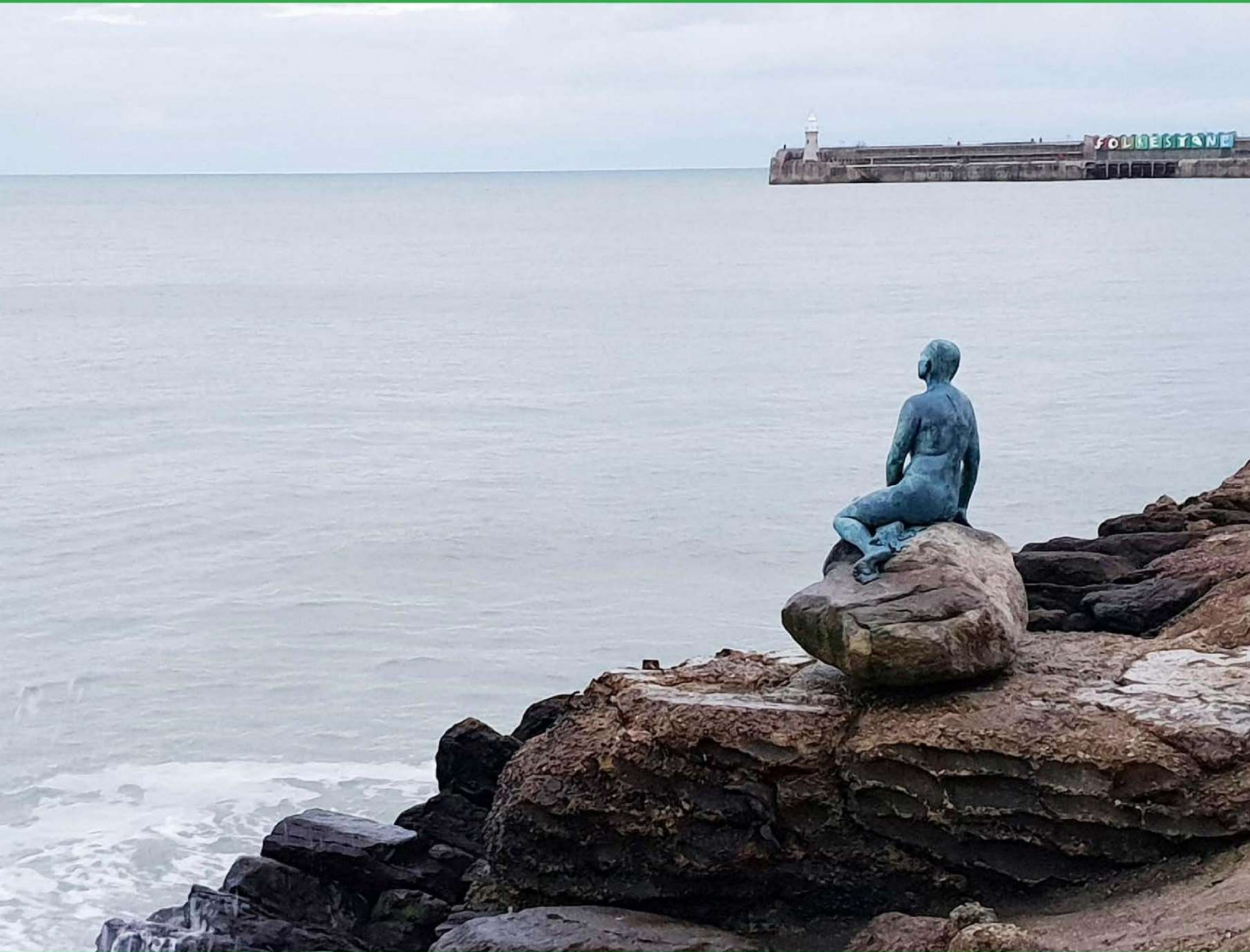


# Statement of Accounts 2022-23



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# Narrative Report

## ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

### Our District

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

The district has distinctive contrasting rural landscapes and urban environments.

### Our People

The majority of the district's 113,320<sup>1</sup> residents live in urban areas (63%), with the remaining 37% to be found living in rural areas.

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

### Economic and Environmental Factors

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

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

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



<sup>1</sup> 2020 Mid-Year Population Estimates - ONS  
<sup>2</sup> Shepway Economic Development Strategy 2015-2020

## STATEMENT OF RESPONSIBILITIES

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

### Purpose and Vision

The Council's vision for the district is:

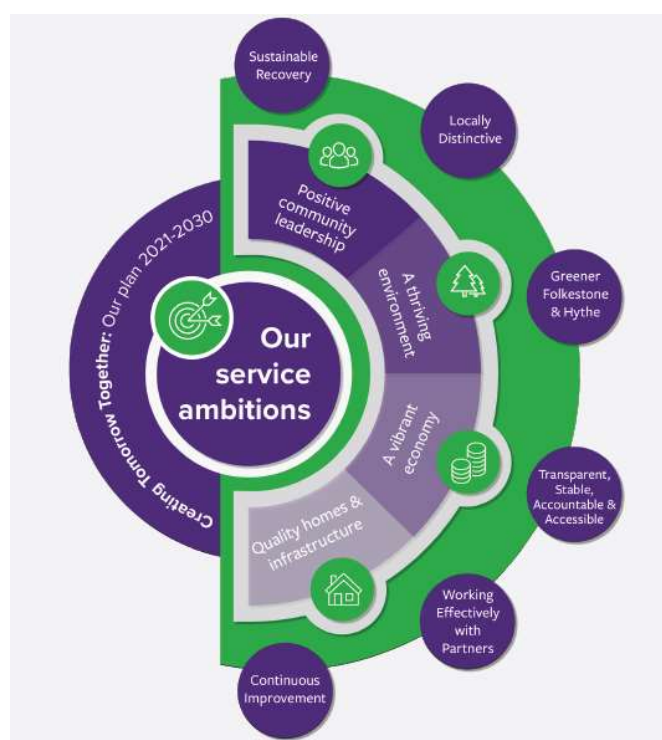
*Creating Tomorrow Together*



### Key Objectives

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

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



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

## STATEMENT OF RESPONSIBILITIES



### External Environment

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

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

## GOVERNANCE

### Our Political Leadership

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

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

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

## STATEMENT OF RESPONSIBILITIES

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### **Our Managerial Leadership**

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

### **Governance Arrangements**

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

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

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

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

### **A MOVE TO THE COMMITTEE SYSTEM FOR FHDC**

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

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

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### OPERATIONAL MODEL AND FINANCIAL PERFORMANCE

#### Budget

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

The Strategy builds on the Medium-Term Financial Strategy and seeks to work with Assistant Directors, Chief Officers, and Budget Managers in determining appropriate levels of fees and charges as well as identify growth and savings proposals to be considered by Members in setting the balanced budget. This approach has enabled the Council to arrive at a sustainable budget position focused on its Corporate Plan objectives. A balanced budget was set for both 2022/23 and 2023/24.

#### Annual Performance Report 2022-23

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

Some of the highlights from the year include:

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



## STATEMENT OF RESPONSIBILITIES

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

## RISKS AND OPPORTUNITIES

### Future service provision

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

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

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

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

The Council has a Strategic Risk Management Policy in place, an updated version was agreed by Cabinet in March 2023. Risks are identified and assigned a Director lead officer as well as a lead Cabinet member. The risks are scored, and actions noted, with the current Risk Register being considered at the Audit & Governance Committee. Additionally, key risks are outlined within Committee reports.

## STATEMENT OF RESPONSIBILITIES

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

### What are we currently working on?

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

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

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

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

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

## STATEMENT OF RESPONSIBILITIES

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

In May 2020 the Council purchased FOLCA, the former Debenhams store, in Folkestone town centre which will become a centrepiece in the town’s regeneration. Proposals for the site include a health centre, library, flexible workspace and civic centre offices. The building was last used as a mass vaccination centre to aid the rollout of the national vaccination programme in response to the pandemic which came to an end in Autumn 2022; it is now being scoped for remediation work to enable its future use aligned to the proposals set out above and which will be considered by Members. In September 2021 Cabinet agreed to the delivery of a new health centre provision by Premier Primary Care Ltd as phase 1 of the redevelopment and further use of the building is being explored.

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

**Princes Parade Development** - The Council has long-held ambitions to replace the popular, but old and failing swimming pool in Hythe. Since 2002 the Council has been working to secure a suitable site and financial commitment to build a new pool and recreation area. Feasibility studies were undertaken on the potential sites, and in December 2022, the decision was taken to pause spending and review the project. A decision was taken in June 2023, extending the existing planning permission to allow the project to be reviewed under the new administration and to allow meaningful engagement with the community. A further decision in February 2024 was taken to secure the site ahead of public consultation on the future of the development.

