to diversify the local economy to mitigate the loss of over 1000 jobs arising from the closure of Magnox A and proposed closure of Dungeness B Power Stations. A masterplan has now been completed showing how the site might be best used and serviced to accommodate up to 700 jobs over a 10 year period. Planning consent has been gained for a business hub of 751 sq.m to initiate development. Financing the development is currently being pursued: with an application for funding submitted to South East Local Enterprise Partnership (SELEP) and, subject to this being awarded, match-funding from Magnox will be sought.

Connect 38 - The Council completed on the purchase of a commercial office block in May 2019 which is based in Ashford, Kent. The office block has been acquired to generate a revenue income stream for the Council to help provide sustainable future funding for services.

Risks associated with a commercial agenda

The following risks have been identified by the Council associated with a more commercial 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 2023. The MTFS was reported to Council on the 31st October 2018 and significantly shaped the annual budget setting cycle for 2019/20. Similarly the MTFS considered by Cabinet on 11 October 2017 and the Budget Strategy on 15 November 2017 shaped the framework for the setting of a balanced budget for 2018/19.

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

The current MTFS forecasts a cumulative funding gap of £4.362 million over the lifetime of the MTFS (2019/20-2022/23). This position considered the 2018/19 Local Government Finance Settlement but not the 2019/20 final budget setting. The MTFS will be updated shortly to reflect known movements.

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 Accountancy 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 OSC and then Cabinet for approval.

Addressing the known pressures

As with most Councils, the current budget environment presents significant financial challenges. The MTFS articulates the scale of that challenge. The Council has adopted a multi strand approach to dealing with those, including the commercial agenda and the Council wide Transformation Programme. The Council is seeking to make service delivery improvements, efficiency measures such as adopting new technologies, appropriate increases in fees and charges, and through a growing approach to commercialisation of existing and new services and development.



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.

Members considered an update on the KPIs at their meeting in March 2019. Performance indicators of focus points at committee this year included:

- % Household Waste Recycled
- % streets survey clear of litter in the District
- Foreign vehicle PCN recovery rate
- No of days to remove fly tipped waste on public land once reported
- ASB complaints investigated and resolved
- Number of community supported litter picks

The outturn performance for the councils KPIs is expected to be reported to the June Cabinet meeting.

The Councils outturn performance includes:

- Percentage of Council Tax due collected in year 97.3% against a target of 97.3% (97.56% in 2017/18)
- Percentage of Non-Domestic Rates due collected in year 98.71% against a target of 97.5% (99.32% in 2017/18)
- Processing of new Housing Benefit claims (once information received) stood at 6.39 days against a target of 10 days in 2018/19 (8.56 days in 2017/18)
- Percentage of household waste recycled 47.5% against a target of 47% (42% in 2017/18)
- 22 homes were provided in the district for low cost home ownership against a target of 32 in 2018/19 (51 homes 2017/18)

FINANCIAL PERFORMANCE

General Fund – Revenue

The main elements of the General Fund actual expenditure and income compared to the agreed budget is outlined below:

General Fund Net Cost of Services	Latest Approved Budget	Outturn	Variance
	£'000	£'000	£'000
Leadership Support	770	590	(180)
Strategy Performance & Communications	2,728	3,548	820
Governance, Law & Regulatory Services	4,786	4,602	(184)
Human Resources	585	734	149
Finance, Customer & Support Services	5,862	5,705	(157)
Strategic Development	1,425	575	(850)
Economic Development	338	341	3
Planning	317	223	(94)
Environment & Corporate Assets	2,671	1,788	(883)
Sub-Total – Heads of Services	19,482	18,106	(1,376)
Unallocated Net Employee Costs	(224)	-	224
Total – Heads of Service	19,258	18,106	(1,152)

The total net cost of services for 2018/19 of £18.106m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £17.147m before the credit adjustment in respect of the Housing Revenue Account (HRA) of £959k, under the heading of “As reported for resource management”.

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

	Net Budget	Outturn	Variance
	£'000	£'000	£'000
Net Interest Payable & Receivable & Similar Charges	(226)	(461)	(235)
New Homes Bonus Grant	(1,362)	(1,362)	-
Internal Drainage Board Levies	453	453	-
Other Non-Service Grants	(1,240)	(1,720)	(480)
Town & Parish Precepts	2,283	2,283	-
Minimum Revenue Position	373	373	-
Capital Expenditure Financed from Revenue	1,630	757	(873)
Net Transfer to/from (-) Earmarked reserves	(1,201)	3,155	4,356
Collection Fund	(16,527)	(20,352)	(3,825)
Other Income and Expenditure	(15,817)	(16,874)	(1,057)

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

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The key movements from the agreed budget included:

- Net additional parking income £515k
- Reduced Housing Benefits/Rent Rebate Expenditure £568k
- Additional rental income £127k
- Changes in revenue spending profile of Otterpool Park development £883k
- Additional interest received £174k
- Reduction in requirement to utilise revenue to fund capital expenditure in year

Further detail can be found in the Outturn report to Cabinet in June 2019.

General Fund Capital

The General Fund Capital summary position is outlined below including a funding analysis:

General Fund Capital Programme 2018/19	Latest Budget 2018/19 £'000	Final Outturn 2018/19 £'000	Variance Budget to Outturn £'000
Service Units			
Environment & Corporate Assets	846	534	(312)
Governance, Law & Regulatory Services	119	105	(14)
Finance, Customer & Support Services	1,932	933	(999)
Strategy, Performance & Communications	1,626	1,532	(94)
Strategic Development Projects	3,223	2,295	(928)
Total General Fund Capital Expenditure	7,746	5,399	(2,347)
Capital Funding			
Capital Grants	(1,004)	(975)	29
External Contributions	(2)	(9)	(7)
Capital Receipts	(2,119)	(1,033)	1,086
Revenue	(1,071)	(757)	314
Borrowing	(3,550)	(2,625)	925
Total Funding	(7,746)	(5,399)	2,347

The key movements relate to slippage in the capital programme particularly in relation to the Transformation project; Ship Street, Folkestone and the drawdown of funding for Otterpool Park and Opportunitas.

Further details can be found in the June Cabinet report.

NARRATIVE REPORT

Housing Revenue Account

A summary of the outturn financial position of the HRA is outlined below:

HRA Net Revenue Expenditure 2018/19	Latest Approved Budget 2018/19	Final Outturn 2018/19	Variance
	£000's	£000's	£000's
Income	(15,829)	(15,896)	(67)
Expenditure	10,994	14,782	3,788
HRA Share of Corporate Costs	225	155	(70)
Net Cost of HRA Services	(4,610)	(959)	3,651
Interest Payable/Receivable	1,513	1,508	(5)
HRA Surplus/Deficit	(3,097)	549	3,646
Other items of Income & Expenditure	(15)	(5,036)	(5,021)
Revenue Contribution to Capital	8,666	2,330	(6,336)
Decrease/(Increase) to HRA Reserve	5,554	(2,157)	(7,711)

The key reasons for the variance are a £6.335m 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. Additionally the outturn reflects reduced repairs and maintenance and management costs, as well as additional rental income from new homes provided during the year.

A summary of the capital programme outturn is noted below:

HRA Capital Programme 2018/19	Latest Approved Budget 2018/19	Final Outturn 2018/19	Variance
	£000's	£000's	£000's
HRA Capital programme	13,673	5,349	(8,324)

The largest variation in outturn position to agreed budget relates to the re-phasing of the new build/acquisitions programme. Additionally the tender price for the Fire Protection works was lower than anticipated, and re-roofing and re-wiring works have been re-profiled due to re-procurement of the contracts.



OUTLOOK

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

The Council also takes a robust view of capital investments and this is included as part of a medium term capital programme and is refreshed annually during the budget process. For the current programme agreed in February 2019, there is capital investment planned totalling £40.022 million. This sits alongside the planned revenue budget and use of reserves which are considered by the Council throughout its budget process to ensure a sustainable approach to its finances.

Transformation Programme

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

The Transformation Programme has three core drivers for change:

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

The Transformation Programme is also a key element of the plan to address the shortfall within the Medium Term Financial Strategy.

AUDIT OF THE STATEMENT OF ACCOUNTS

The Council appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31 March 2019.

FURTHER INFORMATION

Further information about the statement of accounts is available from the Assistant Director - Finance, Customer & Support Services, Civic Centre, Castle Hill Avenue, Folkestone, Kent CT20 2QY.

Date: 29 July 2019

Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2018/19.

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 Corporate Director, Customer, Support and Specialist Services, Timothy Madden
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts by 31 July.

CHIEF FINANCE OFFICER RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of Folkestone & Hythe District Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy *2018/19 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 31 March 2019 and its income and expenditure for the year then ended.

Signed:



Timothy Madden CPFA
Corporate Director, Customer, Support and Specialist Services

Date: 28 May 2019

STATEMENT OF RESPONSIBILITIES

APPROVAL OF ACCOUNTS

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 29 July 2019.

Signed:

Councillor Philip Martin
Chairman, Audit and Governance Committee

Date: 29 July 2019

Core Financial Statements

FINANCIAL STATEMENTS
MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2018/19								
Balance at 31 March 2018	(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure	(25,488)	(470)	-	-	-	(25,958)	(27,252)	(53,210)
Adjustments between accounting basis and funding basis under regulations (Note 5)	21,681	(1,687)	(1,734)	(461)	(1,976)	15,823	(15,823)	-
(Increase) or Decrease in 2018/19	(3,807)	(2,157)	(1,734)	(461)	(1,976)	(10,135)	(43,075)	(53,210)
Balance at 31st March 2019 carried forward	(22,706)	(10,204)	(9,073)	(4,771)	(4,422)	(51,176)	(124,556)	(175,732)
2017/18								
Balance at 31 March 2017	(17,369)	(7,380)	(6,773)	(3,831)	(1,812)	(37,165)	(71,576)	(108,741)
Movement in reserves during 2017/18								
Total Comprehensive Income and Expenditure	360	(1,415)	-	-	-	(1,055)	(12,726)	(13,781)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(1,890)	748	(566)	(479)	(634)	(2,821)	2,821	-
(Increase) or Decrease in 2017/18	(1,530)	(667)	(566)	(479)	(634)	(3,876)	(9,905)	(13,781)
Balance at 31st March 2018 carried forward	(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)

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

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Restated 2017/18			2018/19			
Gross Expenditure £000s	Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Income £000s	Net Expenditure £000s
Continuing Operations						
840	(117)	723	Leadership Support	667	(3)	664
7,601	(2,895)	4,706	Governance, Law & Regulatory Services	7,617	(2,737)	4,880
644	(88)	556	Human Resources	837	(45)	792
46,000	(41,184)	4,816	Finance, Customer & Support Services	42,368	(37,567)	4,801
5,533	(3,335)	2,198	Strategy, Performance & Communications	5,329	(2,250)	3,079
2,072	(1,145)	927	Strategic Development Projects	2,963	(2,610)	353
664	(118)	546	Economic Development	504	(88)	416
1,746	(921)	825	Planning	1,081	(699)	382
8,515	(5,262)	3,253	Environment & Corporate Assets	8,740	(5,482)	3,258
11,962	(16,357)	(4,395)	Local Authority Housing (HRA)	12,593	(16,022)	(3,429)
2,139	-	2,139	Local Authority Housing (HRA) - exceptional item (Note 8)	2,470	-	2,470
87,716	(71,422)	16,294	(Surplus)/Deficit on Continuing Operations	85,169	(67,503)	17,666
2,717	(1,366)	1,351	Other Operating Expenditure (Note 10)	2,955	(1,249)	1,706
6,115	(2,805)	3,310	Financing and Investment Income and Expenditure (Note 11)	5,408	(25,558)	(20,150)
5,884	(27,894)	(22,010)	Taxation and Non-specific Grant Income (Note 12)	5,794	(30,974)	(25,180)
102,432	(103,487)	(1,055)	(Surplus) or Deficit on Provision of Services	99,326	(125,284)	(25,958)
		(5,992)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 29)			(19,200)
		(246)	(Surplus) or deficit on revaluation of financial assets (Available for Sale)			-
		(6,488)	Re-measurement of net defined liability (Note 27)			(8,052)
		(12,726)	Other Comprehensive Income and Expenditure			(27,252)
		(13,781)	TOTAL Comprehensive Income and Expenditure			(53,210)

*2017/18 has been restated due to a change in reporting structure. Further detail is provided at Note 18 to the accounts.

**FINANCIAL STATEMENTS
BALANCE SHEET**

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

31-Mar-18		31-Mar-19	
£000s	Note	£000s	
165,434	Council dwellings	19	170,888
15,150	Other land and buildings	19	17,328
1,629	Vehicles, plant, furniture and equipment	19	1,472
13,469	Infrastructure assets	19	12,370
3,461	Community assets	19	3,461
263	Surplus assets	19	10,076
1,962	Assets under construction	19	910
8,003	Investment property	20	31,841
103	Intangible assets	-	58
14,455	Long term investments	21	20,321
7,231	Long term debtors	21	7,417
231,160	Long Term Assets		276,142
19,784	Short term investments	21	10,051
11	Inventories	-	9
11,693	Short term debtors	22	11,665
2,329	Cash and cash equivalents	23	13,492
33,817	Current Assets		35,217
(2,028)	Short term borrowing	21	(1,705)
(11,911)	Short term creditors	25	(12,480)
(97)	Capital grants received in advance	-	(80)
(1,807)	Provisions	26	(1,659)
(15,843)	Current Liabilities		(15,924)
(55,855)	Long term borrowing	21	(54,755)
(70,690)	Net pensions liability	27	(64,881)
(67)	Provisions	26	(67)
(126,612)	Long Term Liabilities		(119,703)
122,522	Net Assets		175,732
(41,041)	Usable reserves	28	(51,176)
(81,481)	Unusable reserves	29	(124,556)
(122,522)	Total Reserves		(175,732)

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 2019.



Timothy Madden CPFA
Corporate Director - Customer, Support and Specialist Services
Date: 28 May 2019

FINANCIAL STATEMENTS
CASH FLOW STATEMENT

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

2017/18 £000s	Note	2018/19 £000s
1,055		25,958
Net surplus or (deficit) on the provision of services		
15,268	33	(9,876)
Adjustments to net surplus or (deficit) on the provision of services for non-cash movements		
(5,375)	33	(5,335)
Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities		
10,948		10,747
Net cash flow from operating activities		
(8,400)	34	1,976
Net cash flow from investing activities		
(4,587)	35	(1,560)
Net cash flow from financing activities		
(2,039)		11,163
Net increase or decrease in cash and cash equivalents		
4,368		2,329
Cash and cash equivalents at the beginning of the reporting period		
2,329	23	13,492
Cash and cash equivalents at the end of the reporting period		

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 2018/19 financial year and its position at the year end of 31 March 2019. 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 primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* 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 in the year that it takes place (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.

1.3 Grants and Contributions

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

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

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

1.4 Cash and Cash Equivalents

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

1.5 Exceptional Items

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

1.6 Overheads and Support Services

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

1.7 Reserves

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

1.8 Property, Plant and Equipment

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

Recognition

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

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

Measurement

Items of PPE are initially measured at cost, comprising:

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

NOTES TO THE FINANCIAL STATEMENTS

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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 1 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.

