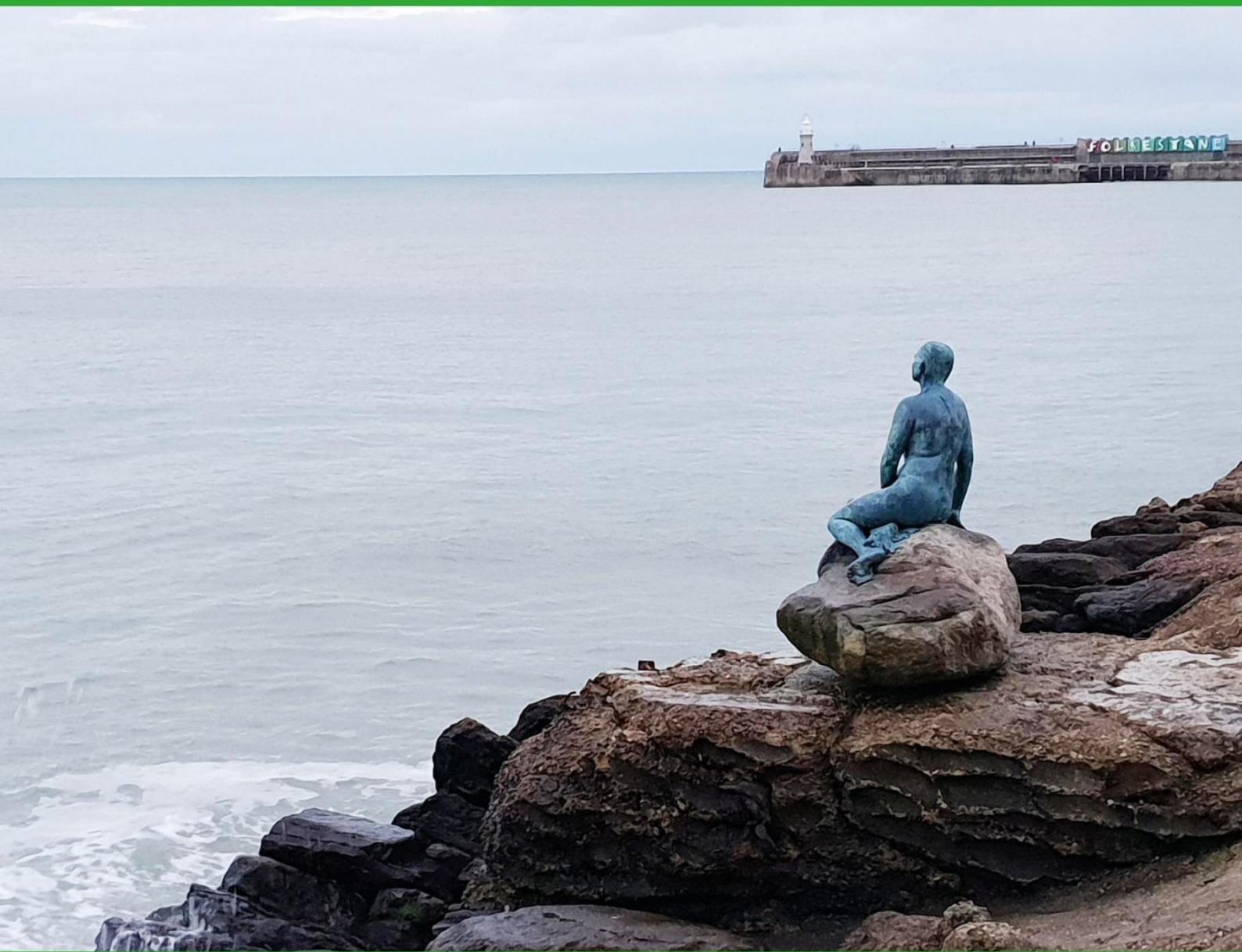


STATEMENT OF ACCOUNTS

2019/20



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Narrative Report

ORGANISATIONAL OVERVIEW AND EXTERNAL ENVIRONMENT

Our District

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

The district has distinctive contrasting rural landscapes and urban environments.