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

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

## STATEMENT OF RESPONSIBILITIES

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

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

### **Risks associated with the agenda.**

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

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

## STRATEGY AND RESOURCE ALLOCATION

The Council has consistently planned its finances on a medium to long-term basis ensuring reserves are maintained at a level which supports financial sustainability while protecting services from reductions. The current Medium Term Financial Strategy (MTFS) pushes the planning horizon to March 2027. The MTFS was reported to Council on the 23<sup>rd</sup> of November 2022 and significantly shaped the annual budget setting cycle for 2023/24.

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

## **STATEMENT OF RESPONSIBILITIES**

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

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

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

### **Approach to Monitoring**

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

## **PERFORMANCE**

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

The outturn performance for the Council's KPIs was reported to the July 2023 Cabinet meeting.

## STATEMENT OF RESPONSIBILITIES

The Council's outturn performance includes:

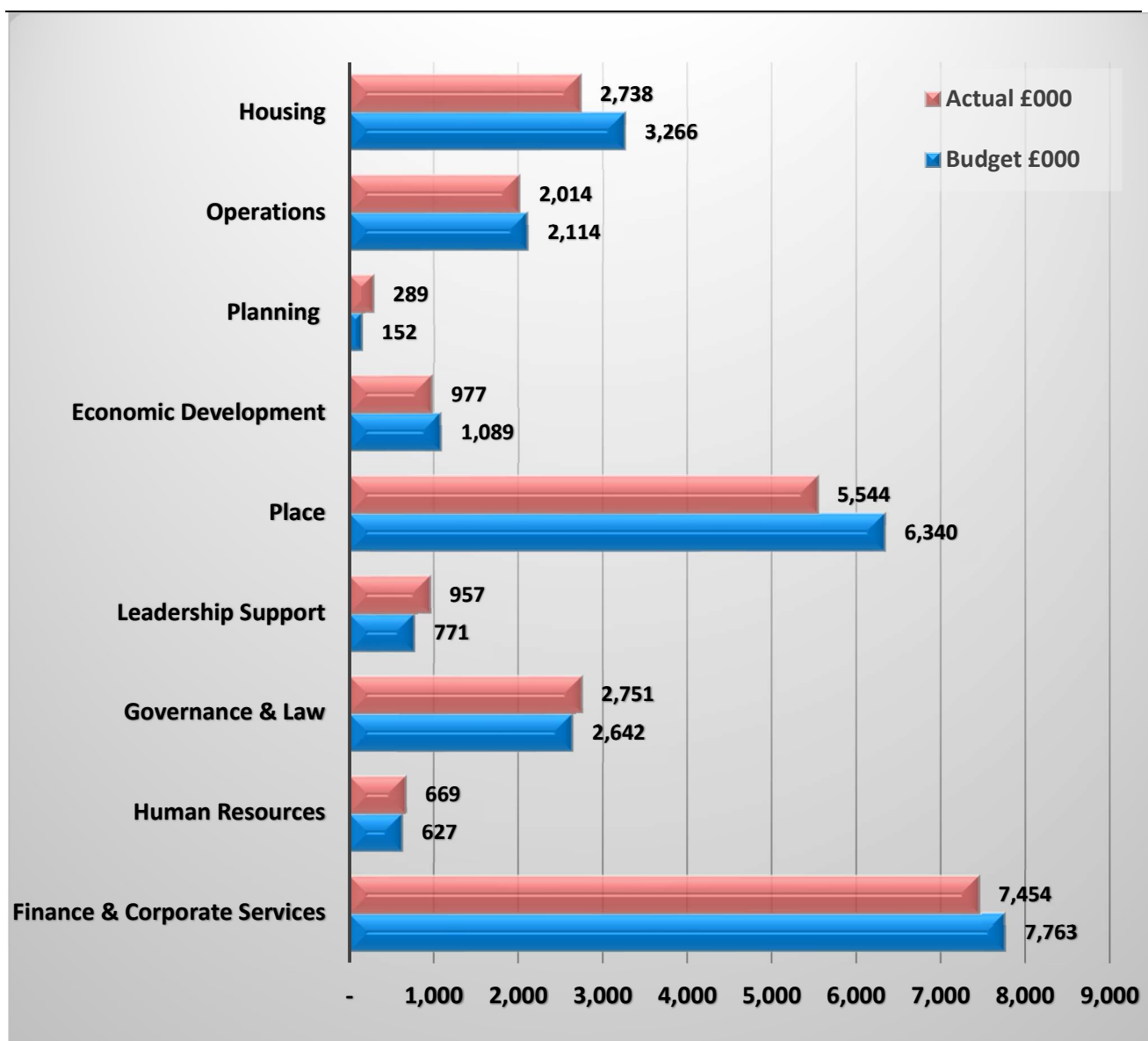
Performance Indicator	Actual 2022/23	Target	Status	2021/22 Comparison
Percentage of Council Tax due collected in year	97.12%	97.3%	No	↓ (2021/22: 96.30%)
Percentage of Non-Domestic Rates due collected in year	98.26%	97.5%	Yes	↑ (2021/22: 96.81%)
Average number of days taken to process new claims for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