1.9 Disposals and Non-current Assets Held For Sale

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

NOTES TO THE FINANCIAL STATEMENTS

subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES.

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

If assets no longer meet the criteria to be classified as Assets Held For Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for sale, and their recoverable amount at the date of the decision not to sell.

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal 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 are appropriated to the Reserve from the General Fund Balance in the MIRS.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MIRS.

1.10 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.

1.11 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.

1.12 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post-Employment Benefits

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

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

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pensions liability is analysed into the following components:
 - i) Service cost comprising:

NOTES TO THE FINANCIAL STATEMENTS

- 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.

1.13 Events after the Balance Sheet Date

Events after the Balance Sheet date 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.

1.14 Financial Assets

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

To meet new Code requirements, financial assets are now classified into one of three categories:

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

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

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

1.15 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.

1.16 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.

1.17 Value Added Tax

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

1.18 Interests in Companies and Other Entities

Where the Council has a material interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, group accounts will be prepared. In the Council's own single entity accounts, any interest in companies and other entities will be recorded as financial assets at cost, less any provision for losses.

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

The Code requires the Council to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant year. Standards that are being introduced in 2019/20 are:

- Amendments to IAS 40 *Investment Property: Transfers of Investment Property*
- *Annual Improvements to IFRS Standards 2014 - 2016 Cycle*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

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

3. Critical Judgements in Applying Accounting Policies

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

Funding levels

There continues to be a high degree of uncertainty about future levels of funding for local government, with consultation having now commenced on the Fair Funding Review and Business Rates Retention Scheme, anticipated to result in significant changes in Local Government funding from 2020/21. However, the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close any facilities and reduce levels of service provision.

Folkestone Parks and Pleasure Grounds Charity

The Council is the sole trustee of the Folkestone Parks and Pleasure Grounds Charity, a charitable trust that owns and operates certain parks and pleasure grounds previously managed by the Council. It has been determined that on the grounds of materiality the preparation of group accounts is not required. Further information is disclosed in note 37 on page 89.

Joint waste and recycling contract

It has been concluded that the contract for waste collection and recycling entered into by the East Kent Waste Partnership, consisting of Folkestone & Hythe, Dover and Kent County councils, does not include an embedded lease in respect of the assets used to provide the service. Therefore, no assets have been recognised on the balance sheet and all contract payments have been accounted for as supplies and services within the appropriate service lines in the CIES.

East Kent Housing – Arms-Length Management Organisation

The Council has a 25% interest in East Kent Housing Limited which has been classified as a joint venture with three other local authorities. With due regard to both the quantitative and qualitative aspects of materiality the Council has concluded that the preparation of group accounts is not required.

The Council has entered into an agreement with East Kent Housing that if the company is not able to make payments to the Kent Local Government Pension Fund in respect of the pensionable service of employees transferred from the Council, then the Council will meet such payments.

East Kent Housing Limited's pension liability has decreased from £10.1 to £9.5m at 31st March 2019. The company remains able to meet its current pension obligations and will not be making calls on the four owner Councils towards its pension liability. The Council's share of this liability is £2.38m but it has been concluded that the financial risk associated with the liability crystallising is immaterial and on this basis the liability has not been accounted for at fair value through profit and loss.

Oportunitas Limited

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

Heritage Assets

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
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 for non-housing assets would increase by £179k 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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.7m. Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 27.
Arrears	At 31 March 2019, the Council had a balance of sundry debtors of £752k. A review of balances indicated that an impairment of doubtful debts of 23% (£174k) was appropriate. However, in the current economic climate it is not fully certain whether such an allowance may be sufficient.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts, for example, would require an additional £174k to be set aside as an allowance.
Provisions	The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors. Due to delays in the assessment of appeals by the Valuation Office since the implementation of 'Check, Challenge, Appeal' it is difficult to assess the impact of successful appeals.	The business rates rateable value at 31/3/2019 was £76.6m. For every 1% successful reduction in the rateable value, it is equal to a cost of £147k to the Council (for a single year).

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Fair value measurements	<p>When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk.</p> <p>Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in notes 20 and 21.</p>	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments.

Notes Supporting the Movement in Reserves Statement

5. Adjustments between Accounting Basis and Funding Basis under Regulations

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

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2018/19	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
<u>Adjustments to Revenue Resources</u>						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(2,113)	(130)	-	-	-	2,243
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	143	(13)	-	-	-	(130)
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	406	-	-	-	-	(406)
Holiday pay (transferred to the Accumulated Absences Reserve)	(4)	-	-	-	-	4
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)	19,168	(6,036)	-	-	-	(13,132)
Total Adjustments to Revenue Resources	17,600	(6,179)	-	-	-	(11,421)
<u>Adjustments between Revenue and Capital Resources</u>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	215	2,165	-	(3,939)	-	1,559
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	-	-	(2,527)	-	-	2,527
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	373	-	-	-	-	(373)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	757	2,330	-	-	-	(3,087)
Total Adjustments to between Capital and Revenue Resources	1,126	4,495	(2,527)	(3,720)	-	626
<u>Adjustments to Capital Resources</u>						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,986	-	(1,986)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	2,066	-	-	(2,066)
Application of capital grants to finance capital expenditure	2,959	-	-	-	(1,976)	(983)
Cash payments in relation to deferred capital receipts	(4)	(3)	-	-	-	7
Total Adjustments to Capital Resources	2,955	(3)	2,066	1,986	(1,976)	(5,028)
Total Adjustments	21,681	(1,687)	(461)	(1,734)	(1,976)	(15,823)

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2017/18

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments to Revenue Resources						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(2,521)	(141)	-	-	-	2,662
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	98	(20)	-	-	-	(78)
Council Tax and NDR (transferred to or from the Collection Fund Adjustment Account)	(1,310)	-	-	-	-	1,310
Holiday pay (transferred to the Accumulated Absences Reserve)	79	(2)	-	-	-	(77)
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)	(2,883)	(5,266)	-	-	-	8,149
Total Adjustments to Revenue Resources	(6,537)	(5,429)	-	-	-	11,966
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	626	1,897	-	(2,839)	-	316
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	-	-	(2,519)	-	-	2,519
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	389	-	-	-	-	(389)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	971	4,283	-	-	-	(5,254)
Total Adjustments to between Capital and Revenue Resources	1,767	6,180	(2,519)	(2,620)	-	(2,808)
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	2,054	-	(2,054)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	2,040	-	-	(2,040)
Application of capital grants to finance capital expenditure	2,883	-	-	-	(634)	(2,249)
Cash payments in relation to deferred capital receipts	(3)	(3)	-	-	-	6
Total Adjustments to Capital Resources	2,880	(3)	2,040	2,054	(634)	(6,337)
Total Adjustments	(1,890)	748	(479)	(566)	(634)	2,821

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

<u>Earmarked Reserves</u>	Balance at 01-Apr-17 £000s	Transfers		Balance at 31-Mar-18 £000s	Transfers		Balance at 31-Mar-19 £000s
		In £000s	Out £000s		In £000s	Out £000s	
<u>General Fund</u>							
Business Rates	(2,681)	(479)	-	(3,160)	(2,336)	-	(5,496)
Leisure Reserve	(147)	(50)	-	(197)	-	-	(197)
Carry Forwards	(1,117)	(351)	1,048	(420)	(637)	334	(723)
Vehicles, Equipment and Technology	(876)	(189)	411	(654)	(144)	161	(637)
Invest to Save	(366)	-	-	(366)	-	-	(366)
Maintenance of Graves	(12)	-	-	(12)	-	-	(12)
New Homes Bonus	(2,431)	(1,572)	1,290	(2,713)	(1,025)	1,214	(2,524)
Corporate Initiatives	(755)	(90)	466	(379)	(90)	65	(404)
IFRS Reserve	(67)	-	18	(49)	-	11	(38)
Otterpool Park Garden Town	(1,989)	(1,202)	959	(2,232)	-	103	(2,129)
Economic Development	(2,027)	(317)	150	(2,194)	(729)	22	(2,901)
Community Led Housing	-	(437)	-	(437)	-	-	(437)
Lydd Airport	-	(9)	-	(9)	-	-	(9)
Homelessness Prevention	-	(215)	-	(215)	(319)	215	(319)
	(12,468)	(4,911)	4,342	(13,037)	(5,280)	2,125	(16,192)

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Business Rates Reserve	To support business development and to manage the statutory accounting requirements of the Rates Retention Scheme.
Leisure Reserve	To meet future leisure improvements.
Carry Forwards Reserve	For items of expenditure not incurred or income not applied in the previous financial year but required in the new financial year to meet spending commitments.
Corporate Property Reserve	To meet corporate property improvements or repairs.
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	Towards 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.

Notes Supporting the Comprehensive Income and Expenditure Statement

7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2018/19 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide the services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes across the Council's management structure. Income and expenditure accounted for under GAAP is presented more fully in the CIES.

	As reported for resource management	2018/19 Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	590	128	718	(54)	664
Strategy, Performance & Communications	3,548	(323)	3,225	(146)	3,079
Governance, Law & Regulatory Services	4,602	296	4,898	(18)	4,880
Finance, Customer & Support Services	5,705	(760)	4,945	(144)	4,801
Human Resources	734	95	829	(37)	792
Strategic Development	575	(202)	373	(20)	353
Economic Development	341	63	404	12	416
Planning	223	260	483	(101)	382
Environment & Corporate Assets	1,788	(57)	1,731	1,527	3,258
Local Authority Housing (HRA)	(959)	(4,919)	(5,878)	4,919	(959)
(Surplus)/Deficit on Continuing Operations	17,147	(5,419)	11,728	5,938	17,666
Other Income and Expenditure	(18,072)	380	(17,692)	(25,932)	(43,624)
(Surplus) or Deficit on Provision of Services	(925)	(5,039)	(5,964)	(19,994)	(25,958)
Opening General Fund and HRA Balance			(26,946)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			<u>(5,964)</u>		
Closing General Fund and HRA Balance at 31 March*			<u>(32,910)</u>		

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

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2017/18 Restated				
	As reported for resource management	Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	736	52	788	(65)	723
Strategy, Performance & Communications	2,473	(138)	2,335	(137)	2,198
Governance, Law & Regulatory Services	4,354	425	4,779	(73)	4,706
Human Resources	555	37	592	(36)	556
Finance, Customer & Support Services	5,449	(425)	5,024	(208)	4,816
Strategic Development Projects	1,085	(142)	943	(16)	927
Economic Development	436	102	538	8	546
Planning	648	300	948	(123)	825
Environment & Corporate Assets	1,663	281	1,944	1,309	3,253
Local Authority Housing (HRA)	(2,256)	(4,146)	(6,402)	4,146	(2,256)
(Surplus)/Deficit on Continuing Operations	15,143	(3,654)	11,489	4,805	16,294
Other Income and Expenditure	(14,433)	747	(13,686)	(3,662)	(17,349)
(Surplus) or Deficit on Provision of Services	710	(2,907)	(2,197)	1,143	(1,055)
Opening General Fund and HRA Balance			(24,749)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(2,197)		
Closing General Fund and HRA Balance at 31 March*			(26,946)		

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

2017/18 has been restated due to a change in the reporting structure. Further detail is provided at Note 18 to the accounts.

8. Exceptional Items

Two valuation issues affecting council dwellings have required an exceptional item of a net £2.47m debit to be recognised in the CIES and is summarised in the table below:

Issue	Description	£000s
i)	Valuation adjustment for council dwellings acquired during 2018/19 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	3,533
ii)	On the advice of the council's external valuer, the council's dwelling value has increased by a further 3.73% over the year in line with regional property valuation changes. Again, a valuation gain has been taken reversing previous losses.	(1,063)
		2,470

9. Material Items of Income and Expense

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

2017/18			2018/19		
Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s	£000s	£000s	£000s
					Other Housing Services
30,179	(30,000)	179	26,322	(26,789)	(467)
9,496	(9,567)	(71)	9,350	(9,198)	152
					Housing Benefit
					Housing Rebates

10. Other Operating Expenditure

Other Operating Expenditure	2017/18	2018/19
	£000s	£000s
Parish precepts	2,053	2,283
Internal Drainage Board levies	445	453
Payments to the Government Housing Capital Receipts Pool	219	219
Gains or losses on the disposal of non-current assets	(1,366)	(1,249)
	1,351	1,706

11. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2017/18 £000s	2018/19 £000s
Interest payable and similar charges	2,435	2,030
Net interest on net defined liability	1,973	1,764
Investment property rental income	(182)	(165)
Interest receivable and similar income	(802)	(1,912)
Income and expenditure in relation to investment properties and changes in their fair value (see Note 20)	(114)	(21,867)
	<u>3,310</u>	<u>(20,150)</u>

12. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2017/18 £000s	2018/19 £000s
Council tax income	(11,721)	(12,257)
Non domestic rates	(4,406)	(8,096)
Non-ring fenced government grants	(4,095)	(3,082)
Capital grants and contributions	(1,788)	(1,745)
	<u>(22,010)</u>	<u>(25,180)</u>

13. Agency Services – On Street Parking

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

Agency Services - On Street Parking	2014/15 £000s	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s
Income	(516)	(557)	(670)	(621)	(730)
Expenditure	664	639	632	607	806
Deficit /(surplus)	<u>148</u>	<u>82</u>	<u>(38)</u>	<u>(14)</u>	<u>76</u>

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

14. Members' Allowances

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

Members Allowances	2017/18	2018/19
	£000s	£000s
Allowances	306	316
Expenses	19	21
Total	325	337

15. Officers' Remuneration

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

		Salary, including fees and allowances	Compensation for loss of office	Total Remuneration, excluding pension contributions	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£	£	£
Corporate Director - Strategy	2018/19	111,994	-	111,994	13,485	125,479
(Head of Paid Service)	2017/18	101,994	-	101,994	13,485	115,479
Corporate Director - Customer, Support & Specialist Services *	2018/19	101,994	-	101,994	13,485	115,479
	2017/18	101,994	-	101,994	13,485	115,479
Corporate Director - Place & Commercial**	2018/19	101,994	-	101,994	13,485	115,479
	2017/18	-	-	-	-	-
Assistant Director Strategy, Performance & Communications	2018/19	80,552	-	80,552	10,001	90,553
	2017/18	69,038	-	69,038	9,137	78,175
Chief HR Officer	2018/19	72,969	-	72,969	9,691	82,660
	2017/18	69,038	-	69,038	9,137	78,175
Assistant Director Governance, Law & Regulatory Services ***	2018/19	78,514	-	78,514	9,909	88,423
	2017/18	69,038	-	69,038	9,137	78,175