Our People

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



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

Economic and Environmental Factors

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

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

¹ 2019 Mid-Year Population Estimates - ONS

² Shepway Economic Development Strategy 2015-2020

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 at or below sea level and the majority of Districts 41km coastline lies below the mean high water mark. Virtually all of the Romney Marsh area is within flood zone 3 due to its topography.

Purpose and Vision

The Councils vision for the district is to:

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



Key Objectives

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

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

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

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

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

NARRATIVE REPORT

A working group has been established to formulate the Council's Corporate Plan for the ten year period 2021 – 2031. This group has representation from all political groups within the Council and act in an advisory capacity. The emerging themes for the plan are:

1. Housing and Infrastructure
2. Economy
3. Environment
4. Community focused services
5. Accountability, stability and transparency

The June Overview & Scrutiny Committee (OSC) considered the work of the group to date and provided feedback on the direction of the plan. Further work and consultation with residents and stakeholders is planned and the new plan will be adopted later in the year.



External Environment

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

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

Covid-19

The coronavirus (Covid-19) outbreak was declared a global pandemic by the World Health Organisation on 11th March 2020. Currently the Council is working closely with central government, related agencies, the voluntary sector, town and parish councils and the health service to support businesses and residents.

Business rates relief and grants for businesses in the retail, hospitality and leisure sectors have been administered in line with government guidelines helping over 2,000 businesses in the district. Additional council tax relief has been given to vulnerable people and households through the government's hardship fund. A network of three Community Hubs have been set up across the district in collaboration with key partners and volunteers to support vulnerable residents, ensuring food and other essential items are delivered to those with particular health conditions as well as offering a wider support package where required. The Council is working with partners to house all the district's known rough sleepers.

During this period of heightened social distancing council meetings are being held virtually using video conferencing technology and broadcast online to maintain open and transparent decision making.

On 23rd March the government imposed a lockdown on the whole population, restricting all non-essential travel and contact with people outside of the home and closed almost all businesses, venues and facilities. This has had a considerable impact on the Council as many businesses in the district have been forced to close which has significantly impacted the local economy and in turn impacts the Council's income streams. It is anticipated that as a result of this there will be a significant impact on the council's ability to collect income, both from taxpayers and services such as car parking and leisure facilities, as well as from investments and commercial property. There will also be additional cost pressures as the council responds to the outbreak and provides support to the most vulnerable residents.

There has been little financial impact on the 2019/20 financial position as the pandemic was declared late in March, but there will be significant challenges in the year ahead, and potentially future years, as the full financial impact becomes clearer and the Council deals with the ongoing crisis. Given the uncertainty around the full extent of the economic impact at this stage, it is difficult to estimate with any confidence the likely impact on the Council's financial position.

The Government has allocated emergency Covid-19 funding to local authorities but this will not be sufficient to cover the additional cost pressures or loss of income. The Council is currently reviewing its budget for 2020/21 to identify business essential expenditure items and assess the potential loss of income and a revised budget will be presented to Cabinet for approval. The Medium Term Financial Strategy (MTFS) will be refreshed once the budget review has concluded and more reliable estimates over the potential impact on collection rates and income levels can be attained. The Council has a strong reserves position and a review of reserves, including earmarked reserves, is being undertaken to identify committed spend that can either be deferred or diverted to support the medium term position if necessary.

As a billing authority the Council's cash flow is subject to pressure as it continues to pay precepting authorities their shares of budgeted business rates and council tax income not

taking into account any reduction in collection rates. The government has introduced short-term measures to provide immediate relief and daily cash flow monitoring is being undertaken for early identification of pressure points.