## FINANCIAL PERFORMANCE

### General Fund – Revenue

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

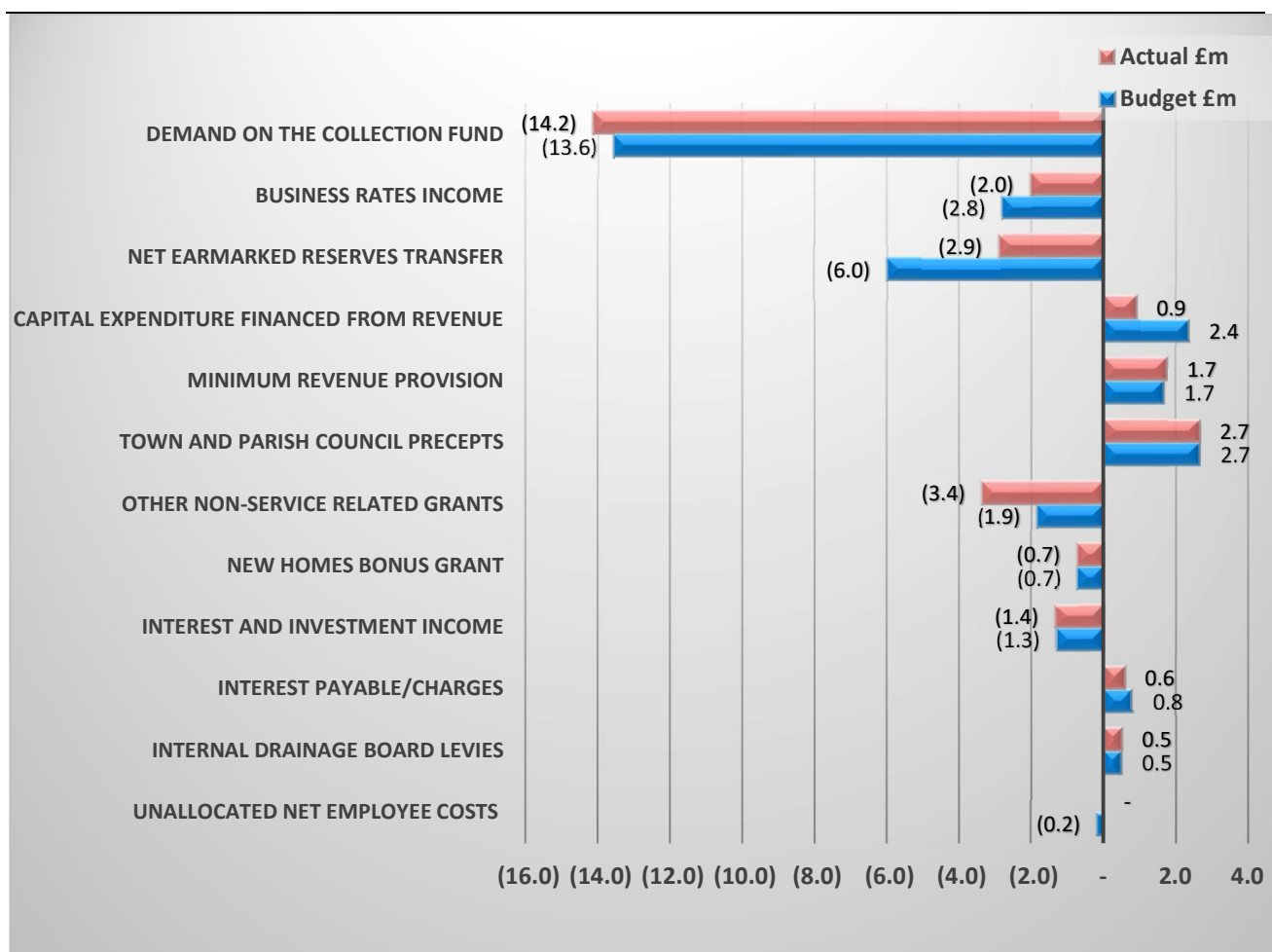
## STATEMENT OF RESPONSIBILITIES



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

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

## STATEMENT OF RESPONSIBILITIES



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

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

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

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

### General Fund Capital



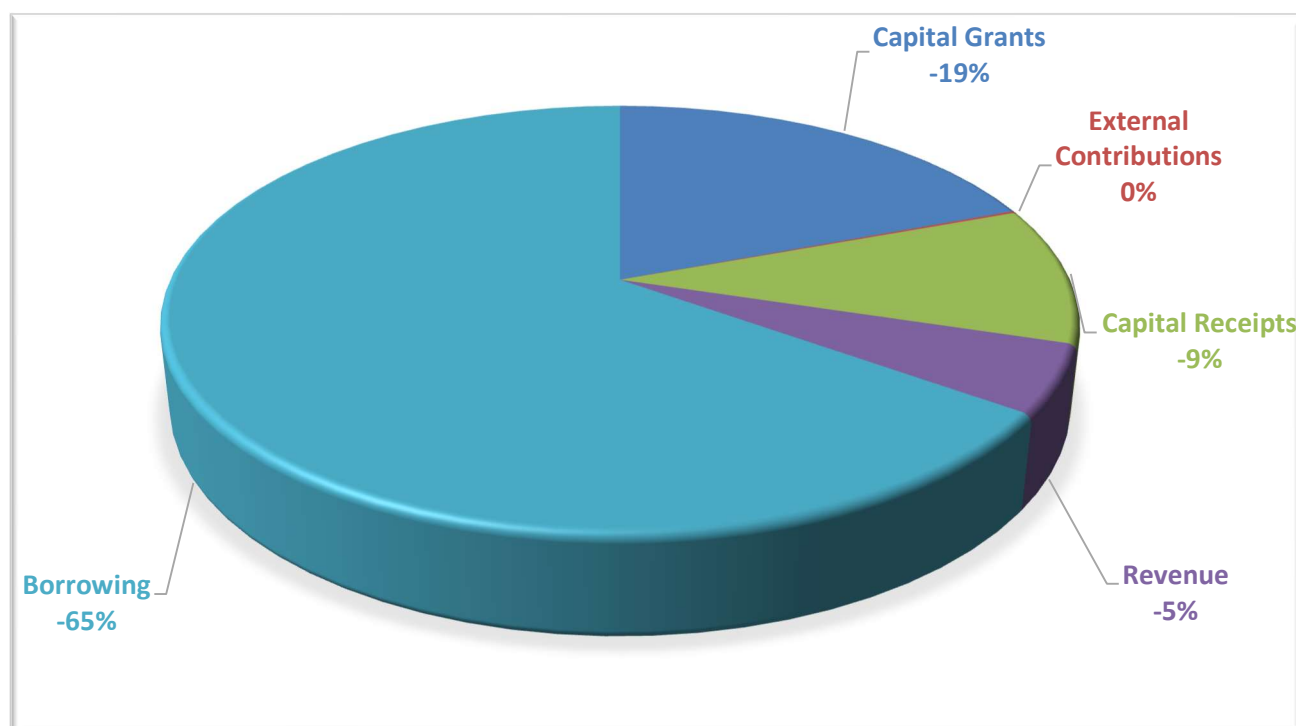
## STATEMENT OF RESPONSIBILITIES

The General Fund Capital summary position is outlined below:

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

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

The capital programme was financed from the following funding sources:



## STATEMENT OF RESPONSIBILITIES

The key movements relate to slippage in the capital programme particularly in relation to Otterpool Park, Coast protection, Land remedial works, District streetlights, EDRF capital project; etc.

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

### Housing Revenue Account

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

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

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

A summary of the capital programme outturn is noted below:

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

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

## STATEMENT OF RESPONSIBILITIES

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

### TREASURY MANAGEMENT OUTLOOK

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

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

### Future financial resilience

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

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

## STATEMENT OF RESPONSIBILITIES

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

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

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

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



## **STATEMENT OF RESPONSIBILITIES**

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### **AUDIT OF THE STATEMENT OF ACCOUNTS**

The Council appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31<sup>st</sup> March 2023.

### **FURTHER INFORMATION**

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

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# Statement of Responsibilities for the Statement of Accounts

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

## COUNCIL RESPONSIBILITIES:

The Council is required to:

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

## CHIEF FINANCE OFFICER RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of Folkestone & Hythe District Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy *2022/23 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

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

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

## CERTIFICATION OF ACCOUNTS

I certify that the Statement of Accounts gives a true and fair view of the financial position of Folkestone & Hythe District Council at 31<sup>st</sup> March 2023 and its income and expenditure for the year then ended.

Signed:

*Lydia Morrison, ACMA*  
Interim Finance Director

Date: dd May 2024

## STATEMENT OF RESPONSIBILITIES

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### 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 dd<sup>th</sup> MMM 2024.

Signed:

Councillor Liz McShane  
Chairman, Audit and Governance Committee

Date: xx MMM 2024

# Core Financial Statements





**FINANCIAL STATEMENTS**  
**Movement in Reserves Statement (MiRS)**

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

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

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**

	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
<b>2021/22</b>								
Balance at 31 March 2021	(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)
<b>Movement in reserves during 2021/22</b>								
Total Comprehensive Income and Expenditure	1,467	2,517	-	-	-	3,984	(54,107)	(50,123)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(1,049)	(545)	(633)	3,271	(2,728)	(1,684)	1,684	-
<b>(Increase) or Decrease in 2021/22</b>	<b>418</b>	<b>1,972</b>	<b>(633)</b>	<b>3,271</b>	<b>(2,728)</b>	<b>2,300</b>	<b>(52,423)</b>	<b>(50,123)</b>
<b>Balance at 31st March 2022 carried forward</b>	<b>(26,977)</b>	<b>(10,065)</b>	<b>(9,069)</b>	<b>-</b>	<b>(7,923)</b>	<b>(54,034)</b>	<b>(190,551)</b>	<b>(244,585)</b>

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

**FINANCIAL STATEMENTS**  
**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

**FINANCIAL STATEMENTS**  
**BALANCE SHEET**

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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'.

**FINANCIAL STATEMENTS**  
**COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

<b>31-Mar-22</b>		<b>31-Mar-23</b>
<b>£000s</b>	<b>Note</b>	<b>£000s</b>
220,220	16	227,963
27,084	16	27,983
4,710	16	4,626
9,390	16	8,481
3,461	16	3,461
81,202	16	75,854
8,036	16	7,804
2,998	17	2,998
29,356	18	30,594
206	-	210
18,962	19	14,555
9,032	20	16,585
<b>414,657</b>		<b>421,115</b>
-	-	-
-	-	-
9	-	11
15,502	21	17,615
14,730	22	10,745
<b>30,240</b>		<b>28,370</b>
(40,602)	23	(44,755)
(20,567)	24	(24,571)
(3,089)	15	(3,554)
(2,011)	25	(1,198)
<b>(70,542)</b>		<b>(74,078)</b>
(57,155)	26	(62,322)
(72,548)	29	(13,098)
(4,272)	24	(6,101)
(67)	25	(67)
<b>(129,770)</b>		<b>(81,588)</b>
<b>244,585</b>		<b>293,818</b>
(54,034)	30	(42,135)
(190,551)	31	(251,684)
<b>(244,585)</b>		<b>(293,818)</b>

I certify that the accounts present a true and fair view of the financial position of the Council and of its income and expenditure for the year ended 31 March 2023.

*Lydia Morrison, ACMA*

Interim Director of Corporate Services      Date: **XX April 2024**

**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.

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

# Notes to the Financial Statements



## **NOTES TO THE FINANCIAL STATEMENTS**

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

### **1. Accounting Policies**

#### **1.1 General Principles**

This Statement of Accounts summarises the Council's transactions for the 2022/23 financial year and its position at the year-end of 31 March 2023. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require preparation in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2022/23* supported by International Financial Reporting Standards (IFRS).