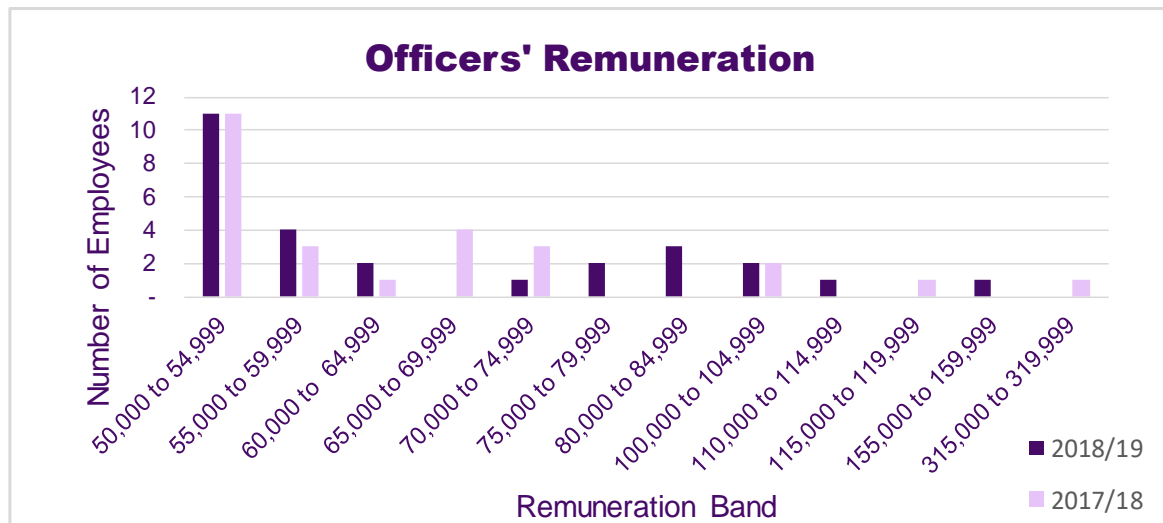
*Section 151 Officer

**Started employment 1st April 2018

***Monitoring Officer

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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



The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments) £	Number of compulsory redundancies (a)		Number of other departures agreed (b)		Total number of exit packages by cost band (a+b)		Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18 £000s	2018/19 £000s
0-20,000	5	-	7	13	12	13	62	88
20,001-40,000	-	-	1	3	1	3	30	102
40,001-60,000	1	-	1	-	2	-	85	-
100,001-150,000	-	-	-	1	-	1	-	102
150,001-200,000	1	-	-	-	1	-	179	-
Total	7	-	9	17	16	17	356	292

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

16. External Audit Costs

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

External Audit Fees	2017/18 £000s	2018/19 £000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	61	47
Rebate of PSAA fees	(9)	-
Fees payable for the certification of grant claims and returns for the year	15	11
	67	58

17. Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2018/19:

Grant Income	2017/18 £000s	2018/19 £000s
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	848	-
Business rates reliefs	1,282	1,429
Non-service related grants	393	291
New Homes Bonus Grant	1,572	1,362
Capital Grants and Contributions	1,788	1,745
	5,883	4,827
Credited to Services		
REFCUS related Grants	1,080	1,199
KCC sundry grants	1,624	1,465
Council Tax Reduction Scheme grants	161	148
DWP – benefits subsidy	28,477	25,841
- rent rebate Subsidy	9,492	9,104
- benefits administration	428	386
Other grants and contributions	946	2,204
	42,208	40,347

18. Restatement of Accounts – Working Papers

Note to restated Consolidated Income and Expenditure Statement 2017/18

Continuing Operations	Reported 2017/18	Change in Reporting Structure	Restated 2017/18
Leadership Support	885	(162)	723
Communications	257	(257)	-
Democratic Services and Law	4,938	(4,938)	-
Governance, Law & Regulatory Services	-	4,706	4,706
Human Resources	2,427	(1,871)	556
Finance	2,119	(2,119)	-
Finance, Customer & Support Services	-	4,816	4,816
Communities	2,088	(2,088)	-
Strategy, Performance & Communications	-	2,198	2,198
Strategic Development Projects	927	-	927
Economic Development	524	22	546
Planning	924	(99)	825
Commercial and Technical	3,194	(3,194)	-
Environment & Corporate Assets	-	3,253	3,253
Planning Advisor	267	(267)	-
Local Authority Housing (HRA)	(4,395)	-	(4,395)
Local Authority Housing (HRA) - exceptional item (Note 8)	2,139	-	2,139
(Surplus)/Deficit on Continuing Operations	16,294		16,294
Other Operating Expenditure (Note 10)	1,351		1,351
Financing and Investment Income and Expenditure (Note 11)	3,310		3,310
Taxation and Non-specific Grant Income (Note 12)	(22,010)		(22,010)
(Surplus) or Deficit on Provision of Services	(1,055)		(1,055)
(Surplus) or deficit on revaluation of non-current assets (Note 29)	(5,992)		(5,992)
(Surplus) or deficit on revaluation of Available for Sale assets	(246)		(246)
Re-measurement of net defined liability (Note 27)	(6,488)		(6,488)
Other Comprehensive Income and Expenditure	(12,726)		(12,726)
TOTAL Comprehensive Income and Expenditure	(13,781)		(13,781)

Note to restated Expenditure and Funding Analysis 2017/18

Continuing Operations	Reported Outturn 2017/18	Changes in Reporting Structure	Restated Outturn 2017/18
Leadership Support	877	(141)	736
Communications	252	(252)	-
Strategy, Performance & Communications	-	2,473	2,473
Democratic Services and Law	4,585	(4,585)	-
Governance, Law & Regulatory Services	-	4,354	4,354
Human Resources	2,330	(1,775)	555
Finance	3,017	(3,017)	-
Finance, Customer & Support Services	-	5,449	5,449
Communities	2,329	(2,329)	-
Strategic Development Projects	1,085	-	1,085
Economic Development	420	16	436
Planning	642	6	648
Commercial and Technical	1,614	(1,614)	-
Environment & Corporate Assets	-	1,663	1,663
Planning Advisor	248	(248)	-
Local Authority Housing (HRA)	(2,256)	-	(2,256)
(Surplus)/Deficit on Continuing Operations	15,143	-	15,143

Notes Supporting the Balance Sheet

19. Property, Plant and Equipment

Measurement

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued at £10.6m as at 1 April 2014 by an external independent valuer – Sibley Pares (Taylor Riley) Ltd, Chartered Surveyors.

The Council's housing assets were re-valued in April 2015 by Sibley Pares (Taylor Riley) Ltd at £141m, of which £136m relates to council dwellings. The valuation of the council dwellings has increased from 32% to 33% of the open market value for these assets based on their existing use value for social housing from 1 April 2016. This valuation adjustment is in accordance with Ministry of Housing, Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents. On the advice of the external valuer the value of council dwellings has increased by 3.73% over the year to reflect the experience of property price increases seen in the local area.

The external valuer has also advised that, based on rental income values, the value of the various housing non-dwelling assets categories (garages, parking spaces and stores) have risen on average by almost 2.7% over the year to March 2019.

The external valuer undertook an assessment of the Council's non-housing portfolio and, based on the top twenty assets by value, advised the values have increased by approximately £1.5m over the year to March 2019. Additionally the external valuer also reviewed the value of the land at Princes Parade, Hythe and has advised there is a substantial increase from the value at March 2018 of £80k to £9m at March 2019. This is entirely due to the outline planning permission granted to the site for the proposed leisure, housing and commercial development.

Contractual Commitments

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

- Kitchen and bathroom replacement 2010-2020 - approximately £540k per annum
- Window/door servicing and maintenance 2015-2020 approximately £250k per annum.

There is an option to extend the window/door servicing contract for a further two years.

There is a contractual commitment of £1.172m for the purchase of 12-14 Princess Street which will be paid in 2019/20.

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2018/19	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2018	165,434	16,162	9,080	35,112	3,461	1,962	263	231,474
Additions	5,010	559	308	319	-	303	-	6,499
Revaluation increases/(decreases) recognised in the Revaluation Reserve	7,389	1,999	-	-	-	-	9,812	19,200
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,470)	(135)	-	-	-	-	10	(2,595)
De-recognition – disposals	(174)	-	(14)	-	-	-	-	(188)
Assets reclassified (to)/from Held for Sale	(871)	-	-	-	-	-	-	(871)
Other reclassifications	1,355	219	-	-	-	(1,355)	(9)	210
Other movements in cost or valuation #	(4,785)	(124)	-	-	-	-	-	(4,909)
At 31 March 2019	170,888	18,680	9,374	35,431	3,461	910	10,076	248,820
Depreciation and Impairment								
At 1 April 2018	-	(1,012)	(7,451)	(21,643)	-	-	-	(30,106)
Depreciation charge for the year	(2,296)	(340)	(451)	(1,418)	-	-	-	(4,505)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,489)	(124)	-	-	-	-	-	(2,613)
Other movements in depreciation and impairment #	4,785	124	-	-	-	-	-	4,909
At 31 March 2019	-	(1,352)	(7,902)	(23,061)	-	-	-	(32,315)
Balance Sheet amount at 31 March 2019	170,888	17,328	1,472	12,370	3,461	910	10,076	216,505
Balance Sheet amount at 1 April 2018	165,434	15,150	1,629	13,469	3,461	1,962	263	201,368

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

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2017/18	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2017	159,132	15,422	8,637	31,244	3,461	4,628	259	222,783
Additions	7,592	857	443	509	-	866	-	10,267
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,992	-	-	-	-	-	-	5,992
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,139)	-	-	-	-	-	4	(2,135)
De-recognition - Disposals	(1,054)	-	-	-	-	-	-	(1,054)
Other reclassifications	242	(69)	-	3,359	-	(3,532)	-	-
Other movements in cost or valuation #	(4,331)	(48)	-	-	-	-	-	(4,379)
At 31 March 2018	165,434	16,162	9,080	35,112	3,461	1,962	263	231,474
Depreciation and Impairment								
At 1 April 2017	-	(673)	(7,039)	(20,321)	-	-	-	(28,033)
Depreciation charge for the year	(2,277)	(339)	(412)	(1,322)	-	-	-	(4,350)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,054)	(48)	-	-	-	-	-	(2,102)
Other movements in depreciation and impairment #	4,331	48	-	-	-	-	-	4,379
At 31 March 2018	-	(1,012)	(7,451)	(21,643)	-	-	-	(30,106)
Balance Sheet amount at 31 March 2018	165,434	15,150	1,629	13,469	3,461	1,962	263	201,368
Balance Sheet amount at 1 April 2017	159,132	14,749	1,598	10,923	3,461	4,628	259	194,750

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

20. 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	2017/18	2018/19
	£000s	£000s
Rental income from investment property	(182)	(172)
Direct operating expenses arising from investment property	-	7
Net (gain)/loss	(182)	(165)

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	2017/18	2018/19
	£000s	£000s
Cost or Valuation		
At 1 April	7,831	8,003
Additions – acquisitions	62	2,048
Additions – construction	-	143
Net gain from fair value adjustments	110	21,857
Transfers to PPE	-	(210)
At 31 March	8,003	31,841

The net gain from fair value adjustments is almost entirely due to an increase in the value of land held at Otterpool site near Sellindge which now reflects its development potential for housing as part of the proposed Otterpool Park Garden Town.

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31 March 2019 are as follows:

NOTES SUPPORTING THE BALANCE SHEET

2018/19 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Significant unobservable inputs (Level 3) £000s	Fair value at 31-Mar-19 £000s
Residential Properties	1,890	-	1,890
Agricultural Land	27,240	-	27,240
Commercial Units	-	1,511	1,511
Commercial Land	1,057	-	1,057
Assets Under Construction	-	-	143
	30,187	1,511	31,841

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

Significant observable inputs – Level 2

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

Significant unobservable inputs - Level 3

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

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

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

Highest and best use of investment properties

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

Valuation Techniques

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

NOTES SUPPORTING THE BALANCE SHEET

Valuation Process for Investment Properties

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

Investment Properties Categorised with Level 3	31-Mar-19 £000s
Opening Balance	1,424
Total gains (or losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	87
Closing Balance	1,511

Gains or losses arising from changes in the fair value of the investment property are recognised in Surplus or Deficit on the Provision of Services – Financing and Investment Income and Expenditure line.

Quantitative information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs - Level 3

Subcategory at Fair Value Level	31-Mar-19 £000s	Valuation technique used to measure fair value	Unobservable inputs	Estimated average
Commercial Units	1,511	Implicit (all-risk yield) capitalisation model	Rental growth	2.50%
			Vacancy level	5%
			Discount Rate	8%

Significant changes in rent growth; vacancy levels or discount rate will result in a significantly lower or higher fair value. It is considered that the council's level 3 commercial units are, currently, not subject to significant changes to their fair value.

21. 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:

NOTES SUPPORTING THE BALANCE SHEET

- 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, East Kent Housing Limited and Oportunitas Limited, the Council's wholly owned regeneration and housing company, made for service purposes
- trade receivables for goods and services delivered

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

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

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:

NOTES SUPPORTING THE BALANCE SHEET

Financial Liabilities	Long Term		Short Term	
	31-Mar-18	31-Mar-19	31-Mar-18	31-Mar-19
Loans amortised cost:				
- Principal sum borrowed	(55,855)	(54,755)	(1,900)	(1,600)
- Accrued interest	-	-	(128)	(105)
Total Borrowing	(55,855)	(54,755)	(2,028)	(1,705)
Loans at amortised cost:				
- Bank overdraft	-	-	(1,306)	-
Total Cash Overdrawn	-	-	(1,306)	-
Total Other Long-term Liabilities	-	-	-	-
Liabilities at amortised cost:				
- Trade payables	-	-	(2,425)	(2,301)
Included in Creditors	-	-	(2,425)	(2,301)
Total Financial Liabilities	(55,855)	(54,755)	(5,759)	(4,006)

The total short-term borrowing includes £105k (£128k 2017/18) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £10.179m (£9.486m 2017/18) short-term creditors that do not meet the definition of a financial liability. The comparative figures for the year to 31 March 2018 have been restated to bring them in line with the new financial reporting requirements from 1 April 2018.

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

Financial Assets	Long Term		Short Term	
	31-Mar-18	31-Mar-19	31-Mar-18	31-Mar-19
At amortised cost:				
- Principal	8,506	3,507	19,755	10,000
- Accrued interest	37	4	29	51
At fair value through profit & loss:				
- Fair value	5,912	16,810	-	-
Total investments	14,455	20,321	19,784	10,051
At amortised cost:				
- Principal	-	-	-	310
At fair value through profit & loss:				
- Fair value	-	-	3,636	13,182
Total Cash & Cash Equivalents	-	-	3,636	13,492
At amortised cost:				
- Trade receivables	-	-	2,361	870
- Lease receivables	144	137	7	8
- Loans made for service purposes	3,945	4,346	1,365	485
- Accrued interest	-	-	19	458
- Loss allowance Expected Credit Loss	-	-	-	54
Included in Debtors	4,089	4,483	3,752	1,875
Total Financial Assets	18,544	24,804	27,172	25,418

NOTES SUPPORTING THE BALANCE SHEET

The debtors line on the Balance Sheet includes £9.790m (£7.941m 2017/18) short-term debtors that do not meet the definition of a financial asset and £2.934m (£3.142m 2017/18) long-term debtors (i.e. being soft loans) that do not meet the definition of a financial asset. The comparative figures for the year to 31 March 2018 have been restated to bring them in line with the new financial reporting requirements from 1 April 2018.

Material Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. Soft loans have previously been given by the Council for private sector housing improvement purposes. The movements on material soft loan balances are:

	2017/18 £000s	2018/19 £000s
Opening carrying amount of soft loans on 1st April	3,360	3,142
Cash value of new loans made in year	-	-
Fair value adjustment on initial recognition	-	-
Amounts repaid to the Council	(317)	(275)
Change in impairment loss allowance	-	-
Increase in discounted amount due to passage of time	99	67
Closing Carrying Amount of Soft Loans on 31st March	3,142	2,934

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 2019, 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.
- 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.