During these unprecedented times the Council has been forced to review what its essential services are and how these are delivered. Business continuity plans are regularly updated and existing working practices mean that Council staff can fully operate remotely and were quickly able to adopt more agile ways of working in response to the pandemic. Future delivery methods and new operating models for services are being considered as we move forward into the recovery phase and the 'new normal'.

A recovery plan is being developed and is proposed to align to the new Corporate Plan also in development. It will have four key themes of Economy, Community, Council Operations and Council Finances.

GOVERNANCE

Our Political Leadership

The political leadership of the Council during the financial year 2019/20 was through the Executive which consisted of the Leader, Deputy Leader and a further seven Portfolio Holders. In February 2020 the Leader implemented an innovative and new cross-party Cabinet giving other political parties an opportunity to be represented on the Cabinet, giving them direct involvement in executive decision-making. The new Cabinet is made up of 5 Conservative party members, 2 Independent members, 1 Green party member and 1 Liberal Democrat member. The managerial leadership is made up of the Corporate Leadership Team (CLT: Head of Paid Service and five Corporate Directors). CLT is supported by 2 Assistant Directors and 4 Chief Officers.

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

- 13 Conservative group members;
- 6 Green group members;
- 5 Labour group members;
- 2 Liberal Democrat members;
- 2 UKIP group members; and
- 2 Independent members.

Governance Arrangements

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

NARRATIVE REPORT

Non-executive members sit on groups that consider key Council business. The OSC consider the majority of financial papers ahead of their debate at Cabinet. The OSC has an important and defined role in the budget making process and contribute to its formulation prior to consideration by Cabinet. In 2020/21 the style of Member scrutiny will change. The Council have been undertaking work with the Centre for Public Scrutiny to reshape the approach.

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

Further detail regarding the Governance of the Council can be found within the Annual Governance Statement on pages 115-127.

OPERATIONAL MODEL AND FINANCIAL PERFORMANCE

Budget

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

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

A balanced budget was set for both 2019/20 and 2020/21.

Achievements and Services delivered in year included

- 44 long term empty homes were brought back into use during 2019/20 and 8 No Use Empty loans were provided in partnership with KCC which will result in 26 long term empty homes being returned to use
- 301 homes have been improved through enforcement/engagement with landlords, Disabled Adaptations or Home Safe and Winter Warmth loans
- Successfully submitted a joint grant funding bid with Dover District Council to secure £469k funding through the government's Rough Sleeping Initiative to continue to complement existing services to homeless rough sleepers within the districts
- Introduced a new online system to help people register for plots to build their own homes with the district's first self-build site being marketed in Brookland, Romney Marsh
- Completed the purchase of approximately 200 acres of land, including the freehold of the former racecourse and several residential properties to support the future delivery of Otterpool Park

NARRATIVE REPORT

- Westenhanger Castle historic building and grounds purchased to secure them as a community asset for the future
- Launched a public survey for residents, visitors and businesses to share their long-term vision for Folkestone town centre
- Took on responsibility for the Step Short commemoration memorial arch
- Invested £20k on refurbishing and reopening public toilets in Bouverie Place Shopping Centre
- Opened a new outdoor fitness zone in Radnor Park
- £3m High Street Fund successfully launched awarding grants to 22 businesses
- Partnered with Visit Kent and other local authorities to secure European funding of 1.6m euros for initiatives to extend the tourism season (October to March)
- £420k of Folkestone Community Works funding allocated to create a modern business centre for start-ups and businesses in the heart of Folkestone
- Implementation of Phases 1 and 2 of the organisation wide Transformation Programme
- Retained Customer Service Excellence Accreditation, with 12 areas scored as 'Compliance Plus'

RISKS AND OPPORTUNITIES

Future service provision

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

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

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

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

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

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

What are we currently working on?