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

<b>Class of Assets</b>	<b>Valuation Basis</b>
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**



## NOTES TO THE FINANCIAL STATEMENTS

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

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

### 1.3 Grants and Contributions

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

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

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

### 1.4 Cash and Cash Equivalents

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

### 1.5 Council Tax and Non-Domestic Rates

## NOTES TO THE FINANCIAL STATEMENTS

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

### Accounting for Council Tax and NDR

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

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

### 1.6 Exceptional Items

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

### 1.7 Overheads and Support Services

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

### 1.8 Reserves

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

### 1.9 Property, Plant and Equipment

## NOTES TO THE FINANCIAL STATEMENTS

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

### Recognition

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

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

### Measurement

Items of PPE are initially measured at cost, comprising:

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

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

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

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

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

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

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year

## NOTES TO THE FINANCIAL STATEMENTS

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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<sup>st</sup> April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

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

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

### **Disposal**

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

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

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

### **1.10 Borrowing Costs**

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

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

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

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

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

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

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

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

### **1.11 Heritage Assets**

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

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

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

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

### **1.12 Investment Property**

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

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

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

Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed

## NOTES TO THE FINANCIAL STATEMENTS

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out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **1.13 Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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

### **1.14 Employee Benefits**

#### **Benefits Payable during Employment**

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

#### **Termination Benefits**

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

#### **Post-Employment Benefits**

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

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

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pension's liability is analysed into the following components:
  - i) Service cost comprising:
    - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
    - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the

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

- net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.
- ii) Re-measurements comprising:
- the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.
- iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

### 1.15 Events after the Reporting Period

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

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

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

### 1.16 Financial Assets

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



Financial assets are classified into one of three categories:

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

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

### **1.17 Financial Liabilities**

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

### **1.18 Provisions**

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

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

### **1.19 Value Added Tax**

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

### **1.20 Interests in Companies and Other Entities**

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

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

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

- a) IFRS 16 Leases
- b) Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- c) Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- d) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- e) Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

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

### **3. Critical Judgements in Applying Accounting Policies**

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

### **Folkestone Parks and Pleasure Grounds Charity**

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

### **Princes Parade Development**

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

### **Oportunitas Limited**

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

### **Otterpool Park LLP and Otterpool Park Development Company**

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

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

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

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge would increase by £270k for every year that useful lives had to be reduced.</p>
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.	<p>The effects on the net pension liability of changes in individual assumptions can be measured.</p> <p>For instance, a 1% increase in the discount rate assumption would result in a decrease in the pension liability of £10m.</p> <p>Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 29.</p>
Fair value measurements	<p>When the fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets their fair value is measured using valuation techniques. Where possible, the inputs to these techniques are based on observable data but where this is not possible judgement is required. These judgements typically include considerations such as uncertainty and risk.</p> <p>Where quoted prices are not available the Council employs relevant experts to identify the most appropriate valuation technique to determine fair value. Information about the valuation techniques and inputs used in determining fair value is disclosed in Notes 19 and 27.</p>	<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.</p> <p>For instance, Oportunitas is currently valued at nil for fair value, however a reduction of 2.8% in the discount rate (from 11.3% to 8.5%) in a value above nil. More information regarding sensitivity of fair value measurements is set out in Note 27.</p>

# Notes Supporting The Movement in Reserves Statement



## NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

### 5. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

## NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

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

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

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



**NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT**

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

# 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 2022/23 (i.e., government grants, rents, Council Tax and Business Rates) has been used to provide the services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes across the Council's management structure. Income and expenditure accounted for under GAAP is presented more fully in the CIES.

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

**NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

	<b>2021/22</b>				
	<b>As reported for resource management</b>	<b>Adjustment to arrive at the net amount chargeable to the General fund and HRA</b>	<b>Net Expenditure Chargeable to the General Fund and HRA Balances</b>	<b>Adjustments between the Funding and Accounting Basis</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Leadership Support	904	185	1,089	(123)	966
Governance & Law	2,396	360	2,756	133	2,889
Human Resources	634	136	770	(53)	717
Finance Customer & Support	5,540	(48)	5,492	(384)	5,108
Strategic Development	(206)	128	(78)	(52)	(130)
Economic Development	1,078	99	1,177	(13)	1,164
Planning	178	378	556	(147)	409
Operations	2,487	(143)	2,344	1,078	3,422
Housing	2,016	(2,358)	(342)	(78)	(420)
Place	5,654	621	6,275	(326)	5,949
Transition & Transformation	(8)	26	18	(10)	8
Local Authority Housing (HRA)	1,654	(6,518)	(4,864)	6,382	1,518
<b>Net Cost of Services</b>	<b>22,327</b>	<b>(7,133)</b>	<b>15,194</b>	<b>6,407</b>	<b>21,601</b>
Other Income and Expenditure	(18,970)	6,880	(12,804)	(4,812)	(17,616)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>3,357</b>	<b>(253)</b>	<b>2,390</b>	<b>1,595</b>	<b>3,984</b>
Opening General Fund and HRA Balance			<b>(39,432)</b>		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			<b>2,390</b>		
Closing General Fund and HRA Balance at 31 March*			<b>(37,042)</b>		

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

**Expenditure and Income Analysed by Nature**

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

**8. Material Items of Income and Expense**

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

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

## 9. Other Operating Expenditure

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

## 10. Financing and Investment Income and Expenditure

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

## 11. Taxation and Non-Specific Grant Income

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

## 12. Members' Allowances

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

**NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

**13. Officers' Remuneration**

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

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

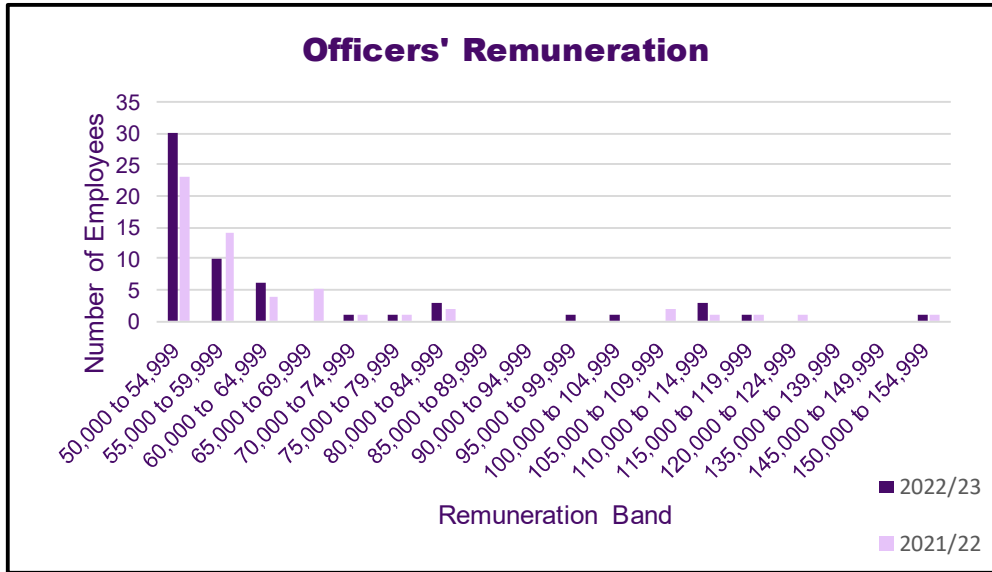
+ S151 Officer / Director left FHDC in March 2023

++ Monitoring Officer

+++ Director left FHDC March 2022

++++ Director left FHDC April 2022

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



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

Exit package cost band (including special payments)	Number of compulsory redundancies (a)		Number of other departures agreed (b)		Total number of exit packages by cost band (a+b)		Total cost of exit packages in each band	
	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23	2021/22	2022/23
£							£000s	£000s
0-20,000	-	1	1	4	1	5	13	43
20,001-40,000	-	-	1	-	1	-	41	-
40,001-60,000	-	-	-	-	-	-	-	-
60,001-100,000	-	-	-	1	-	1	-	107
100,001-150,000	-	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>2</b>	<b>6</b>	<b>54</b>	<b>150</b>

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

**14. External Audit Costs**

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

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



**15. Grant Income**

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

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

**Capital Grants Received in Advance**

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

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

# Notes Supporting the Balance Sheet



## **16. Property, Plant and Equipment**

### **Measurement**

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

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

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

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

### **Contractual Commitments**

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

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

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

Shepway Close, Folkestone £0.56m per annum

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

**NOTES SUPPORTING THE BALANCE SHEET**

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

## **17. Heritage Assets**

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

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

## **18. Investment Properties**

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

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

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:

## NOTES SUPPORTING THE BALANCE SHEET

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

### Fair Value Hierarchy for Investment Properties

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

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

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

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

#### Significant observable inputs – Level 2

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



## NOTES SUPPORTING THE BALANCE SHEET

### Significant unobservable inputs - Level 3

There were no assets categorised as Level 3 in 2022/23.