NOTES SUPPORTING THE BALANCE SHEET

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-18 £000s	Fair Value 31-Mar-18 £000s	Balance Sheet 31-Mar-19 £000s	Fair Value 31-Mar-19 £000s
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	55,855	66,547	54,755	65,812
TOTAL		55,855	66,547	54,755	65,812
Liabilities for which fair value is not disclosed *		5,759		4,006	
TOTAL FINANCIAL LIABILITIES		61,614		58,761	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		3,731		2,301	
Short-term borrowing		2,028		1,705	
Long-term borrowing		55,855		54,755	
TOTAL FINANCIAL LIABILITIES		61,614		58,761	

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

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

NOTES SUPPORTING THE BALANCE SHEET

	Fair Value Level	Balance Sheet 31-Mar-18 £'000	Fair Value £'000	Balance Sheet 31-Mar-19 £'000	Fair Value £'000
Financial Assets					
Financial assets held at fair value					
Money market funds	1	3,636	3,636	13,181	13,181
Bond, equity and property funds	1	5,433	5,433	15,510	15,510
Shares in unlisted companies	3	479	479	1,300	1,300
Financial assets held at amortised cost					
Corporate, covered and government bonds	1	3,510	3,511	3,512	3,508
Long-term loans to local authorities	2	5,033	5,022	-	-
Long-term loans to companies	3	3,945	3,945	4,346	5,096
Lease receivables	3	144	144	137	137
Total		22,180	22,170	37,986	38,732
Assets for which fair value is not disclosed*		24,197		12,182	
Total Financial Assets		46,377		50,168	
Recorded on balance sheet as:					
Long-term investments		14,454		20,321	
Long-term debtors		4,089		4,483	
Short-term investments		19,784		10,051	
Short-term debtors		4,414		1,821	
Cash and cash equivalents		3,636		13,492	
Total Financial Assets		46,377		50,168	

* 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 assumption used for valuation:

- Time period - 20 years
- Discount Rate – average default rate for capital equipment companies published by Moodys

NOTES SUPPORTING THE BALANCE SHEET

- Corporation Tax – 19% of profits until 2020/21 and 17% thereafter. Profits to exclude that due to upward property revaluations.
- Property price inflation 2%
- General price inflation 2%
- Rental yield 5% until 2020/21, thereafter to rise with inflation
- Growth - £7.7m of properties to be purchased over the next 2 years

Sensitivity Analysis

Change in Assumption	Impact on Fair Value
30 year time period	Increases to £2.8m
Discount rate falls/rises by 1%	No significant change
Corporation Tax Rate falls/rises by 2%	No significant change / falls to £1.2m
Property price inflation falls/rises by 1%	Falls to £1.2m / rises to £1.4m
Inflation falls/rises by 1%	Falls to £0.67m / rises to £1.9m
Rental yields in 2019/20 and 2020/21 is 1% lower/higher than expected	Falls to £0.93m / rises to £3.4m
Growth is 2 years later than expected	No significant change

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

	£'000
Opening Balance 01/04/19	479
Unrealised valuation gain on Oportunitas equity holding taken to CIES in 2018/19	821
Closing Balance 31/03/19	1,300

Financial Instruments - Gains and Losses

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

	Financial Liabilities measured at amortised cost	Financial Assets at Amortised Cost	Financial Assets at Fair Value Profit & Loss	18/19 Total	17/18 Total
Financial Instruments Income,Expense,Gains and Losses 2018/19	£000s	£000s	£000s	£000s	£000s
Interest expense	1,965	-	-	1,965	2,115
(Gains)/Losses on derecognition impairment losses	-	-	54	54	-
Total Expense in Surplus or Deficit on the Provision of Services	1,965	0	54	2,019	2,115
Interest and dividend income	-	(349)	(599)	(948)	(704)
Gains from changes in fair value	-	-	(897)	(897)	-
Total Income in Surplus or Deficit on the Provision of Services	-	(349)	(1,496)	(1,845)	(704)
Net (gain)/loss for the year	1,965	(349)	(1,442)	174	1,411

22. Short Term Debtors

Short Term Debtors	2017/18	2018/19
	£000s	£000s
Central Government bodies	2,470	4,278
Other local authorities	1,052	1,643
Other entities and individuals	9,915	7,485
Total	13,437	13,406
Impairment of debt		
Local tax payers	(535)	(530)
Housing Rents	(34)	(126)
Sundry Debtors	(1,175)	(1,085)
Total	(1,744)	(1,741)
Balance as at 31 March	11,693	11,665

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

Age of Debt	2017/18	2018/19
	£000s	£000s
0 to 30 days	189	174
31 to 60 days	68	14
61 to 90 days	172	87
over 90 days	153	405
Total	582	680

23. Cash and Cash Equivalents

Cash and Cash Equivalents	2017/18	2018/19
	£000s	£000s
Bank Accounts	(1,306)	310
Money Market Funds	3,635	13,182
Total	2,329	13,492

24. Assets Held for Sale

Assets Held for Sale	2017/18		2018/19	
	Current	Non-current	Current	Non-current
	£000s	£000s	£000s	£000s
Balance at 1 April	-	-	-	-
Assets newly classified for sale:				
Property, Plant and Equipment	1,054	-	871	-
Revaluation gains	-	-	-	-
Assets sold	(1,054)	-	(871)	-
Balance as at 31 March	-	-	-	-

25. Short Term Creditors

Short Term Creditors	2017/18	2018/19
	£000s	£000s
Central Government bodies	3,528	2,210
Other local authorities	1,573	4,423
Other entities and individuals	6,810	5,847
Balance as at 31 March	11,911	12,480

26. Provisions

Provisions	Balance	Provisions	Amounts	Balance	Short term	Long term
	31-Mar-18	made	used	31-Mar-19	liability	Liability
	£000s	£000s	£000s	£000s	£000s	£000s
MMI Scheme of Arrangement	(67)	-	-	(67)	-	(67)
Business rate appeals	(1,807)	(237)	385	(1,659)	(1,659)	-
	(1,874)	(237)	385	(1,726)	(1,659)	(67)

MMI scheme of arrangement - Municipal Mutual Insurance (MMI) went into administration in the early 1990's. The Council is a scheme creditor and is contractually obliged to make a contribution should there not be a solvent 'run off' of MMI. A decision by the Supreme Court in March 2012 determined that liabilities in respect of certain asbestos claims would fall on the insurer at the time of the employees' exposure. This decision now affects MMI's ability to arrive at a solvent 'run off'. It appears likely that the call on the Council's contribution will be required and an initial levy rate of 15% was set which increased to 25% in March 2017. The levy continues to remain subject to change in future.

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

27. 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.

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.

Statement of Financial Position

Net Pension assets as at	31-Mar-18	31-Mar-19
	£000s	£000s
Present Value of the defined obligation	159,374	158,486
Fair Value of the Fund Assets	(88,684)	(93,605)
Net defined benefit liability / (asset)	70,690	64,881

NOTES SUPPORTING THE BALANCE SHEET

Statement of Profit and Loss for the year

The amounts recognised in the profit and loss statement are:	Year to 31-Mar-18 £000s	Year to 31-Mar-19 £000s
Service Cost	3,545	3,525
Net interest on the defined liability (asset)	1,973	1,764
Administration expenses	43	44
Total Loss / (profit)	5,561	5,333

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

	Year to 31-Mar-18 £000s	Year to 31-Mar-19 £000s
Opening defined benefit obligation	161,623	159,374
Current service cost	3,545	3,319
Interest cost	4,307	4,002
Change in financial assumptions	(5,847)	5,586
Change in demographic assumptions	-	(9,035)
Estimated benefits paid net of transfers in	(4,872)	(5,584)
Past service costs, including curtailment	-	206
Contribution by scheme participants and other employers	618	618
	159,374	158,486

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

	Year to 31-Mar-18 £000s	Year to 31-Mar-19 £000s
Opening fair value of scheme assets	87,107	88,684
Interest on assets	2,334	2,238
Return on assets, less interest	641	4,603
Administration Expenses	(43)	(44)
Contributions from employer including unfunded	2,899	3,090
Contributions by scheme participants	618	618
Estimated benefits paid plus unfunded net of transfers	(4,872)	(5,584)
	88,684	93,605

NOTES SUPPORTING THE BALANCE SHEET

Re-measurement of net assets (defined liability)

	Year to 31-Mar-18 £000s	Year to 31-Mar-19 £000s
Return on fund assets in excess of interest	641	4,603
Change in financial assumptions	5,847	(5,586)
Change in demographic assumptions	-	9,035
	6,488	8,052

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 31 March 2016.

The significant assumptions used by the actuary have been:

Statistical assumptions	2017/18	2018/19
Mortality assumption		
Longevity at 65 for current pensioners		
-men	23.1 yrs	22.0 yrs
-women	25.2 yrs	24.0 yrs
Longevity at 65 for future pensioners		
-men	25.3 yrs	23.7 yrs
-women	27.5 yrs	25.8 yrs
Rate of inflation - CPI	2.35%	2.40%
Rate of inflation - RPI	3.35%	3.40%
Rate of increase in salaries	3.85%	3.90%
Rate of increase in pensions	2.35%	2.40%
Rate for discounting scheme liabilities	2.55%	2.40%
Take up of option to convert annual pension into retirement Lump Sum	50%	50%

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

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

NOTES SUPPORTING THE BALANCE SHEET

Sensitivity Analysis	£000s	£000s	£000s
Adjustment to Discounted rate	0.10%	0.00%	-0.10%
Present value of total obligation	156,637	159,374	162,161
Projected Service Cost	3,252	3,336	3,422
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	159,634	159,374	159,116
Projected Service Cost	3,336	3,336	3,336
Adjustment to Pension increases and deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	161,904	159,374	156,887
Projected Service Cost	3,422	3,336	3,252
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	165,483	159,374	153,497
Projected Service Cost	3,442	3,336	3,233

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 (69% of scheme assets) and bonds (10%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 12% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable.

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at a constant rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 16 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

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 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to

NOTES SUPPORTING THE BALANCE SHEET

establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Projection for the year to 31 March 2020	Year to 31-Mar-20 £000s
Service cost	3,268
Net Interest and defined liability / (asset)	1,522
Administration Expenses	47
Total loss / (profit)	<u>4,837</u>
Employer Contributions	<u>2,913</u>

The weighted average duration of the defined benefit obligation for scheme members is 18 years 2018/19 (18 years 2017/18).

28. Usable Reserves

Movements in the Council's usable reserves are detailed in the MiRS, page 20 and Notes 5 and 6 on pages 39-42.

29. Unusable Reserves

Unusable Reserves	2017/18 £000s	2018/19 £000s
Revaluation Reserve	(26,324)	(44,894)
Available for Sale Reserve	(433)	-
Financial Instruments Revaluation Reserve	-	(509)
Capital Adjustment Account	(126,639)	(144,793)
Financial Instruments Adjustment Account	167	96
Deferred Capital Receipts reserve	(151)	(144)
Collection Fund Adjustment Account	970	564
Pensions Reserve	70,690	64,881
Accumulated Absences Account	239	243
	<u>(81,481)</u>	<u>(124,556)</u>

Revaluation Reserve

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

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

NOTES SUPPORTING THE BALANCE SHEET

Revaluation Reserve	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		(20,835)		(26,324)
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(5,992)		(19,200)
Difference between fair value depreciation and historic cost depreciation	405		499	
Revaluation balances on assets sold or scrapped	98		131	
Amount written off to the Capital Adjustment Account		503		630
Balance as at 31 March		(26,324)		(44,894)

The Revaluation Reserve contains only revaluation gains accumulated since 1 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.

Available for Sale Reserve

Available For Sale Reserve	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		(187)		(433)
Fair value (gain)/loss on value on CCLA LA Property Fund	(246)		-	
Fair value (gain)/loss on value on investments available for sale	-	(246)	-	-
Transfer to Financial Instruments Revaluation Reserve				433
Balance as at 31 March		(433)		-

Financial Instruments Revaluation Reserve

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

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

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Revaluation Reserve	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		-		-
Transfer from Available for Sale Reserve				(433)
Upward revaluation of investments	-		(76)	
		-		(76)
Balance as at 31 March		-		(509)

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 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

NOTES SUPPORTING THE BALANCE SHEET

Capital Adjustment Account	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		(125,165)		(126,639)
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	6,452		7,171	
Revaluation (gains)/losses on Property, Plant and Equipment	2,135		2,595	
Amortisation of intangible assets	82		45	
Revenue expenditure funded from capital under statute	1,055		1,203	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,054		1,058	
Capital debtors written down	348		1,577	
Equity Valuation (gains)/losses	-		(821)	
		11,126		12,828
Adjusting amounts written out of the Revaluation Reserve		(504)		(630)
Net written out amount of the cost of non-current assets consumed in the year		10,622		12,198
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,054)		(1,986)	
Use of the Major Repairs Reserve to finance new capital expenditure	(2,040)		(2,066)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(690)		(255)	
Application of grants to capital financing from the capital Grants Unapplied Account	(1,559)		(728)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(389)		(373)	
Capital expenditure charged against the General Fund and HRA balances	(5,254)		(3,087)	
		(11,986)		(8,495)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(110)		(21,857)
Balance as at 31 March		(126,639)		(144,793)

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Adjustment Account

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

Financial Instruments Adjustment Account	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		276		167
Repaid renovation advances	(31)		(17)	
Amortised interest on renovation advances	(98)		(67)	
Net write down deferred discounts to revenue	20	(109)	13	(71)
Balance as at 31 March		167		96

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	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		(157)		(151)
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	6		7	
Gain on sale of assets	-	6	-	7
Balance as at 31 March		(151)		(144)

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.

NOTES SUPPORTING THE BALANCE SHEET

Collection Fund Adjustment Account	2017/18 £000s	2018/19 £000s
Balance at 1 April	(340)	970
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	1,310	(406)
Balance as at 31 March	970	564

Pensions Reserve

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

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

Pensions Reserve	2017/18 £000s	2018/19 £000s
Balance at 1 April	74,516	70,690
Remeasurement of Net defined Liability	(6,488)	(8,052)
Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,561	5,333
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,899)	(3,090)
Balance as at 31 March	70,690	64,881

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.