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

Otterpool Park - In February 2020 the Council completed on the purchase of approximately 200 acres of land from Cozumel Estates. The purchase includes the freehold of the former racecourse and several residential properties and the ability to purchase neighbouring farmland of a further 440 acres to support the delivery of Otterpool Park garden town. The masterplan comprises 50% green space, up to 10,000 homes and community facilities, delivered in phases over 30 years. The purchase of the land ended the partnership with Cozumel Estates and the Council will now progress the project as the master developer. In May 2020 Cabinet agreed the corporate structuring and initial activities of Otterpool Park LLP, the Council's delivery vehicle in relation to the development of the Otterpool Park garden town.

Climate Change – On 24th July 2019 Full Council moved a resolution to declare that we are in a state of climate and ecological emergency and committed to reducing the Council's estate and operations to zero net carbon by 2030. A Climate Change and Ecological Emergency Working Group has been established comprising the Leader of the Council as chairman and six members (one member from each political group, plus the independent member). The views of the group and recommended actions will be reported to OSC and Cabinet through the formal decision making processes.

Mountfield Road Industrial Estate, New Romney - The proposal to extend Mountfield Road Industrial Estate, New Romney is seeking to diversify the local economy to mitigate the loss of over 1000 jobs arising from the closure of Magnox A and proposed closure of Dungeness B Power Stations. A masterplan has now been completed showing how the site might be best used and serviced to accommodate up to 700 jobs over a 10 year period. Planning consent has been gained for a business hub of 751 sq.m to initiate development and in September 2019 Cabinet approved the development by means of a joint venture with East Kent Spatial Development Company (EKSDC). The development will be financed by the Council and EKSDC and grant funding from the Nuclear De-Commissioning Authority (NDA) which was approved in March 2020.

East Kent Housing – After discovering problems with some health and safety procedures, Folkestone & Hythe District Council, along with the other three Council owners (Canterbury City council, Dover District Council and Thanet District Council) proposed to close East Kent Housing (EKH) and deliver housing services themselves. In October 2019 tenants and leaseholders were consulted and asked for their views on the future of EKH and the results showed an overwhelming desire to disband EKH and for the councils to take on its role. In February 2020 all four council owners agreed that the management of council housing stock should be brought back in-house and that a termination of the management agreement with EKH should be negotiated and concluded as soon as practicable. Work is underway between the councils and EKH to create a smooth transition process and in the meantime housing and support services for tenants continue to be provided by EKH.

Town Centre Regeneration - In May 2020 the Council purchased the former Debenhams store in Folkestone town centre which will become a centrepiece in the town's regeneration.

NARRATIVE REPORT

Proposals for the site include a health centre, leisure facilities, flexible work space and residential properties.

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

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

Risks associated with the agenda

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

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

STRATEGY AND RESOURCE ALLOCATION

The Council has consistently planned its finances on a medium to long term basis ensuring reserves are maintained at a level which supports financial sustainability while protecting services from reductions. The current MTFs pushes the planning horizon to March 2024. The MTFs was reported to Council on the 16th October 2019 and significantly shaped the annual budget setting cycle for 2020/21. Similarly the MTFs considered by Cabinet on 17th October 2018 and the Budget Strategy on 14th November 2018 shaped the framework for the setting of a balanced budget for 2019/20.

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

The current MTFs forecasts a cumulative funding gap of £4 million over the lifetime of the MTFs (2020/21-2023/24). This position considered the 2019/20 Local Government Finance Settlement but not the 2020/21 final budget setting.

NARRATIVE REPORT

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 OSC and then Cabinet.