### Valuation Techniques

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

### Valuation Process for Investment Properties

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

## 19. Long Term Investments

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

## 20. Long Term Debtors

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

## **21. Short Term Debtors**

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

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

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

## **22. Cash and Cash Equivalents**

### **Cash and Cash Equivalents**

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

## **23. Short Term Borrowing**

### **Short Term Borrowing**

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

## **24. Short Term & Long Term Creditors**

### **Short Term Creditors**

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

### **Long Term Creditors**

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000s</b>	<b>£000s</b>
Receipts in Advance	4,272	6,101
	<b><u>4,272</u></b>	<b><u>6,101</u></b>

## NOTES SUPPORTING THE BALANCE SHEET

### 25. Provisions

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

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

### 26. Long Term Borrowing

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

### 27. Financial Instruments

#### Financial Instruments - Classifications

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

#### Financial Liabilities

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

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

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

#### Financial Assets

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

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

### Financial Instruments - Balances

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

### Material Soft Loans

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

The movements on material soft loan balances are:

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

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

**Financial Instruments - Fair Values**

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

Financial assets classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2023, using the following methods and assumptions:

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

### Short term Liabilities

Trade Creditors	4,020	7,916
Borrowing (inc accrd interest)	102	422
<b>Total</b>	<b>4,122</b>	<b>8,338</b>

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

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



## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

Financial Asset - Equity Investment in Oportunitas Limited

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

Key quantitative assumptions used for valuation:

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

### Sensitivity Analysis

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

Financial Asset – Long term loan to Oportunitas Limited

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

Financial Asset - Equity Investment in Otterpool Park LLP

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

## NOTES SUPPORTING THE BALANCE SHEET

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

	£'000
<b>Balance 1 April</b>	<b>2,857</b>
Otterpool Equity Purchased 22/23	200
Unrealised valuation loss	(2,617)
<b>Balance 31 March</b>	<b>441</b>

### 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	22/23 Total	21/22 Total
	£000s	£000s	£000s	£000s	£000s
<b>Financial Instruments Income, Expense, Gains and Losses 2022/23</b>					
Interest expense	1,939	-	-	1,939	1,866
Losses from changes in fair value	4,577	-	-	4,577	2,901
(Gains)/Losses on derecognition impairment losses	369	-	-	369	(43)
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>6,884</b>	<b>-</b>	<b>-</b>	<b>6,884</b>	<b>4,723</b>
Interest and dividend income	-	(473)	(895)	(1,369)	(874)
Gains from changes in fair value	-	-	-	-	(805)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>-</b>	<b>(473)</b>	<b>(895)</b>	<b>(1,369)</b>	<b>(1,679)</b>
<b>Net (gain)/loss for the year</b>	<b>6,884</b>	<b>(473)</b>	<b>(895)</b>	<b>5,515</b>	<b>3,044</b>

## 28. Borrowing Costs

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

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

## 29. Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

## NOTES SUPPORTING THE BALANCE SHEET

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a fund, calculated at a level intended to balance the pension liabilities with investment assets.

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

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

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

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

### **Transactions Relating to Retirement Benefits**

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

## NOTES SUPPORTING THE BALANCE SHEET

### Balance Sheet

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

### Comprehensive Income and Expenditure for the year

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

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

### Re-measurement of net assets (defined liability)

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

### 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<sup>st</sup> March 2023.

The significant assumptions used by the actuary have been:

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

### **Asset and Liability Matching Strategy**

Kent Pension fund has agreed to a Fund Strategy Statement that matches the type of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the obligations by investing in equities, corporate bonds and fixed interest Government securities/gilts. This is balanced with a need to maintain the liquidity of the Fund to ensure that it is able to make current payments. As it is required by the pensions and where relevant investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (64% of scheme assets) and bonds (13%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 10% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable.

### **Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at a constant rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 14 years. Funding levels are monitored on an annual basis. The next triennial valuation is due on 31<sup>st</sup> March 2025, with the most recent valuation completing on 31<sup>st</sup> March 2022.

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

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

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

### **30. Usable Reserves**

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

### **31. Unusable Reserves**

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

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

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

### Pooled Investment Funds Adjustment Account

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

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

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

### 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<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

## NOTES SUPPORTING THE BALANCE SHEET

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

### 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.

## NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Adjustment Account	2021/22		2022/23	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		13		25
Repaid renovation advances	-		-	
Amortised interest on renovation advances	12		(25)	
Net write down deferred discounts to revenue	-	12	-	(25)
<b>Balance as at 31 March</b>		<u>25</u>		<u>-</u>

### Deferred Capital Receipts Reserve

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

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

### Collection Fund Adjustment Account

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

	2021/22	2022/23
	£000s	£000s
<b>Balance at 1 April</b>	5,100	3,407
Amount by which Council Tax and Non-Domestic Rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(1,693)	(3,858)
<b>Balance as at 31 March</b>	<u>3,407</u>	<u>(451)</u>

### 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

## NOTES SUPPORTING THE BALANCE SHEET

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.

	<b>2021/22</b>	<b>2022/23</b>
	<b>£000s</b>	<b>£000s</b>
<b>Balance at 1 April</b>	<b>76,591</b>	<b>72,548</b>
Remeasurement of Net defined Liability	(8,713)	(61,192)
Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	8,513	6,048
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,843)	(4,306)
<b>Balance as at 31 March</b>	<b>72,548</b>	<b>13,098</b>

### 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.

	<b>2021/22</b>		<b>2022/23</b>	
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>Balance at 1 April</b>		<b>593</b>		<b>507</b>
Settlement or cancellation of accrual made at the end of the preceding year	(593)		(507)	
Amounts accrued at the end of the current year	507		465	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(86)		(42)
<b>Balance as at 31 March</b>		<b>507</b>		<b>465</b>

## **32. Capital Expenditure and Capital Financing**

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

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

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

## **33. Nature and Extent of Risks arising from Financial Instruments**

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

### Credit Risk: Overview

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

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

### Credit Risk: Treasury Investments

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

The Council generally does not allow credit for customers.

### Credit Risk: Loans and Loan Commitments

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

- i. Oportunitas Limited
- ii. Folkestone Parks & Pleasure Grounds Charity
- iii. Kent County Council
- iv. Local residential property owners
- v. Otterpool Park LLP

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

### Liquidity Risk

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

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

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

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

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:



## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

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

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

### Price Risk

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

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

The estimated impact of these price risks are summarised below:

### Impact on Fair Value of Fund

## NOTES SUPPORTING THE BALANCE SHEET

Pooled Fund Category	1% interest rate rise	5% equity price fall	5% property price fall
	£'000	£'000	£'000
Property Fund	-	-	(242)
Diversified Income Funds	(169)	(107)	(22)
<b>Total</b>	<b>(169)</b>	<b>(107)</b>	<b>(264)</b>

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

### Foreign Exchange Risk

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

## 34. Section 106 Receipts and Planning Condition Contributions

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

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

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

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

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

# Notes Supporting the Cash Flow Statement



### **35. Reconciliation of Net Cash Flow from Operating Activities**

The cash flows for operating activities include the following items:

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

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

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

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

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

### **36. Cash Flow Statement – Investing Activities**

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

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

### **37. Cash Flow Statement – Financing Activities**

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

# Other Notes



### **38. Related Party Transactions**

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

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

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

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2022/23 is set out in note 12 (page 54). Members are required to observe the Code of Conduct for councillors, register financial interests in the Council's Register maintained under section 81(1) of the Local Government Act 2000 and register the receipt of any gifts/hospitality over £25.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2022/23, other than those disclosed in note 13 (pages 55).

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

Amounts due to or from those other parties able to control or influence the Council or to be controlled/ influenced by the Council are as follows:

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

### 39. Trust Funds

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

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

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

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

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

### 40. Interests in Companies and Other Entities



### **Oportunitas Limited**

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

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

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

### **Otterpool Park LLP**

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

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

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

### **Otterpool Park Development Company LLP**

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

Company turnover was (£5k) in 2022/23 (£NIL 2021/22) and made an operating loss of £5k in 2022/23 (£NIL 2021/22).

## **41. The Council Acting as Agent**

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

The Council acted as agent for the following grant schemes:

## NOTES TO THE FINANCIAL STATEMENTS

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

## 42. Contingent Assets

### Contingent Asset

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

Contingent assets are not recognised on the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

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

### Contingent Liability

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

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

## 43. Events after the Balance Sheet Date

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

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

# Housing Revenue Account



## HOUSING REVENUE ACCOUNT

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

### Housing Revenue Account (HRA) Income and Expenditure Statement

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

## HOUSING REVENUE ACCOUNT

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

### 1. Housing Assets

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

The stock was made up as follows:

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

The change in the stock can be summarised as follows:

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

The Balance Sheet value was as follows:

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

## HOUSING REVENUE ACCOUNT

### 2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 31<sup>st</sup> March 2023 was £690.7m. The Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

### 3. Major Repairs Reserve

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

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

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

### 5. Capital Financing

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

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

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

## HOUSING REVENUE ACCOUNT

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

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

2021/22			2022/23		
Revaluation £000s	Depreciation £000s	Impairment £000s	Revaluation £000s	Depreciation £000s	Impairment £000s
-	-	-			
1,315	2,263	8,197	(1,956)	2,934	5,854
154	36	63	236	38	148
-	81	-	-	84	-
-	28	-	-	30	-
1,469	2,408	8,260	(1,719)	3,087	6,002

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

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

## 7. Rent Arrears

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

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

## 8. Difference between any other items of Income and Expenditure

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

## HOUSING REVENUE ACCOUNT

### 9. Housing Revenue Account Pension Costs

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

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

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

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

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

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

The Item 8 credit was calculated by multiplying the average HRA balances for the year by the consolidated rate of interest on the Council's investments and amounted to £11k (£7k 2021/22).