NOTES SUPPORTING THE BALANCE SHEET

Accumulated Absences Account	2017/18		2018/19	
	£000s	£000s	£000s	£000s
Balance at 1 April		316		239
Settlement or cancellation of accrual made at the end of the preceding year	(316)		(239)	
Amounts accrued at the end of the current year	239		243	
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		(77)		4
Balance as at 31 March		<u>239</u>		<u>243</u>

30. 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	2017/18 £000s	2018/19 £000s
Opening Capital Financing Requirement	65,869	65,542
Capital Investment		
Property, Plant and Equipment	10,267	6,499
Investment Properties	62	2,191
Other loans	275	855
Revenue expenditure funded from capital under statute	1,055	1,203
Sources of Finance		
Capital Receipts	(2,054)	(1,986)
Government grants and other contributions	(2,249)	(983)
Sums set aside from revenue:		
Direct Revenue Contributions	(7,294)	(5,154)
Revenue provision for debt repayment	(389)	(373)
Closing Capital Financing Requirement	<u>65,542</u>	<u>67,794</u>
Increase in underlying need to borrow (unsupported by Government financial assistance)	62	2,625
Revenue provision for debt repayment	(389)	(373)
Increase / (decrease) in Capital Financing Requirement	<u>(327)</u>	<u>2,252</u>

31. Nature and Extent of Risks arising from Financial Instruments

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

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

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

The main risks covered are:

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

Credit Risk: Treasury Investments

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

A limit of £5m of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK government). For unsecured investments in banks, building societies and companies, a smaller limit of £3m. The Council also sets limits on investments in certain sectors. No more than £23m 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:

NOTES SUPPORTING THE BALANCE SHEET

Credit Rating	31-Mar-18		31-Mar-19	
	Long-term £000s	Short-term £000s	Long-term £000s	Short-term £000s
AAA	3,506	7,388	3,507	13,172
AA	-	-	-	-
A	-	-	-	-
UK Part-Nationalised Banks	-	-	-	-
Unrated UK local authorities	5,000	16,000		10,000
Unrated pooled funds	5,433	-	15,510	
Total Investments	13,939	23,388	19,017	23,172

The Council uses a number of un-rated pooled funds managed by external fund managers that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. This allows the Council to diversify into different asset class other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

No breaches of the Council's counterparty criteria occurred during the reporting period and no losses are expected from non-performance by any of its counterparties in relation to treasury management investments.

The Council generally does not allow credit for customers.

Credit Risk: Loans and Loan Commitments

In furtherance of the Council's service objectives, it has lent money to:

- i. Oportunitas Limited
- ii. East Kent Housing Limited
- iii. Kent County Council
- iv. Local residential property owners

The Council manages the credit risk inherent in its loans for service purposes and loan commitments in line with its published Investment Strategy.

Loss allowances on loans and loan commitments to Oportunitas Limited have been calculated by reference to published historical default rates for the construction and building sector and recovery rate for secured and unsecured loans. Only 12 month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £53k. This sum has been taken to the Surplus or Deficit on the Provision of Services.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management

NOTES SUPPORTING THE BALANCE SHEET

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 Public Works Loan Board (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 instruments is as follows:

Time to maturity	31-Mar-19			31-Mar-18		
	Liabilities £'000s	Assets £'000s	Net £'000s	Liabilities £'000s	Assets £'000s	Net £'000s
Less than 1 year	1,100	(23,172)	(22,072)	1,900	(23,388)	(21,488)
1 to 2 years	1,300	(19,017)	(17,717)	1,100	(10,433)	(9,333)
2 to 5 years	10,300	0	10,300	7,600	(3,506)	4,094
5 to 10 years	20,000	0	20,000	20,000	0	20,000
10 to 20 years	10,014	0	10,014	14,014	0	14,014
20 to 30 years	6,141	0	6,141	6,141	0	6,141
30 to 40 years	7,000	0	7,000	7,000	0	7,000
Total	55,855	(42,189)	13,666	57,755	(37,327)	20,428

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 CIES. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed at fair value will be reflected in the CIES.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its

NOTES SUPPORTING THE BALANCE SHEET

expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. At 31 March 2019, £54.8m (2018: £50.9m) of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and nothing to variable rates (2018 nil).

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowings	3
Increase in interest receivable on variable rate investments	(236)
Impact on Comprehensive Income and Expenditure	(234)
Decrease in fair value of loans and receivables and bonds	(176)
Decrease in fair value of fixed rate borrowings	(6,387)

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:

Pooled Fund Category	Impact on Fair Value of Fund		
	1% interest rate rise	5% equity price fall	5% property price fall
	£'000	£'000	£'000
Property Fund	-	-	(275)
Diversified Income Funds	(145)	(161)	(20)
Total	(145)	(161)	(295)

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

Foreign Exchange Risk

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

NOTES SUPPORTING THE BALANCE SHEET

Transition to IFRS 9 Financial Instruments

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and re-measurement of financial assets and the earlier recognition of the impairment of financial assets.

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the re-measurement is instead shown as an additional line in the MiRS. The changes made on transition to the balance sheet are summarised below:

	IAS 39 31-Mar-18	Reclassification	Remeasurement	Impairment	IFRS 9 01-Apr-18
	£'000	£'000	£'000	£'000	£'000
FINANCIAL ASSETS					
Investments					
Loans & Receivables/Amortised cost	21,047	7,280	-	-	28,327
Available for sale / FVOCI	12,713	(12,713)	-	-	-
FVPL	479	5,433	-	-	5,912
Total investments	34,239	-	-	-	34,239
Debtors					
Loans & Receivables/Amortised cost	13,889	-	-	-	13,889
Available for sale / FVOCI	-	-	-	-	-
FVPL	-	-	-	-	-
Total debtors	13,889	-	-	-	13,889
Cash & cash equivalents					
Loans & Receivables/Amortised cost	2,329	(3,636)	-	-	(1,307)
Available for sale / FVOCI	-	-	-	-	-
FVPL	-	3,636	-	-	3,636
Total cash & equivalents	2,329	-	-	-	2,329
FINANCIAL LIABILITIES					
Borrowing					
Amortised cost	(57,883)	-	-	-	(57,883)
Creditors					
Amortised cost	(10,003)	-	-	-	(10,003)
Provisions					
Guarantees & commitments	-	-	-	-	-
Other long-term liabilities					
Amortised cost	-	-	-	-	-
TOTAL FINANCIAL LIABILITIES	(67,886)	-	-	-	(67,886)
NET FINANCIAL ASSETS	(17,429)	-	-	-	(17,429)

NOTES SUPPORTING THE BALANCE SHEET

RESERVES	IAS 39 31-Mar-18 £'000	Reclassification £'000	Remeasurement £'000	Impairment £'000	IFRS 9 01-Apr-18 £'000
Usable Reserves					
General Fund	(18,899)	-	-	-	(18,899)
Housing Revenue Account	(8,047)	-	-	-	(8,047)
Other usable reserves	(14,095)	-	-	-	(14,095)
Total usable reserves	(41,041)	-	-	-	(41,041)
Unusable Reserves					
Available for sale reserve	(433)	433	-	-	-
Capital adjustment account	(126,639)	-	-	-	(126,639)
Deferred capital receipts	(151)	-	-	-	(151)
FI adjustment account	167	-	-	-	167
FI revaluation reserve	-	(433)	-	-	(433)
Other unusable reserves	45,575	-	-	-	45,575
Total unusable reserves	(81,481)	-	-	-	(81,481)
TOTAL RESERVES	(122,522)	-	-	-	(122,522)

32. 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-18 £000s	New Contributions £000s	Amounts Applied £000s	Closing Balance 31-Mar-19 £000s
(2,549)	(607)	604	(2,552)

The balances at 31 March 2019 are held within the following areas of the balance sheet:

	2017/18 £000s	2018/19 £000s
Current liabilities:		
Short term creditors – Depositors	(2,436)	(826)
Capital grants received in advance – current	(102)	(85)
Reserves:		
Capital grants unapplied reserve	(11)	(1,641)
	(2,549)	(2,552)

Notes Supporting the Cash Flow Statement

33. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2017/18	2018/19
£000s	£000s
871 Interest received	452
(2,045) Interest paid	(1,954)
0 Dividends received	441

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

2017/18	2018/19
£000s	£000s
4,350 Depreciation and impairment	4,504
4,237 Impairment and downward revaluations	5,209
82 Amortisation	45
- Change in impairment for bad debts	50
2,800 Increase/(decrease) in creditors	(144)
(272) (Increase)/decrease in debtors	160
(2) (Increase)/decrease in inventories	2
2,662 Movement in pension liability	2,243
(110) Movement in investment property values	(21,857)
1,054 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,058
467 Other non-cash items charged to the net surplus or deficit on the provision of services	(1,146)
15,268	(9,876)

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

2017/18	2018/19
£000s	£000s
(2,883) Capital grants credited to the surplus or deficit on the provision of services	(2,959)
(2,420) Proceeds from the sale of property, plant and equipment	(2,307)
(72) Any other items for which the cash effects are investing or financing cash flows	(69)
(5,375)	(5,335)

34. Cash Flow Statement – Investing Activities

2017/18		2018/19
£000s		£000s
(9,978)	Purchase of property, plant & equipment, investment property and intangible assets	(8,829)
(34,595)	Purchase of short-term and long-term investments	(45,000)
(276)	Other payments for investing activities	(856)
2,426	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	2,314
30,515	Proceeds from investments	49,755
3,508	Other receipts from investing activities	4,592
(8,400)	Net cash flows from investing activities	1,976

35. Cash Flow Statement – Financing Activities

2017/18		2018/19
£000s		£000s
	- Cash receipts of short- and long-term borrowing	500
(1,692)	Repayments of short- and long-term borrowing	(1,900)
(2,895)	Other payments for financing activities	(160)
(4,587)	Net cash flows from financing activities	(1,560)

Other Notes

36. Related Party Transactions

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

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

Details of transactions with government departments are set out in note 17 on page 50.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2018/19 is set out in note 14 (page 48). 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 2018/19, other than those disclosed in note 15 (pages 48-49).

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 37 (page 89).

The Council is joint owner of East Kent Housing Limited, an arms-length management organisation, owning 25% of the company. 2011/12 was the first year of operation. Payment of £2.0m was made in 2018/19 to East Kent Housing Limited in respect of management fees and the Council received £142k from East Kent Housing Limited in respect of services supplied to it. Balances due to/from East Kent Housing Limited at 31 March 2019 are £15k and £2k respectively.

The Council wholly owns Oportunitas Limited, a company that commenced trading in 2014/15. Group financial statements, consolidating the results of the company with those of the Council, have been prepared and are set out on pages 105-111.

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:

NOTES TO THE FINANCIAL STATEMENTS

Related Parties	2017/18 £000s	2018/19 £000s
Amounts due to Central Government	3,528	2,210
Amount due to Kent County Council	337	2,369
Amounts due from Central Government	2,470	4,278
Amounts due from Kent County Council	613	144
Amount due from Oportunitas Limited	3,501	535
Amount due to Folkestone Parks Charity	204	243
Amount due from Folkestone Parks Charity	31	32

37. Trust Funds

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone area. The funds do not represent assets of the Council and have not been included in the balance sheet; however the Council does hold £243k of investments and a £4k overdraft on behalf of the charity.

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

2017/18				2018/19				
Income	Expenditure	Assets*	Liabilities*		Income	Expenditure	Assets	Liabilities
£000s	£000s	£000s	£000s	Folkestone Parks and	£000s	£000s	£000s	£000s
(633)	633	4,273	(2,913)	Pleasure Grounds Charity	(708)	708	4,306	(2,916)

*2017/18 figures have been restated to include short term assets and liabilities

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 £535k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£526k 2017/18).

Income to the Charity therefore includes a contribution of £535k from the Council (£526k in 2017/18). 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.

38. Interests in Companies and Other Entities

East Kent Housing Limited

The Council, together with Canterbury City Council, Dover District Council and Thanet District Council jointly owns East Kent Housing Limited, an Arms-Length Management Organisation (ALMO), whose principal activity is to manage each of the four council's council housing stock. For financial accounting purposes, East Kent Housing (the Company) is regarded as being a joint venture under joint control and each authority holds an equal 25% share in the Company.

Under the Code, authorities with interests in joint ventures shall prepare Group Accounts, in addition to their single entity accounts, unless their interest is considered not material. This Council considers that its interest in the company is not material therefore the Group Financial Statements do not include the results of East Kent Housing.

The financial results of the Company for 2018/19 and the Council's share are as follows:

	2017/18* £000s	2017/18* £000s	2018/19 £000s	2018/19 £000s
	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Turnover	(8,817)	(2,204)	(8,686)	(2,171)
Expenses	9,092	2,273	9,481	2,370
Operational loss	275	69	795	199
	2017/18* £000s	2017/18* £000s	2018/19 £000s	2018/19 £000s
	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Loss after taxation	575	144	1,071	268
Other comprehensive (income) and expenditure	(1,332)	(333)	(1,738)	(435)
Total comprehensive (income) and expenditure	(757)	(189)	(667)	(167)
	2017/18* £000s	2017/18* £000s	2018/19 £000s	2018/19 £000s
Balance Sheet	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Non-current assets	1,274	319	1,646	412
Current assets	688	172	858	215
Current liabilities	(480)	(120)	(539)	(135)
Non-current liabilities	(10,721)	(2,680)	(10,499)	(2,625)
Profit and loss reserve	(842)	(211)	(967)	(242)
Pensions reserve	10,081	2,520	9,501	2,375

*2017/18 comparative figures adjusted to reflect final reported figures for East Kent Housing

The Council's investment in the company is nominal.

Note 37 Related Party Transactions sets out the transactions that took place between the Council and East Kent Housing Limited over 2018/19. Note 3 Critical Judgements describes the guarantee the Council has entered into with East Kent Housing Limited over certain pension obligations.

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 105.

The Council holds 100 shares in the company at a cost of £0.479m and has loans outstanding of £3.61m from it.

Company turnover was £305k (£270k 2017/18*). Oportunitas made a loss on ordinary activities of £29k in 2018/19 (loss of £31k in 2017/18*). Its holdings in investment property was £4.563m at 31/3/2018 (£3.738m 31/3/2018*).

*The 2017/18 comparatives have been restated following a post-audit adjustment to Oportunitas accounts.

39. Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in 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.

East Kent Housing Limited (EKH), the Council's jointly owned Arms Length Management Organisation manage the Council's housing stock including acting as contract administrator on the maintenance and improvement programmes for the housing stock. The council has a contractor in place for central heating maintenance & installation which has recently been terminated by the contractor. A consultant has been commissioned by EKH to review works undertaken and payments made to the contractor. It is felt probable that there will be an inflow of economic benefit to the Council resulting from this review, but it remains uncertain and is not wholly within the control of the Council.

40. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not

NOTES TO THE FINANCIAL STATEMENTS

probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance sheet but disclosed in a note to the accounts.

The Council is aware of an ongoing business rate litigation between the Valuation Office and a number of Ratepayers concerning the rating of Automated Teller Machines (ATMs). Currently the Valuation Office are putting forward an appeal to the Supreme Court. No provision has been made within the accounts for the appeal at this stage, given the uncertainties around the case. However, it is estimated that the maximum impact could be in the region of £0.8m for the Council, if the Ratepayers case is successful.

41. Events after the Balance Sheet Date

The date that the accounts were authorised for issue was the date that the Corporate Director – Customer, Support and Specialist Services signed the Balance Sheet on page 22. That date was 28 May 2019. Events after the balance sheet date (31 March 2019) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2019 as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

- In May 2019 the council completed on the purchase of a commercial office block, Connect 38, for £17.6m. The office block is based in Ashford, Kent and has been acquired for commercial purposes to generate a revenue income stream. The additional net revenue is anticipated to be in the region of £0.4m per annum.

Housing Revenue Account

HOUSING REVENUE ACCOUNT

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

Housing Revenue Account (HRA) Income and Expenditure Statement

2017/18		2018/19
£000s		£000s
	Income	
(14,716)	Dwelling Rents (Gross)	(14,669)
(418)	Non dwelling rents (Gross)	(279)
(955)	Charges for services and facilities	(896)
(52)	Contributions towards expenditure	(52)
(16,141)		(15,896)
	Expenditure	
2,981	Repairs and maintenance	2,963
3,892	Supervision and management	4,142
25	Rents, rates, taxes and other charges	36
4,592	Depreciation and impairment of non-current assets (HRA Note 6)	5,048
2,139	Exceptional item – valuation gain (HRA Note 10)	2,470
25	Debt management costs	22
31	Increase in bad debt provision (HRA Note 7)	101
13,685		14,782
(2,456)	Net Surplus of HRA Services as included in the whole authority CIES	(1,114)
200	HRA services share of Corporate and Democratic Core	155
(2,256)	Net surplus of HRA services	(959)
(843)	(Gain)/loss on sale of HRA non-current assets	(1,120)
1,677	Interest payable and similar charges	1,597
(95)	Interest and investment income	(89)
102	Net interest on the net defined liability (HRA Note 9)	101
(1,415)	Surplus for the year on HRA Services	(470)

HOUSING REVENUE ACCOUNT

Movement on the Housing Revenue Account Statement		
2017/18		2018/19
£000s		£000s
(1,415)	Surplus on the HRA Income and Expenditure Statement	(470)
	Difference between interest payable and similar charges including	
(20)	amortisation of premiums and discounts determined in accordance with	(13)
	the Code and those determined in accordance with statute	
	Difference between any other items of income and expenditure	
(4,217)	determined in accordance with the Code and determined in	(4,994)
	accordance with statutory HRA requirements (HRA Note 8)	
843	Gain or (loss) on sale of HRA non-current assets	1,120
4,283	Capital expenditure funded by the HRA	2,330
(141)	HRA share of contributions to or from the Pensions Reserve (Note 5)	(130)
(667)	Net (increase) or decrease before transfers to or from Reserves	(2,157)
	- Transfer from the Major Repairs Reserve	-
(667)	(Increase) or Decrease in year on the HRA	(2,157)
(7,380)	Balance on the HRA at the end of the previous reporting period	(8,047)
(667)	(Increase) or Decrease in year on the HRA (as shown above)	(2,157)
(8,047)	Balance on the HRA at the end of the current reporting period	(10,204)

1. Housing Assets

At 31 March 2019, the Council was responsible for managing 3,381 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows:	1,884
Flats and Bedsits:	1,497

The change in the stock can be summarised as follows:

Stock	2017/18	2018/19
Stock at 1 April	3,359	3,371
Acquisitions	33	26
New build	-	
Sales	(21)	(16)
Change in use/conversions	-	
Stock at 31 March	3,371	3,381

HOUSING REVENUE ACCOUNT

The Balance Sheet value was as follows:

	2017/18 £000s	2018/19 £000s
<i>Dwellings</i>	165,434	170,888
Other Land and Buildings	5,686	5,805
Infrastructure	1,153	1,091
Vehicles, Plant, Furniture and Equipment	209	174
Total Operational Assets	172,482	177,958
<i>Assets under construction</i>	1,355	199
Assets held for sale	-	-
Total Non Operational Assets	1,355	199
Total Assets	173,837	178,157

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1 April 2018 was £497,656,284. Except for recent purchases and works made during the year, where the valuation reflects existing use, the Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

3. Major Repairs Reserve

	2017/18 £000s	2018/19 £000s
Balance on Major Repairs Reserve as at 1 April	(3,831)	(4,310)
The amount transferred to the Major Repairs Reserve during the financial year		
Depreciation and impairment of non-current assets	(2,519)	(2,527)
The amount transferred from the Major Repairs Reserve during the financial year		
Adjustment to depreciation to equal Major Repairs Allowance		
Capital expenditure on land, houses and other property within the HRA	2,040	2,066
Balance on the Major Repairs Reserve as at 31 March	(4,310)	(4,771)

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

	2017/18 £000s	2018/19 £000s
Land	-	-
Houses	9,020	5,241
Other Property	113	108
	9,133	5,349

HOUSING REVENUE ACCOUNT

5. Capital Financing

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

	2017/18 £000s	2018/19 £000s
Capital receipts	1,569	953
Section 106	1,241	-
Revenue	4,283	2,330
Major Repairs Reserve	2,040	2,066
	9,133	5,349

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

	2017/18 £000s	2018/19 £000s
Land	-	17
Houses and Flats	1,897	2,148
Mortgage repayments and repaid discounts	-	-
	1,897	2,165

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

2017/18				2018/19		
Revaluation £000s	Depreciation £000s	Impairment £000s		Revaluation £000s	Depreciation £000s	Impairment £000s
-		-	Land			
(2,139)	2,277	2,054	Dwellings	(2,470)	2,296	2,489
-	118	19	Other Land and Buildings	-	118	32
-	72	-	Infrastructure	-	78	-
-	52	-	Vehicles, Plant, Furniture and Equipment	-	35	-
(2,139)	2,519	2,073		(2,470)	2,527	2,521

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

Additionally in 2018/19 £7.389m was posted to the Revaluation Reserve (£5.992m 2017/18) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

HOUSING REVENUE ACCOUNT

7. Rent Arrears

	31-Mar-18 £000s	31-Mar-19 £000s
Gross rent arrears	228	476
Current tenant arrears (excluding former tenants)	150	340
Provision for doubtful debts	31	101

Gross rent arrears include income related to properties leased by the Council to assist with providing services to prevent homelessness. Income relating to this service is credited to the General Fund. In respect of these leased properties the sums outstanding at 31 March 2019 are £1.1k for former tenants.

8. Difference between any other items of Income and Expenditure

	2017/18 £000s	2018/19 £000s
HRA impairment-capital expenditure not adding value	(2,073)	(2,521)
Net valuation changes	(2,139)	(2,470)
Other changes	(5)	(3)
	<u>(4,217)</u>	<u>(4,994)</u>

9. Housing Revenue Account Pension Costs

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

2017/18 £000s	2018/19 £000s
187 Current Service Cost	194
102 Net interest on net defined liability	101
289 Net charge to the HRA Income and Expenditure Statement	295
(141) HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(130)
148	165
148 Employer Contributions	165
148 Actual amounts charged against the HRA balance for pensions	165

10. Exceptional Item – Valuation Gain

Two valuation issues affecting council dwellings have required an exceptional item of a net £2.47m debit to be recognised in the CIES and is summarised in the table below:

Issue Description	£000s
i) Valuation adjustment for council dwellings acquired during 2018/19 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	3,533
ii) On the advice of the council's external valuer, the council's dwelling value has increased by a further 3.73% over the year in line with regional property valuation changes. Again, a valuation gain has been taken reversing previous losses.	(1,063)
	2,470

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

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

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.597m (£1.677m 2017/18).

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 £81k (£88k 2017/18).

Collection Fund

COLLECTION FUND

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

2017/18			2018/19		
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					
(65,998)		(65,998)	(69,910)		(69,910)
13		13	14		14
	(28,246)	(28,246)		(29,109)	(29,109)
	621	621		408	408
(65,985)	(27,625)	(93,610)	(69,896)	(28,701)	(98,597)
Amounts required by statute to be debited to the Collection					
Council tax precepts and demands:					
44,125		44,125	47,418		47,418
5,882		5,882	6,481		6,481
2,746		2,746	2,893		2,893
11,445		11,445	12,183		12,183
3,640		3,640	250		250
160		160	210		210
96		96	310		310
Payment of Business Rates					
	147	147		147	147
	13,596	13,596		-	-
	2,447	2,447		16,372	16,372
	272	272		277	277
	10,876	10,876		11,100	11,100
	871	871		397	397
	-	-		-	-
	-	-		-	-
	150	150		175	175
	53	53		(108)	(108)
	1,314	1,314		(369)	(369)
68,094	29,726	97,820	69,745	27,991	97,736
2,109	2,101	4,210	(151)	(710)	(861)
(2,225)	142	(2,083)	(116)	2,243	2,127
(116)	2,243	2,127	(267)	1,533	1,266

COLLECTION FUND

1. Council Tax

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

2017/18		2018/19
£		£
1,178.82	Kent County Council	1,237.68
157.15	Kent Police Commissioner	169.15
73.35	Kent Fire and Rescue Service	75.51
250.91	Shepway District Council (including Special Expenses charged on Folkestone)	258.39
54.84	Town and Parish Councils	59.60
1,715.07		1,800.33

The amount of income generated in 2018/19 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,110	2,740	(4,933)
B	8,824	6,863	(12,357)
C	11,241	9,992	(17,989)
D	6,854	6,854	(12,339)
E	4,505	5,506	(9,914)
F	2,463	3,558	(6,406)
G	1,735	2,892	(5,206)
H	63	126	(228)
	39,795	38,531	(69,372)
	Contributions from the Ministry of Defence in lieu of council tax		(648)
	In year adjustments		110
	Income collectable from council tax payers		(69,910)

The 2018/19 tax base approved by Council was 38,312. 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. In 2018/19 the Council was part of the Kent Business Rates Pilot Pool which has allowed 100% growth retention. The total amount, less certain reliefs and other deductions, was shared between Kent County Council (59%), Folkestone & Hythe District Council (40%), and Kent and Medway Fire and Rescue (1%).

COLLECTION FUND

2017/18		2018/19
£000s		£000s
77,130	Non domestic rateable value as at 31 March	76,627
46.6p	Non-domestic rate multiplier	48.0p
(35,943)	NNDR income before allowances and other	(36,781)
7,697	Allowances, reduced assessments and other adjustments, including small business rate relief	7,672
(28,246)	Income collectable from business rate payers	(29,109)

The non-domestic rate multiplier for 2018/19 was 48.0p for qualifying properties of less than £51,000 rateable value and 49.3p for all others (2017/18 46.6p and 47.9p respectively).

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.

Group Accounts

GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2018/19											
Balance at 31 March 2018		(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)	25	(122,497)
Movement in reserves during 2018/19											
Total Comprehensive Income and Expenditure		(25,488)	(470)	-	-	-	(25,958)	(27,252)	(53,210)	(104)	(53,314)
Adjustments between accounting basis and funding basis under regulations	5	21,681	(1,687)	(1,734)	(461)	(1,976)	15,823	(15,823)	-	-	-
Increase or Decrease in 2018/19		(3,807)	(2,157)	(1,734)	(461)	(1,976)	(10,135)	(43,075)	(53,210)	(104)	(53,314)
Balance at 31st March 2019 carried forward		(22,706)	(10,204)	(9,073)	(4,771)	(4,422)	(51,176)	(124,556)	(175,732)	(79)	(175,811)
2017/18											
Balance at 31 March 2017		(17,369)	(7,380)	(6,773)	(3,831)	(1,812)	(37,165)	(71,576)	(108,741)	176	(108,565)
Movement in reserves during 2017/18											
Total comprehensive Income and Expenditure		360	(1,415)	-	-	-	(1,055)	(12,726)	(13,781)	(151)	(13,932)
Adjustments between accounting basis and funding basis under regulations	5	(1,890)	748	(566)	(479)	(634)	(2,821)	2,821	-	-	-
Increase or Decrease in 2017/18		(1,530)	(667)	(566)	(479)	(634)	(3,876)	(9,905)	(13,781)	(151)	(13,932)
Balance at 31st March 2018 carried forward		(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)	25	(122,497)

*2017/18 comparatives restated following a post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2017/18 Restated			2018/19			
Gross		Net		Gross		Net
Expenditure	Income	Expenditure		Expenditure	Income	Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
Continuing Operations						
840	(117)	723	Leadership Support	667	(3)	664
7,601	(2,895)	4,706	Governance, Law & Regulatory Ser	7,617	(2,737)	4,880
644	(88)	556	Human Resources	837	(45)	792
46,000	(41,184)	4,816	Finance, Customer & Support Servi	42,368	(37,567)	4,801
5,533	(3,511)	2,023	Strategy, Performance & Communi	5,329	(2,448)	2,881
2,072	(1,145)	927	Strategic Development Projects	2,963	(2,610)	353
664	(118)	546	Economic Development	504	(88)	416
1,746	(921)	825	Planning	1,081	(699)	382
8,515	(5,209)	3,306	Environment & Corporate Assets	8,740	(5,425)	3,315
11,962	(16,357)	(4,395)	Local Authority Housing (HRA)	12,593	(16,022)	(3,429)
2,139	-	2,139	Local Authority Housing (HRA) - exceptional item (Note 5)	2,470	-	2,470
87,716	(71,545)	16,171	(Surplus)/Deficit on Continuing Operations	85,169	(67,644)	17,525
2,717	(1,366)	1,351	Other operating expenditure (Note 10)	2,955	(1,249)	1,706
6,115	(2,646)	3,469	Financing and investment income and expenditure (Note 11)	5,408	(25,388)	(19,980)
5,884	(27,894)	(22,010)	Taxation and non-specific grant income (Note 12)	5,794	(30,974)	(25,180)
102,432	(103,451)	(1,019)	(Surplus) or Deficit on Provision of Services	99,326	(125,255)	(25,929)
-	-	(6,179)	(Surplus) or deficit on revaluation of non-current assets (Note 29)	-	-	(19,333)
-	-	(246)	(Surplus) or deficit on revaluation of Available for Sale assets	-	-	-
-	-	(6,488)	Re-measurement of net defined liability (Note 27)	-	-	(8,052)
-	-	(12,913)	Other Comprehensive Income and Expenditure	-	-	(27,385)
-	-	(13,932)	TOTAL Comprehensive Income and Expenditure	-	-	(53,314)

*2017/18 comparatives restated following post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP BALANCE SHEET

Restated		Note	2018/19
2017/18			£000s
£000s			£000s
	Non current assets		
35,934	Property, plant and equipment		45,617
165,434	Council dwellings		170,888
11,677	Investment property	1	36,404
103	Intangible assets		58
13,976	Long term investments		19,842
4,100	Long term debtors		3,886
231,224	Long term assets		276,695
19,784	Short term investments		10,051
-	Assets held for sale		-
11	Inventories		9
11,412	Short term debtors		11,165
2,545	Cash and cash equivalents		13,539
33,752	Current assets		34,764
(2,028)	Short term borrowing		(1,705)
(11,935)	Short term creditors		(12,501)
(1,807)	Current provisions		(80)
(97)	Grants receipts in advance - capital		(1,659)
(15,867)	Current liabilities		(15,945)
(55,855)	Long term borrowing		(54,755)
-	Non-current provisions		-
(70,690)	Capital grants receipts in advance		(64,881)
(67)	Other long term liabilities		(67)
(126,612)	Long term liabilities		(119,703)
122,497	Net assets		175,811
(41,016)	Usable reserves		(51,256)
(81,481)	Unusable reserves		(124,555)
(122,497)	Total Reserves		(175,811)

*2017/18 comparatives restated following post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP CASH FLOW STATEMENT

Restated 2017/18 £000s	2018/19 £000s
1,024 Net surplus or (deficit) on the provision of services	25,929
14,115 Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	(9,259)
(5,310) Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(6,092)
9,829 Net cash flow from operating activities	10,578
(8,400) Net cash flow from investing activities	1,976
(4,587) Net cash flow from financing activities	(1,560)
(3,158) Net increase or decrease in cash and cash equivalents	10,994
5,703 Cash and cash equivalents at the beginning of the reporting period	2,545
2,545 Cash and cash equivalents at the end of the reporting period	13,539

*2017/18 comparatives restated following post-audit adjustments to Oportunitas accounts

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 subsidiary Oportunitas Limited, 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 subsidiary, Oportunitas Limited.