# Collection Fund



## COLLECTION FUND

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

2021/22			2022/23		
Council Tax £000s	Business Rates £000s	Total £000s	Council Tax £000s	Business Rates £000s	Total £000s
<b>Amounts required by statute to be credited to the Collection Fund</b>					
(81,137)		(81,137)	(84,354)		(84,354)
8		8	5		5
(68)		(68)	(86)		(86)
	(19,319)	(19,319)		(21,778)	(21,778)
	263	263		(1,376)	(1,376)
<b>(81,197)</b>	<b>(19,056)</b>	<b>(100,253)</b>	<b>(84,435)</b>	<b>(23,154)</b>	<b>(107,589)</b>
<b>Amounts required by statute to be debited to the Collection Fund</b>					
<b>Council tax precepts and demands:</b>					
54,601		54,601	57,240		57,240
8,396		8,396	8,937		8,937
3,110		3,110	3,226		3,226
13,128		13,128	13,591		13,591
(1,132)		(1,132)	3,408		3,408
302		302	832		832
274		274	386		386
<b>Payment of Business Rates</b>					
	144	144		145	145
	14,755	14,755		11,275	11,275
	2,656	2,656		2,030	2,030
	295	295		226	226
	11,804	11,804		9,020	9,020
	(13,174)	(13,174)		(8,860)	(8,860)
	90	90		180	180
	5	5		262	262
	(666)	(666)		(2,032)	(2,032)
<b>78,679</b>	<b>15,909</b>	<b>94,588</b>	<b>87,620</b>	<b>12,246</b>	<b>99,866</b>
(2,518)	(3,147)	(5,665)	3,185	(10,908)	(7,723)
880	12,330	13,210	(1,638)	9,183	7,545
(1,638)	9,183	7,545	1,547	(1,725)	(178)

## COLLECTION FUND

### 1. Council Tax

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

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

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

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

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

### 2. Income Collectable from Business Rate Payers

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

## COLLECTION FUND

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

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

# Group Accounts



**GROUP ACCOUNTS**  
**GROUP MOVEMENT IN RESERVES STATEMENT**

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

**GROUP ACCOUNTS**  
**GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

**GROUP ACCOUNTS**  
**GROUP BALANCE SHEET**

2021/22 £000s	Note	2022/23 £000s
<b>Non current assets</b>		
220,220		227,963
73,266		130,638
2,998		2,998
100,295	2	40,098
206		210
12,803	3	8,196
3,560	4	2,809
<b>413,348</b>		<b>412,913</b>
<b>Long term assets</b>		
2,102	5	8,731
15,455	6	17,059
14,791	7	11,307
<b>32,347</b>		<b>37,097</b>
<b>Current assets</b>		
(40,602)		(44,755)
(25,198)		(24,571)
(3,089)		(3,554)
(2,011)		(1,198)
<b>(70,900)</b>		<b>(74,078)</b>
<b>Current liabilities</b>		
(57,155)		(62,322)
(72,548)		(13,098)
(309)		(6,101)
-		(422)
<b>(130,012)</b>		<b>(81,943)</b>
<b>Long term liabilities</b>		
<b>244,783</b>		<b>293,988</b>
<b>Net assets</b>		
(54,232)		(42,305)
(190,551)		(251,684)
<b>(244,783)</b>		<b>(293,989)</b>
<b>Total Reserves</b>		



**GROUP ACCOUNTS**  
**GROUP CASH FLOW STATEMENT**

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

## **Explanation of Group Financial Statements**

### **Group MiRS**

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

### **Group CIES**

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

### **Group Balance Sheet**

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

### **Group Cash Flow Statement**

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

## GROUP ACCOUNTS

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

### Notes to the Group Financial Statements

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

#### Note 1 – Accounting Policies

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

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

#### Note 2 – Investment Properties

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

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

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

#### Fair Value Hierarchy for Investment Properties

## GROUP ACCOUNTS

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

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

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

#### Significant observable inputs – Level 2

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

### Note 3 – Long Term Investments

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

### Note 4 – Long Term Debtors

## GROUP ACCOUNTS

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

\*Prior year comparatives restated to show Expected Credit Loss

### Note 5 – Stock and WIP

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

Work in progress (WIP) relates to Otterpool LLP.

### Note 6 – Short Term Debtors

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

## GROUP ACCOUNTS

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### Note 7 – Cash and Cash Equivalents

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

### Note 8 – Cash Flow Statement – Investing Activities

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

### Note 9 – Financial Instruments

## GROUP ACCOUNTS

Financial Liabilities	Long Term		Short Term	
	31-Mar-22 £000s	31-Mar-23 £000s	31-Mar-22 £000s	31-Mar-23 £000s
Loans amortised cost:				
- Principal sum borrowed	(57,155)	(62,321)	(40,500)	(44,333)
- Accrued interest	-	-	(102)	(422)
<b>Total Borrowing</b>	<b>(57,155)</b>	<b>(62,321)</b>	<b>(40,602)</b>	<b>(44,755)</b>
Liabilities at amortised cost:				
- Trade payables	-	-	(4,195)	(8,091)
<b>Included in Creditors</b>	<b>-</b>	<b>-</b>	<b>(4,195)</b>	<b>(8,091)</b>
<b>Total Financial Liabilities</b>	<b>(57,155)</b>	<b>(62,321)</b>	<b>(44,796)</b>	<b>(52,846)</b>
Financial Assets	Long Term		Short Term	
	31-Mar-22 £000s	31-Mar-23 £000s	31-Mar-22 £000s	31-Mar-23 £000s
At fair value through profit & loss:				
- Fair value	12,803	8,396	-	-
<b>Total investments</b>	<b>12,803</b>	<b>8,396</b>	<b>-</b>	<b>-</b>
At amortised cost:				
- Principal	-	-	(344)	500
At fair value through profit & loss:				
- Fair value	-	-	15,135	10,245
<b>Total Cash &amp; Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>14,791</b>	<b>10,745</b>
At amortised cost:				
- Trade receivables*	-	-	5,358	3,510
- Lease receivables*	109	98	10	11
- Loans made for service purposes*	1,383	8,467	357	193
- Loss allowance Expected Credit Loss*	-	-	(55)	(66)
<b>Included in Debtors</b>	<b>1,492</b>	<b>8,565</b>	<b>5,670</b>	<b>3,649</b>
<b>Total Financial Assets</b>	<b>14,295</b>	<b>16,961</b>	<b>20,461</b>	<b>14,393</b>

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

### **Report on the Audit of the Financial Statements**

#### **Opinion on financial statements**

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

In our opinion, the financial statements:

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

#### **Basis for opinion**

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

#### **Conclusions relating to going concern**

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



## ANNUAL GOVERNANCE STATEMENT

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inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

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

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

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

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

### Other information

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

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

We have nothing to report in this regard.

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

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

## **ANNUAL GOVERNANCE STATEMENT**

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

We have nothing to report in this regard.

### **Opinion on other matters required by the Code of Audit Practice**

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

### **Matters on which we are required to report by exception**

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

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

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

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

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

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

## ANNUAL GOVERNANCE STATEMENT

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

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

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

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

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

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

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

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

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

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

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

#### **Responsibilities of the Authority**

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

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

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

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

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

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

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

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

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

### Use of our report

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

*Sophia Brown*

Sophia Brown, Key Audit Partner

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

London

dd MMM 2023

# Annual Governance Statement 2022/23

## 1. SCOPE OF RESPONSIBILITY

- 1.1 Folkestone and Hythe District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and the management of risk.
- 1.3 The Council has a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA / SOLACE framework “Delivering Good Governance in Local Government.” A copy of the code is on our website, or a copy can be obtained from the Council offices. This statement explains how the Council has complied with the code and also meets the requirements under the Accounts and Audit Regulations 2015 (SI 2015/184).

## 2. THE PRINCIPLES OF GOOD GOVERNANCE

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



### **3. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

- 3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- Identify and prioritise risks to the achievement of the Council’s aims and objectives.
  - Evaluate the likelihood and impact of those risks.
  - Manage those risks efficiently, effectively and economically.
- 3.3 The information provided in the governance framework includes matters to the year ending 31 March 2023, and up to the date of approval of the annual report and statement of accounts.

**Table 1: Overview of the Council’s governance framework**

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



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

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

- Focusing meetings of the Overview and Scrutiny Committee on critical Council activities.
- Creating a dedicated finance and performance sub-group to meet quarterly.

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

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

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

- In December 2019, members of Full Council approved a recommendation made by the Audit and Governance committee to appoint an independent member to that committee in line with the updated 2018 CIPFA Practical Guidance for Local Authorities and Police (Report ref: A/19/20). The guidance recognises that the recruitment of independent members is undertaken to bring additional knowledge and expertise to the committee, reinforce political neutrality as well as maintain continuity of committee membership where it is affected by the electoral cycle. The position for an independent member of the Audit and Governance committee was advertised during the year and was successfully appointed at a Special meeting of the Audit and Governance Committee held on the 24<sup>th</sup> November 2020.
- Since 1<sup>st</sup> February 2020 changes have also been made to the membership of Cabinet which now includes a Councillor from the Green party and a Councillor from the Liberal Democrat party. They joined two councillors from the Independent party, and five conservative members to form the executive under the leadership of the Conservative party. The political composition of executive has continued to remain the same during the 2022/23 year.

## Strategic Planning
















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

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

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

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

### Creating Tomorrow Together: Corporate Plan 2021-30

<p><b>Service ambition 1:</b> Positive community leadership</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none"> <li> Improve physical and mental health &amp; wellbeing</li> <li> Safer communities</li> <li> Supporting &amp; empowering our communities</li> </ul>	<p><b>Service ambition 2:</b> A thriving environment</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none"> <li> Ensure an excellent environment for everyone</li> <li> Grow the circular economy &amp; reduce waste</li> <li> Increase our resilience to climate change</li> </ul>	<p><b>Service ambition 3:</b> A vibrant economy</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none"> <li> Reinvigorate the high streets</li> <li> Support a vibrant &amp; diverse business community</li> <li> Help people access jobs &amp; opportunity</li> <li> Grow the skills we need for the future</li> </ul>	<p><b>Service ambition 4:</b> Quality homes and infrastructure</p> <p>Priorities in the next three years</p> <ul style="list-style-type: none"> <li> Improve outcomes &amp; support for homeless people</li> <li> Deliver sustainable, affordable housing</li> <li> Deliver a safe, accountable housing service</li> <li> Digital inclusion &amp; connectivity</li> <li> Deliver a sustainable new development at Otterpool Park</li> </ul>		
<p><b>In everything we do we will follow these guiding principles:</b></p>					
<p><b>Sustainable recovery</b> We will do all we can to ensure a strong recovery for the district from the effects of COVID.</p>	<p><b>Locally distinctive</b> We will protect the special distinctive and diverse nature of our district - working with our key partners to enhance it.</p>	<p><b>Greener Folkestone &amp; Hythe</b> We will encourage and create a more sustainable district consuming fewer natural resources.</p>	<p><b>Transparent, stable, accountable and accessible</b> We will be financially sustainable and communicate effectively with our communities in an accessible way.</p>	<p><b>Working effectively with partners</b> We will engage with partners to understand the vital role they play and work collaboratively with them to ensure the best outcomes for our residents.</p>	<p><b>Continuous improvement</b> We will embed a culture of continuous improvement, seeking feedback and being innovative and creative to find new ways to deliver services.</p>



- 3.5 For each service ambition set out above, the Council has committed to a number of priorities within the Corporate Plan that will be delivered over the next three years.
- 3.6 In order to support the delivery of the corporate plan priorities illustrated above, work has been undertaken during the year with directors, chief officers and their service leads to develop a Corporate Action Plan that documents a series of high level actions under each of the four corporate service ambitions that the Council will work towards achieving during the three year period to 2024. An annual update on the progress against the agreed actions within the plan was presented to Cabinet on 20<sup>th</sup> October 2022 (Report ref: C/22/52)
- 3.6 Elected Members of the Council are ultimately responsible for the delivery of the Council’s corporate objectives. The Council has strong communication channels

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between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.

- 3.7 Effective communication, both within departments and across the Council is continually supported through the wider management team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.
- 3.8 On an annual basis, managers are required to develop, and keep under review, a departmental service plan setting out their priorities for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

### Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision-making process and help shape public services.
- 3.10 Folkestone and Hythe District Council as a public funded organisation is fully committed to principles of openness and accountability and has clearly articulated this as a Guiding Principle in its Corporate Plan. In line with the Transparency Code, the Council continues to publish on its website a series of data sets and information including;
- Senior Staff Salaries
  - Organisational Structure Chart
  - Payment to suppliers (over the value £250)
  - Purchase Orders (£5,000 and over)
  - Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
  - Grants to Voluntary, Community and Social Enterprise Organisations
  - Parking Accounts
  - Local Authority Land Assets
  - Fraud - Information relating to the work we do countering fraud
  - Trade Union Facility Time

### Performance Management

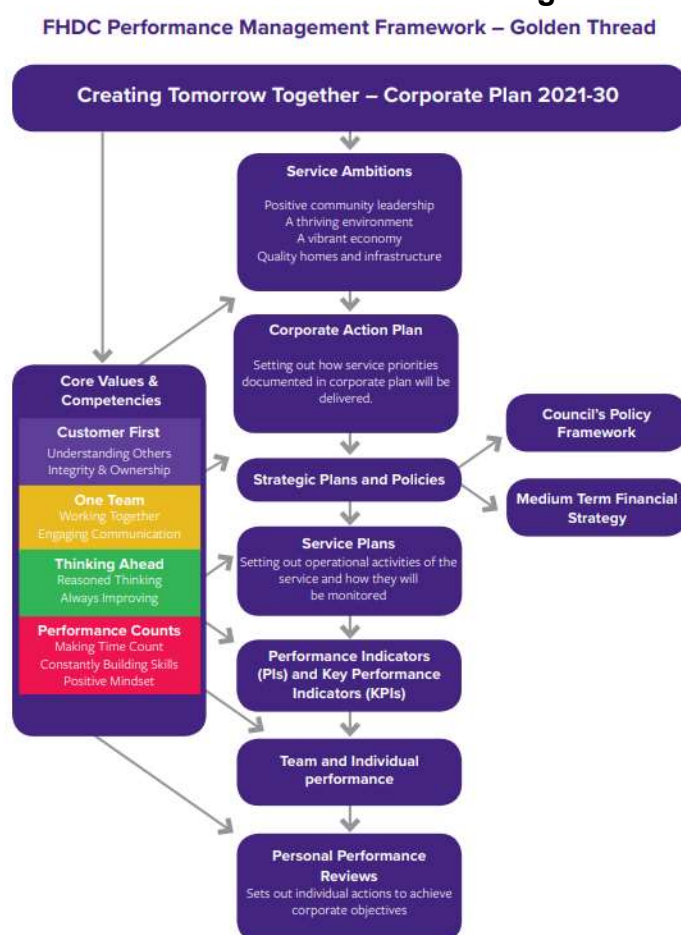
- 3.11 The Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by

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providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.

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

**Diagram 1: FHDC Golden Thread of Performance Management:**



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

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

In October 2022, the Council successfully re-applied for the Customer Service Excellence (CSE) accreditation. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. The independent assessor was very impressed with the Council's ongoing commitment to customer service and awarded 16 compliance pluses for showing innovative practise, delivering a service that is over and above what the customer could normally expect and showing practise that could be usefully shared with other organisations. This is the highest number of compliance pluses we have been awarded in one go and continues to be great recognition for the service we provide.

### Risk

- 3.15 The Council's Risk Management Strategy (Adopted by Cabinet in March 2022, report ref: C/21/95) is reviewed on annual basis to reflect any changes in the Council's assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 3.16 In preparing the Council's Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. This is a dynamic process with progress made against any required action in relation to the risks being reported to the Council's Corporate Leadership Team on a regular basis for review and action.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition, the committee reviews the Council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. The latest edition of the Risk Policy and Strategy and Corporate Risk Register was considered by the Audit & Governance Committee on 15<sup>th</sup> March 2023 and then approved by Cabinet on 22<sup>nd</sup> March 2023 (Report ref: C/22/99). The latest version of the policy adopted a notable change in the monitoring of corporate risk:

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

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amendments and additions will then be sent to the Corporate Leadership Team for their review.