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 subsidiary Oportunitas Limited.

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Council and its subsidiary, Oportunitas Limited, 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

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

Note 1 – Investment Properties

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

	2017/18	2018/19
	£000's	£000's
Cost or Valuation		
At 1 April	11,382	11,677
Additions – acquisitions	62	2,947
Disposals	-	-
Transfers to PPE	-	(210)
Net gain from fair value adjustments	233	21,990
At 31 March	<u>11,677</u>	<u>36,404</u>

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31 March 2019 are as follows:

2018/19 Recurring fair value measurements using:	Other significant observable inputs	Significant unobservable inputs	Fair value at
	(Level 2)	(Level 3)	31-Mar-19
	£'000	£'000	£'000
Residential Units	6,453	-	6,453
Agricultural Land	27,240	-	27,240
Commercial Units	1,057	1,511	2,568
Assets Under Construction	-	-	143
Total	<u>34,750</u>	<u>1,511</u>	<u>36,404</u>

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

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Annual Governance Statement 2018/19

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 PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 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.
- 2.2 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.
- 2.3 The information provided in the governance framework includes matters to the year ending 31 March 2019, and up to the date of approval of the annual report and statement of accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 The key systems and processes that comprise the Council's governance arrangements are set out in this section:

3.1.1 ***Arrangements for identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users:***

The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The most recent plan covers the period 2017 to 2020, and was agreed by both Cabinet and Council in April 2017. Service planning is also an integral part of the 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. All team members were asked to contribute to their team service plan. The Council's service plans were developed by each team manager alongside the budget setting process and provide the priorities and key outcomes for the coming year. These operational service plans consider the Corporate Plan objectives and all priorities were fully financed and support the strategic objectives set out in the Corporate Plan.

Informal staff 1-2-1s and formal staff appraisal system establishes a "golden thread" from our strategic objectives, to the operational service plans, to individual action plans and performance management. The Corporate Plan and organisational performance are regularly reported to Overview and Scrutiny and Cabinet.

All the Council's strategic risks are documented in the Corporate Risk register, which was reviewed by Cabinet in September 2018 which operates within the framework outlined within the Risk Management Strategy and Policy. This framework was refreshed during 2018/19 and agreed by Cabinet. Following this exercise the Corporate Risk Register was re-written with cross organisational input, the Corporate Risk Register has been reported to the Audit & Governance Committee in December 2018 and March 2019. Additionally the development of Operational Risk Registers covering departmental risks are being developed.

The Equality Impact Assessments required will be identified out of the Service Plans that need to be carried out by each of service, in order to comply with our duties under the Equality Act 2010. The Council's annual Equality and Diversity report was presented to and approved by Cabinet in September 2018.

Emergency planning and business continuity matters are considered throughout the year, with specific exercises to test our approaches and training session undertaken regularly. This ensures we have the necessary resilience across key teams and officers from the Council in the support of delivering our duties and in supporting partners.

The Council's vision is embedded into the culture of the organisation by the staff induction process, regular staff briefings by senior management and through communications on the staff Intranet.

3.1.2 Arrangements for reviewing the Council's vision and its implications for the Council's governance arrangements:

Development of Governance Reporting

In line with good practise (Delivering Good Governance in Local Government: Framework) the Council is compliant with the guidance and framework which became effective for periods from 2016/17. In line with this framework and the Accounts and Audit Regulations 2015 (applicable to authorities in England) requirements, the Council undertakes a review of the effectiveness of the system of internal control, which is included within the AGS.

The Corporate Plan 2017-20 sets out the Council's vision for improving the lives for all those who live and work in the district for the next three years.

The vision for Folkestone & Hythe is '**Investing for the next generation – delivering more of what matters**'.

To help achieve the vision for the district, the Council has six strategic objectives:

- More homes
- More jobs
- Appearance matters
- Health matters
- Achieving stability
- Delivering excellence

For each strategic objective, the Council has committed to a number of priorities within the Corporate Plan. The priorities are monitored regularly to ensure they are being delivered effectively.

3.1.3 Arrangements for measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources.

The Performance Management Framework was originally adopted by the Council in July 2014. In 2017, the performance framework was reviewed and revised to reflect the changing working practices throughout the Council. The revisions to the framework included: the incorporation of 2017-20 Corporate Plan's strategic objectives, the process for creating service plans annually, details of the new customer feedback and complaints policy as well as inclusion of the data quality strategy. On the 13th September 2017, a report was approved by Cabinet adopting the revised changes to the performance framework.

The Council's performance management framework has undergone a review this year, and as a result of the Transformation project, it has been subject to further review by iESE (the Council's transformation partner) to consider wider efficiency considerations. The further work undertaken by iESE has now concluded and Council officers will start to develop a revised framework for approval during 2019/20.

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The Medium Term Financial Strategy (MTFS) ensures that the Council's plans are affordable and deliverable. It contains projections of the Council's financial position over the next five years and identifies ways to address any shortfall. The strategy is updated annually.

The Customer Service Excellence is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. In August 2013 the Council originally applied for the corporate accreditation and achieved full compliance and a total of 7 compliance pluses (over the 3 year programme). In August 2016, the Council re applied for the accreditation and achieved full compliance and 7 compliance pluses. On 3 August 2017, the 1st surveillance visit was completed and the Council retained its accreditation and 7 compliance pluses. On 2 August 2018, the second surveillance visit was completed. The Council successfully retained its accreditation, and 7 compliance pluses were awarded, a further 4 compliance pluses.

As part of the Council's commitment to continuous organisational improvement, Cabinet unanimously agreed on 14th December 2017 to the Council's participation in the LGA Corporate Peer Challenge in 2018. The review provides an opportunity to look at the work the council does and invites a team of local government officers and Councillors as peers to provide challenge and share learning. The Peer Review team visited the Council over a three day period in June 2018, collectively spending more than 200 hours determining their findings meeting with more than 120 people including Council staff, elected members, external stakeholders and partners. The feedback report provided by the Peer Review team highlighted the Council's ambition for growth, positive performance of core services, respect given by external partners and an overall healthy financial position as well as areas of further improvement.

Following on from the LGA's report outlining their recommendations and work on further improvement, the Council's Senior Management Team (SMT) agreed in July 2018, to develop an Action Plan setting out the actions already being undertaken by the Council. The action plan, also outlined future actions required to address the report's recommendations and is owned by SMT with individual owners being assigned to lead and complete agreed actions. The majority of the actions set out within the plan have successfully been completed within the 2018/19 financial year and a final annual report on outstanding actions is scheduled for consideration by the Corporate Leadership Team (CLT) in September 2019.

At a time of reducing resources, the Council is committed to delivering value for money, ensuring cost effectiveness in the services provided, making best use of our resources and assets, and focussing on those areas which will have a transformational effect for the people of the district and provide longer term sustainability for the Council.

3.1.4 *Arrangements for defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions with clear delegation arrangements and protocols for effective communication.*

Roles and responsibilities of Council, Cabinet, Overview and Scrutiny and all committees of the Council, along with officer functions are defined and documented, with clear delegation arrangements within the Council's constitution. The Constitution is kept under regular review to ensure best practice and good governance. Since the

last major revision in 2013, the Council has made various minor changes to the Constitution to reflect both changes in legislation and changes in responsibilities of members of the executive. The latest review of the Constitution (in terms of committee structures) was carried out in 2016 following the merger and reduction in the number of committees. The new committee structure came into force in May 2016. Since 2016 minor changes/amendments have been made to the constitution, which have all been reported to the Audit and Governance Committee and Full Council.

The Cabinet is the part of the Council that is responsible for most strategic decisions. In 2018/19, Cabinet is comprised of the Leader and nine other Councillors. All decisions to be discussed were published prior to the relevant meeting under the relevant publication regulations. The Overview and Scrutiny Committee identified any decisions they wished to contribute to, or comment on prior to the decision being taken.

All decisions (except those defined as exempt under Schedule 12A of the Local Government Act 1972) are discussed in meetings open to the public. Cabinet makes decisions that are in line with the Council's overall policies and budgets. Decisions outside the budget and policy framework must be referred to full Council.

3.1.5 Arrangements for developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff:

Codes of conduct defining the standards of behaviour for members and officers have been developed and communicated through the induction process and are available on the Council's intranet. These include:

- The Councillor Code of Conduct and Officer Code of Conduct
- The Anti-fraud and Corruption Strategy
- Planning and Licensing Codes of Conduct
- Protocols on Councillor / staff relationships
- Personal performance reviews linked to service and corporate objectives carried out
- The Council's Core Values

The Councillors' and officers' codes of conduct, protocol on Councillor/staff relationship and the planning and licensing codes of conduct also form part of the Council's Constitution.

The Council has an Audit and Governance Committee comprising of five Councillors. The Council has also appointed an Independent Person in accordance with the Localism Act 2011.

The Monitoring Officer has dealt with two complaints under the Code in consultation with the Independent Person. An investigating officer was appointed for both complaints and both investigations have been completed.

The following training is compulsory for all staff, and is part of the induction process;

- Safeguarding/Child Protection training
- Equality and Diversity Training
- Data Protection & Information Security

- Anti-Bribery & Anti-Corruption
- Health & Safety training on manual handling, fire safety, office health and safety and workstation assessments

3.1.6 Arrangements for reviewing and updating Standing Orders, Financial Procedure Rules, a Scheme of Delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risk:

The Council is required to ensure compliance with relevant laws and regulations, internal policies and procedures, and to ensure that expenditure is lawful.

The Council has therefore adopted a number of procedures, protocols and processes that underpin the delivery of its services and functions. These protocols and procedures are kept under review and updated where necessary, in order to define how decisions are taken and the process and controls required to manage risks. The Financial Procedure Rules were fully reviewed as part of the review of the Constitution, adopted on 9th May 2016. During 2016/17, the Financial Procedure Rules were reviewed in response to a small number of internal audit recommendations relating to changed role titles and authorisation limits; the consequent amendments have been incorporated in an updated version and presented to the Audit and Governance Committee on the 8th March 2017 and the Council on 10th May 2017.

3.1.7 Arrangements for undertaking the core functions of an audit committee, as identified in CIPFA's "Audit Committee: Practical Guidance for Local Authorities."

The Audit and Governance Committee receives regular reports from the East Kent Audit Partnership on their progress against the annual audit plan, which provides detail on the assurance levels which can be placed against the various systems and processes in place. The committee also considers an annual assessment at the end of the year provided by the Head of the East Kent Audit Partnership and reports from the external auditor. The committee will also:

- Review and approve the financial statements, external auditor's opinion and reports to members and monitor management action in response to the issues raised by external audit.
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions required to improve it.
- Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken to mitigate those risks identified.

3.1.8 Arrangements for ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful:

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All reports to Cabinet are seen and commented on by the Council's legal and financial officers. The Financial Procedure Rules govern the approvals of expenditure and payments. An annual audit plan is agreed before the start of each financial year, which ensures coverage of key Council operations. Additionally, the plan is based upon a formal risk assessment that seeks to ensure all areas of the Council's operations are reviewed within a four-year cycle of audits.

3.1.9 Arrangements for whistle-blowing and for receiving and investigating complaints from the public

A Whistleblowing Protocol was approved by Corporate Management Team on 22 March 2016 as part of the Anti-fraud and Corruption Framework. The procedure is available to be used by the Council's staff and contractors. The procedure clearly sets out to whom concerns should be raised and provides assurance on how the person raising the concern will be treated. In addition an annual report on whistleblowing is presented to the Audit and Governance Committee.

The Council recognises the value of a robust system to deal with complaints. All feedback, both positive and negative is a useful tool to shape further improvements to service delivery. The Council has a two stage complaints process. At stage one, the complaint is investigated within the relevant service area. If the complainant is not satisfied with the outcome of stage one, the complaint is escalated to stage two and is investigated by an independent senior manager. If the complainant remains dissatisfied after stage 2, s/he can refer the complaint to the Local Government Ombudsman to investigate and conclude.

Responsibility for the corporate complaints function sat with the Assistant Director Law, Governance and Regulatory Services, but has now recently been transferred over to the Assistant Director – Finance, Customer and Support Services. Additional training and support for staff has been undertaken during the year.

During 2018/19 230 official complaints were recorded (194 stage one, 31 stage two and 5 Local Government Ombudsman (LGO)). Of those to the LGO, 3 were not upheld and 2 required no further evidence.

Overall - 99 complaints were not upheld, 33 were upheld, 10 were partially upheld, 10 had agreed action, 14 were apology, 4 were given compensation, 14 are blank as they are still live, 46 required no further response as they could not be investigated and 0 are still with the LGO.

3.1.10 Arrangements for identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

A comprehensive training programme was arranged for Councillors following the May 2015 elections.

Subsequent to this Councillors have undertaken more tailored activities depending on their individual needs. These have included:

- Taxi Licensing training (April 2018)
- Planning and Licensing Training following judicial review (May 2018)

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- General Data Protection Regulation (GDPR) training (May 2018)
- Licensing Hearings Training (October 2018`)

Councillors have points of contact within the HR team and Committee Services Team in order for them to be able to request any individual training or conferences.

Councillors have a specific page on the Learning Zone of the staff intranet. All training presentations are uploaded after each session has taken place to enable those who could not attend to view the materials.

A continuous training programme is ongoing which aims to develop senior managers, middle managers and team leaders. Sessions this year have included:

- Motivation Forum (April 2018)
- Supporting staff with uncertainty (April 2018)
- 360 feedback (September-October 2018)
- Communications (November 2018)
- Political Awareness (November 2018)
- Commercial Awareness (January 2019)
- Effective Performance Appraisals (February 2019)
- Risk Management (March 2019)

The Council is an Institute of Leadership and Management (ILM) Approved Centre which means it can teach and award ILM qualifications. The Council is also an approved apprenticeship provider and currently delivering an ILM Level 3 Diploma in leadership and management for 5 staff from the Council and 3 employees from neighbouring authorities. This in-depth, year-long qualification sits under the apprenticeship banner from a funding perspective and represents a significant development investment in Council staff identified as having potential at team leader/ aspiring team leader level.

There have also been sessions on Project Management, Conflict Management, Personal Resilience, and Managing Stress & Promoting Well-being. Training priorities reflect those of the Corporate Plan and this year have included:

- HMO Enforcement (September 2018)
- Unauthorised Encampments (October 2018)
- Commercial & Development Appraisal (November 2018)
- Strategic Communications – managers' responsibilities (November 2018)
- Better Business Cases (December 2018)
- Enforcement - animal inspections (January 2019)

We also fund individual officers to undertake relevant technical training to support performance in their roles, including an Undergraduate degree in Planning and Urban Design, Project Management Qualifications, a course on copy-writing, and various conferences.

The Council's Senior Management Team are also offered coaching and bespoke training courses provided by respected organisations such as universities, Roffey Park Institute and the Society of Local Authority Chief Executives (SOLACE).

3.1.11 *Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.*

Individual Ward Member grants are currently £3,000 per member, per annum giving Members more control in supporting voluntary and community sector groups to deliver projects and activities in the locality for the benefit of the community.

The Council continues to support the voluntary and community sector through grant agreements and has strong consultation links with the Folkestone & Hythe Voluntary and Community Sector Forum, Homelessness Forum, Local Children's Partnership Group and Pensioners Forum.

In autumn 2018, the Council launched Spotlight, an online community asset database for the district, promoting voluntary and community groups, clubs and village hall facilities etc., which will help signpost residents to access local community support and activities across the district.

The Council consulted and adopted its draft Parish Charter in May 2016. A number of town and parish Councils have adopted the charter through their committees. Councillors and officers meet with Town and Parish councils regularly and a forward schedule of meetings is in place.

The Economic Development Strategy 2015-2020 sets out the Council's ambitions for economic growth and outlines how the Council will deliver its actions in the Corporate Plan that relate to building the local economy to create more jobs. The strategic priorities include building on our existing strengths, boosting productivity and supporting business growth. A key component of this is engagement with the local business community, which has continued to increase through a programme of regular one to one engagement with key employers in the district, and through the Folkestone and Hythe Business Advisory Board whose membership has continued to expand and where businesses provide important input in to shaping the district Council's policies and activities.

Following the establishment of the Folkestone & Hythe Tourism Business Board in 2017/18, members of the board agreed to fund the development of a new tourism website for the district in 2018/19 which links to the main Visit Kent website. This promotes our visitor attractions and events and highlights the reasons why visitors should come to our district. Other initiatives to raise the profile of the area as a visitor destination are being considered by the board to maintain the momentum of partnership working.

The Folkestone Works website, which was developed to provide a resource for local businesses to access the support they need to grow and to attract inward investment into the district, continues to be enhanced and the usage of the site has continued to rise. Direct support for business has continued this year through working with the Proactions Group which has provided free bimonthly business briefings on various topics to support businesses to grow. The Council has also continued to promote the Kent & Medway Growth Hub, which promotes free business advice through the South East Business Boost scheme administered by Kent Invicta Chamber of Commerce.

Following the successful award of the Folkestone Community Works programme an EU funded community led local development programme for the central, eastern and harbour areas of Folkestone, the programme was launched in February 2018 with the first Call for project applications. The programme has been allocated £2.5million of ESF and ERDF funding and will run to 2022. The three objectives of the programme are to help residents into work, support local businesses to grow and improve access to services for businesses and residents.

Progress has continued with taking forward plans to develop out the remaining council-owned land at Mountfield Road Industrial Estate, New Romney. With a financial contribution from Magnox Industries, the masterplan and feasibility work for the remainder of the estate was completed in March 2018 which identified the potential for a new employment and skills hub.

The Council consulted with several key voluntary organisations before setting the General Fund budget for 2018/19, as well as formally consulting with the Business Community through their established forum.

The Government has introduced a Code of Transparency for Local Authorities. This increases further transparency of financial management, data and expenditure. Full details are available on the Council's website.

3.1.12 Arrangements for incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the Council's overall governance arrangements.

The Council has a partnership policy which 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 the Council's partnerships are recorded on the Partnerships Register.

Our key partnerships/alternative service delivery models are detailed below:

East Kent Housing Limited is an Arms Length Management Company (ALMO) set up to manage the retained housing stock of four Councils in East Kent. It is owned in equal share by Canterbury, Dover, Folkestone & Hythe and Thanet Councils. It is governed by a board that includes representation from each of the Councils as well as resident representatives and independent members and has a contractual relationship with each of the owner Councils that sets out the nature of the relationships.

The **Folkestone & Hythe Community Safety Partnership (CSP)** is a statutory partnership and the Council as a statutory partner plays a full and important role in its function / activity. Regular reporting to the Police Crime Commission (PCC) assures all financial spend is appropriately used. The role of partners in the CSP has been extended to oversee key multi-agency sub-groups that deliver activity for the CSP (covering safeguarding and wellbeing (incorporating domestic abuse, radicalisation, health and wellbeing etc.), vulnerability and offending (incorporating gangs, integrated offender management etc.) & clean, green, safe. The Overview & Scrutiny Committee has a statutory duty to oversee elements of the work of the CSP.

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On 16 July 2014, the Cabinet approved the formation of a housing and regeneration company, Oportunitas Limited, to;

- Assist the Council in achieving its priorities for regeneration;
- To deliver more homes; a wider range of housing tenures and rental levels than currently delivered by the Council; and
- To provide a delivery vehicle for profitable traded services.

Councillors make up the board of the company. Councillors who are also directors have been given dispensation to speak and vote on matters concerning the company at meetings of the Council / Committees or Cabinet. These dispensations will expire on 2 May 2019 which is the date of the next district election.

An initial sum of £4.78m funding was approved by the Council for investment by Oportunitas Limited and, to date, 37 homes and one commercial unit have been acquired and are under management. Further investments are in the pipeline. On 28th February 2018, Cabinet approved a further £6,900,000 in to the company for further investment following a strategic review of its operations, impact and potential. The planned capital funding to support the expansion and long term sustainability of the Company is due to commence in 2019/20. The Company is currently in negotiations to acquire up to 30 residential units as part of a redevelopment opportunity in central Folkestone, which would require most of the remaining investment earmarked for it. A new Business Plan reflecting the Company's long term objectives and investment opportunities will be considered by Overview and Scrutiny Committee and Cabinet in July 2019. Currently, the Company's activities include housing acquisition for rent, along with Grounds Maintenance and handyman expertise offered as traded services through Oportunitas Limited. In line with agreements with the Council as its sole shareholder, regular progress reports as appropriate are given to Cabinet across all of the company's activities and performance. In April 2016 internal audit undertook a review of the governance arrangements and gave a substantial level of assurance. Notwithstanding awarding the highest level of assurance, twelve recommendations were made and a progress report which was completed in February 2017 found all twelve recommendations had been addressed to their satisfaction. The Board of Oportunitas and the Shareholder were kept informed during the audit and of the findings.

The Council is a member of the Folkestone & Hythe Local Children's Partnership Group (which replaced the Children's Trust Boards) and a member of South Kent Coast Health and Wellbeing Board (SKC HWBB).

The SKC HWBB is a sub-committee of the Kent Health and Wellbeing Board and it is made up of GPs, district and county Councillors, senior local government officers and the voluntary and community sector. The aim of the board is to improve the quality of life, health and wellbeing, including mental wellbeing, for our residents. The board is currently reviewing its remit to address the changes within health around the current Kent and Medway Sustainable Transformation Plan to look at more integrated models of care provision and role of prevention in future health care. Across East Kent the CCGs are considering the formation of an East Kent Health and Wellbeing Board following the decision to place the East Kent CCGs into special measures in 2018. The Council is also represented within the new Local Care Structure set up across the SKC CCG boundary to develop reform of health services.

Members receive updates on the changes to the health sector from local GPs and health care professionals from time to time.

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 The main role in maintaining and reviewing effectiveness is through 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.
- 4.3 Other key roles are undertaken by:

Council

The Council is responsible for adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework.

Cabinet

The Cabinet is responsible for discharging executive functions in accordance with the policy framework and budget, also for approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management. It is also responsible for approving the anti – fraud and corruption framework. It receives quarterly performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget.

The Overview and Scrutiny Committee

The committee is responsible for reviewing the work and decisions of the Cabinet, and all areas of the Council's work, as well as carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. It can also exercise the power to call – in a decision of the cabinet or a cabinet member.

Audit and Governance Committee

The committee promotes and maintains high standards of conduct by Councillors and co-opted members. It monitors the operation of the Councillors' Code of Conduct, advising, training or arranging to train Councillors and co-opted members on matters relating to the Code where necessary. It also considers and recommends to Council, when necessary, changes to the financial procedure rules and contract standing orders.

The Head of Paid Service

The 'Head of Paid Service' 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.

Corporate Leadership Team

One of the purposes of CLT is to deliver the Council's priorities. It receives reports on progress against corporate priorities and any issues which affect the Council. In addition, CLT:

- oversees management of non-executive functions
- reviews overall budgets
- leads organisational development
- addresses staffing matters within the policies of the Council
- co-ordinates the professional and technical advisors of the Council
- advises the Council on corporate direction and initiatives

The Chief Financial Officer

The authority conforms to the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government (Good Governance in Local Government: Guidance note for English authorities (2012)). The role of the Chief Financial Officer is 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.

Head of Internal Audit

The authority conforms to the governance requirements of the CIPFA Statement on the role of the Head of Internal Audit in Local Government (Good Governance in Local Government: Guidance note for English authorities (2012)). The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by: championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control. In Folkestone & Hythe this role is fulfilled by the head of the East Kent Audit Partnership.

Internal Audit

The Internal Audit function provides independent appraisal with direct access to members. It aims to provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions and systems.

The internal audit function for the Council performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the Councils of Canterbury, Dover and Thanet, as well as to Folkestone & Hythe. As a result of this collaborative approach the partnership is able to be robustly resourced and provides a mechanism for sharing best practice to the East Kent authorities that use its services.

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External Audit

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.

The external auditors were appointed to the Council by the Public Sector Audit Appointments Ltd (PSAA). They are required to conduct their audit work to the strictest standards as laid down by the audit code of practice, which ensures that they approach the work with the highest level of objectivity. Their independence is further reinforced by the restrictions put into place on the levels of non-audit work able to be purchased from external auditors. The external auditors provide a further area of assurance, which is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of the Council. They deliver two main pieces of work: they give their opinion on the audit of the Council's financial statement and they look at the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources (value for money).

Annual assurance statements

Assurance statements assess the adequacy of governance arrangements. Each Assistant Director and Chief Officer directly report to a Corporate Director to provide assurance statements covering their service area. No significant concerns arose from the assurance statements.

Annual Audit Letter

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.

- 4.4 The Council has, by reports to the Audit and Governance Committee, been advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.
- 4.5 The overall opinion of the System of Internal Controls in operation throughout 2018/19 based on the work of the East Kent Audit Partnership during 2018/19 will be presented in their annual report to the Audit and Governance Committee in July 2019.
- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Audit and Governance if required. They provide a regular update to the Committee at each of the quarterly meetings, and attend any special meetings that may be convened during the year.
 - As at 31 March 2019 the Internal Auditors completed 333.41 days of review equating to 88% of planned completion, the remaining audits being carried over as work in progress at the year end. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Audit and Governance Committee in July 2019.

ANNUAL GOVERNANCE STATEMENT

- The EKAP have met as a team and considered the Public Sector Internal Audit Standards 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. An external assessment, as required by the standards, has not been undertaken.
- 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.

4.6 The 2017/18 Annual Audit Letter from Grant Thornton UK LLP was reported to Cabinet on the 17 October 2018. This gave an unqualified opinion on the Council's financial statements and was satisfied the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. The auditors were also able to certify the pooling of housing capital receipts return without amendment or qualification, and confirmation that the Housing Benefits Subsidy return was certified by the auditor and submitted to Department of Work & Pensions shortly after the deadline of 30 November 2018.

5. CERTIFICATION

- 5.1 Grant Thornton UK LLP, as the Council's auditors, is required to certify the claims submitted by the Council.
- 5.2 For 2017/18, one claim was certified relating to expenditure of £38,585,602. The claim was submitted and certified by the required deadlines. The claim was not qualified.

6. SIGNIFICANT GOVERNANCE ISSUES

- 6.1 Set out in Appendix 1 is the action plan to deal with outstanding governance issues.
- 6.2 The Council proposes over the coming year to take steps to address the matters shown in the appendix to further enhance our governance arrangements. The Council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part for the next annual review.

Signed

Signed

Cllr David Monk
Leader of the Council

Dr Susan Priest
Head of Paid Service

Date:

ANNUAL GOVERNANCE STATEMENT

Appendix 1 - Review of the 2018/19 Action Plan for improvement following review of effectiveness of governance arrangements:

		Who	Date	End of Year Update
1.	<p>Annual Review of Corporate Governance At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Heads of Service and internal audit's opinion report</p>	Monitoring Officer	May 2019	This will be sent out to Assistant Directors by the Monitoring Officer.
2.	<p>Governance Arrangements Keep under review the Council's governance arrangements</p>	Monitoring Officer	March 2019	Action Completed
3.	<p>Anti-fraud and corruption Monitor ongoing compulsory training of staff, and review its effectiveness in the latter part of 18/19.</p>	AD Finance, Customer and Support	August 2018	Compliance with mandatory training has been good with 96% of staff having completed the training.
4.	<p>Transformation Project Identify the ownership and administration of the project's governance, providing a framework for accountability and responsibilities, ensuring that project decision making is robust, logical and that the project provides value to the organisation.</p>	AD Strategy, Performance and Communications	Sept 2018	The Transformation project's governance was approved by CLT on 21 August 2018, resulting in the establishment of the Transformation Executive Board to monitor and provide stewardship of the Transformation project.

ANNUAL GOVERNANCE STATEMENT

5.	<p>New Delivery Models/ Partnerships: During 2018/19 the future operating model of the Council will be further developed through implementation and mobilisation of the Council's transformation. In addition, new commercial opportunities will be explored following the appointment of the new Corporate Director (Commercial Services) in April 2018.</p>	Chief HR Officer	March 2019	<p>As part of the new delivery model, a new senior management structure was introduced in 2018, alongside Area Officers and the Resource Pool.</p> <p>East Kent HR/ILM Partnership: The OD team has expanded in order to deliver on 2 year commercial contracts to deliver OD for TDC, CCC and DDC. This includes the delivery of apprenticeships using the Council's Apprenticeship Provider Status and ILM Approved Provider status. This increases resilience for the OD team and allows us to benefit from economies of scale.</p> <p>Governance for the establishment of the Accelerated Delivery Board was approved by CLT in September 2018 to direct the delivery of the major regeneration projects.</p>
6.	<p>Data Retention Policy and General Data Protection Regulation: Keep under review the Data retention policy and continue work on the implementation of the new General Data Protection Policy.</p>	Monitoring Officer	May 2019	Action completed and is an ongoing programme.

ANNUAL GOVERNANCE STATEMENT

7.	<p>Review of Corporate Risk Policy for the Council:</p> <p>The adopted policy will be refreshed during the first half of 2018/19, followed by a comprehensive review of the register to ensure it is fit for purpose and aligned to corporate priorities.</p>	AD Finance, Customer and Support	September 2018	<p>Action completed. Risk Management Strategy and Process redrafted and adopted by Cabinet in July 2018. New Corporate Risk Register developed with cross-organisational input, register reported to December and March Audit & Governance Committees. Departmental risk registers are now being developed.</p>
8.	<p>Performance Management Framework:</p> <p>Redevelopment of the Performance Management Framework.</p>	Policy & Improvement Officer	October 2018	<p>The PMF has been reviewed by iESE to consider wider transformation considerations. The draft updated framework, alongside refreshed key performance indicators is due to be presented to CLT by July 2019.</p>

Glossary of Terms

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement

MiRS – Movement in Reserves Statement

FVOCI – Fair Value through Other Comprehensive Income

FVPL – Fair Value through Profit and Loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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