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

**Diagram 2: Reporting Arrangements for Risk Management**

Risk Policy and Strategy	Corporate Risk Register	Operational Risk Registers	Partnership Risk Registers	Project Risk Registers
<ul style="list-style-type: none"> <li>• Annual Review by CLT</li> <li>• Annual Review by Cabinet</li> <li>• Annual Review by Audit &amp; Governance Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Quarterly review by CLT and RMG</li> <li>• Quarterly Review by Audit &amp; Governance Committee</li> <li>• Annual Review by Cabinet</li> <li>• Emerging/Changing risks highlighted by Directors and Chief Officers</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors</li> <li>• Key Risks discussed at Portfolio Holder meetings.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing – maintained and reviewed regularly by Partnership lead</li> <li>• Key risks discussed at Partnership Meetings</li> <li>• Annual review by CLT</li> <li>• Inclusion where relevant in Corporate Risk Register</li> <li>• Project Risk</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing – maintained and reviewed regularly by Project Managers and CO / ADs</li> <li>• Key risks discussed at Portfolio Holder/Project Sponsor Meetings</li> <li>• Annual review by CLT of escalated risks</li> <li>• Annual review of key project risks by Cabinet and Audit &amp; Governance Committee</li> <li>• Inclusion where relevant in Corporate Risk Register</li> </ul>

## Finance

- 3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2022/23 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial management of their service areas within the Council, which includes accurate forecasting and the effective monitoring of financial performance against budget considered throughout the year.
- 3.20 The Council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in 'Delivering Good Governance in Local Government'.

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- 3.21 The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the Council's Corporate Plan priorities. The MTFS was updated and approved by Council in November 2022 and expresses the aims and objectives of various plans and strategies in financial terms over a four-year period ending 31<sup>st</sup> March 2026. The MTFS is a key element of sound corporate governance and financial management which is reviewed and agreed by Members on a regular basis.
- 3.22 In addition, the Finance & Performance Subcommittee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2022/23 financial year at its meeting on 18<sup>th</sup> January 2022; Cabinet endorsed this at its subsequent meeting (report ref: C/20/64). A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting on 18<sup>th</sup> January 2022 which provided an update on the Council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.
- 3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Council's service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. Full Council adopted the relevant strategies for 2022/23 on 23 February 2022 (report references: C/21/54 & C/21/71).
- 3.24 Regular budget monitoring took place in 2022/23 in order to manage the Council's net revenue budget. Regular meetings were held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to continue to have an additional focus on the Council's revenue budget monitoring during 2022/23 due to the unprecedented impacts of the pandemic on Council finances.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports. The level of reserves currently held has been endorsed and reported by the S151 Officer as adequate and in line with the Council's Reserves Policy.
- 3.26 During the 2022/23 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. These are now well progressed and anticipated to be concluded within the 2022/23 year. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. Further appropriate reports will be made to the Audit and Governance Committee, and appropriate reference has been made here in the 2022/23 Annual Governance Statement.

### Partnership and Joint-working

- 3.27 The Council is continuously looking at innovative solutions to deliver its range of services, including the processes associated with improving service delivery, the



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

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

### Internal and External Audit

#### Internal Audit

- 3.29 The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the S151 Officer, the Director – Corporate Services. They operate under a Charter, which defines their relationship with officers, and the Audit and Governance Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.
- 3.30 Internal Audit has responsibility to:
- Report on the level of assurance in respect of the Council's internal control systems; and
  - Provide an overall independent annual opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.
- 3.31 The overall opinion of the System of Internal Controls in operation throughout 2022-23 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July 2023:
- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance and Audit if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.

## ANNUAL GOVERNANCE STATEMENT

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- As at 31 March 2023 the Internal Auditors completed 347.73 days of review equating to 99.35% of planned completion.
- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2022-23.
- In March 2020 EKAP considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four S151 Officers acting as the EKAP Client Officer Group continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.

### External Audit

- 3.32 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.
- 3.33 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.34 The Council in the final stages of concluding its 2020/21 and 2021/22 accounts and audit process and this culminated in the final external audit opinion being presented to the Council at the Audit and Governance Committee meeting in March 2023. It is confirmed that the Council has received an unqualified audit opinion for both years and final details and sign off arrangements are being concluded.

### Counter Fraud Arrangements

- 3.34 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:
- encourage fraud deterrence and prevention;
  - raise awareness of fraud and corruption and promote their detection;
  - perform investigations and facilitate recovery in a prompt, thorough and

professional manner; and

- invoke disciplinary proceedings and further action as appropriate.

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

- 3.35 The responsibility for the prevention of fraud and corruption lies with management who ensure that adequate controls, including policies and procedures, are in place to prevent and detect fraud and corruption. The Council has developed systems and procedures that incorporate effective and efficient internal controls, and management ensure that controls minimise risk to an appropriate level. Controls are regularly reviewed to ensure they remain appropriate and effective. The internal and external auditors independently monitor the existence, effectiveness and appropriateness of these controls.
- 3.36 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its officers:
- has made, or about to make, a decision which involves incurring unlawful expenditure;
  - has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority; and
  - is about to make an unlawful entry into the authority's accounts.
- 3.37 The Assistant Director for Governance & Law is the 'Monitoring Officer' for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring Officer is required to report to Cabinet and Council where it appears to him/her that the Cabinet or Council and/or officers appointed by them:
- has made or is about to make a decision which contravenes any enactment, or rule of law; and
  - has made or is about to make a decision that would give rise to maladministration or injustice as referred to in Part III of the Local Government Act 1974.

## 4 REVIEW OF EFFECTIVENESS

## ANNUAL GOVERNANCE STATEMENT

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

## 5 HOUSING SERVICE

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

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

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

### OTTERPOOL PARK LLP

- 6.1 The LLP was established on 27 May 2020. The LLP will act as master developer for Otterpool Park. As such, it is envisaged that the LLP will secure planning permissions and put in place infrastructure in order that parcels of land can be sold to housebuilders. This will be the main focus of activity and generator of value, i.e., income to the LLP and in due course financial return to the council. The main documents and mechanisms governing the relationship between the Council and the LLP are:
- The Members' (or Owners') Agreement approved on 27 May 2020 and updated on 20 October 2021 (Cabinet Report ref C/21/41).
  - A single overarching Strategic Land Agreement;
  - Related agreements including the Phased Delivery Strategy governing the transfer of land from the Council to the LLP (or other parties) pursuant to the Strategic Land Agreement;
  - Legal instruments in relation to loans / members' equity;
  - Loan agreements in relation to funds provided to the LLP by the Council as debt; and
  - The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval).
- 6.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the

## ANNUAL GOVERNANCE STATEMENT

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approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020 report ref C/20/02).

- 6.3 An Assurance Framework has been established by the Council's Statutory Officers, which will support the delivery of the Otterpool Park LLP business plan. The framework is designed to guide the consideration of corporate governance and matters arising and will be reported to Members as required. The framework is scheduled for review on a 6 monthly basis to ensure it is aligned with the Otterpool Park LLP business plan and Council decisions.
- 6.4 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan included a draft vision document which set out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document drew on a range of Council documents, primarily the Charter for Otterpool Park (report ref C/17/49). In November 2019, Full Council determined to *"To make available an additional one hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed."*, (report ref A/19/17).
- 6.5 The first annual update on the Business Plan was approved by Cabinet in January 2022 (Report ref C/21/70). A presentation on an early draft of the second annual update to the Business Plan was considered by Overview and Scrutiny Committee on 8 November 2022. Subsequent to this the Cabinet received an update on 19 April 2023 (Report ref C/22/109) which noted ongoing due diligence and a financial assessment of the updated Business Plan (with input from external specialist advisors). The outcome of this work will be a robust assessment which will support Members' decision making on this matter. It is intended that a report will be further considered by OSC, Cabinet and Council as soon as practicable.
- 6.6 In line with the terms of the Members' Agreement, at its meeting of 20 October 2022, Cabinet agreed to the establishment of a stewardship vehicle as a Limited Liability Partnership and as a subsidiary of Otterpool Park LLP (Report ref C/22/46). It was noted that a further report will be presented to Cabinet with more detail on the assets proposed to be transferred to the vehicle, the treatment of assets, and funding model supported in a detailed business plan.

## 7. CONCLUSION

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

## ANNUAL GOVERNANCE STATEMENT

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

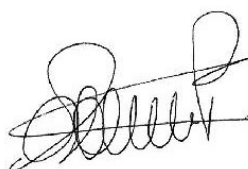
- 7.2 Set out in Appendix 1 is the current action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements. This action plan will be kept under review through the year and updated as appropriate.
- 7.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 20<sup>th</sup> July 2023.

Signed:



Cllr Tim Prater  
Deputy Leader of the Council and  
Cabinet Member for Finance and  
Governance

Signed:



Dr Susan Priest  
Chief Executive

Date: 7<sup>th</sup> July 2023

## ANNUAL GOVERNANCE STATEMENT

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

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



## ANNUAL GOVERNANCE STATEMENT

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

## ANNUAL GOVERNANCE STATEMENT

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

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

## ANNUAL GOVERNANCE STATEMENT

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

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

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

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

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

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

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