PERFORMANCE

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

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



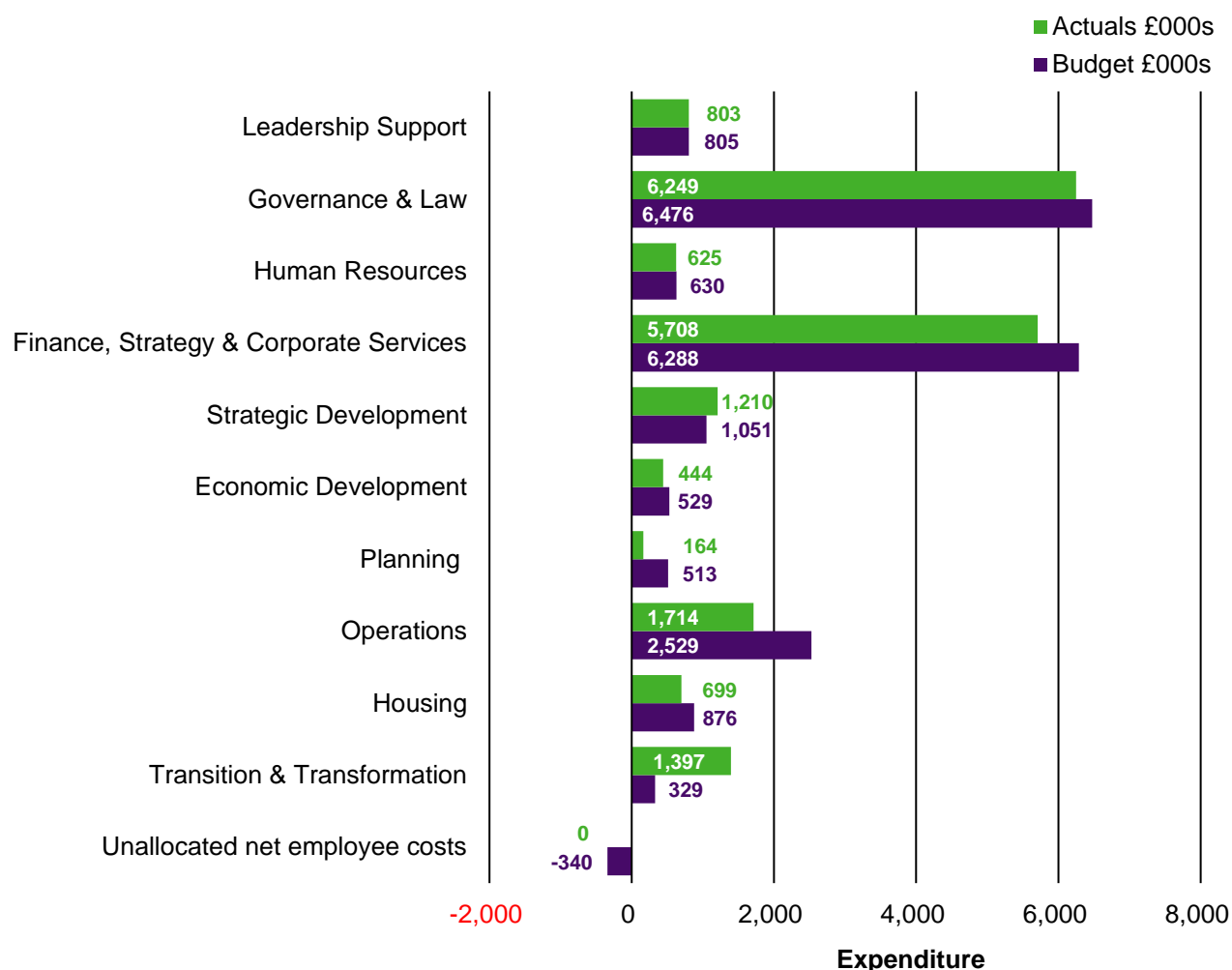
The Councils outturn performance includes:

Performance Indicator	Actual	Target	Status	2018/19 Comparison
Percentage of Council Tax due collected in year	97.48%	97.30%	✓	↑
Percentage of Non-Domestic Rates due collected in year	98.03%	97.50%	✓	↓
Average number of days taken to process new claims for Housing Benefit	15.9 days	21 days	✓	↑
Percentage of household waste recycled	46.00%	50.00%	✗	↓
Number of homes provided for low cost ownership in the district	32	32	✓	↑

FINANCIAL PERFORMANCE

General Fund – Revenue

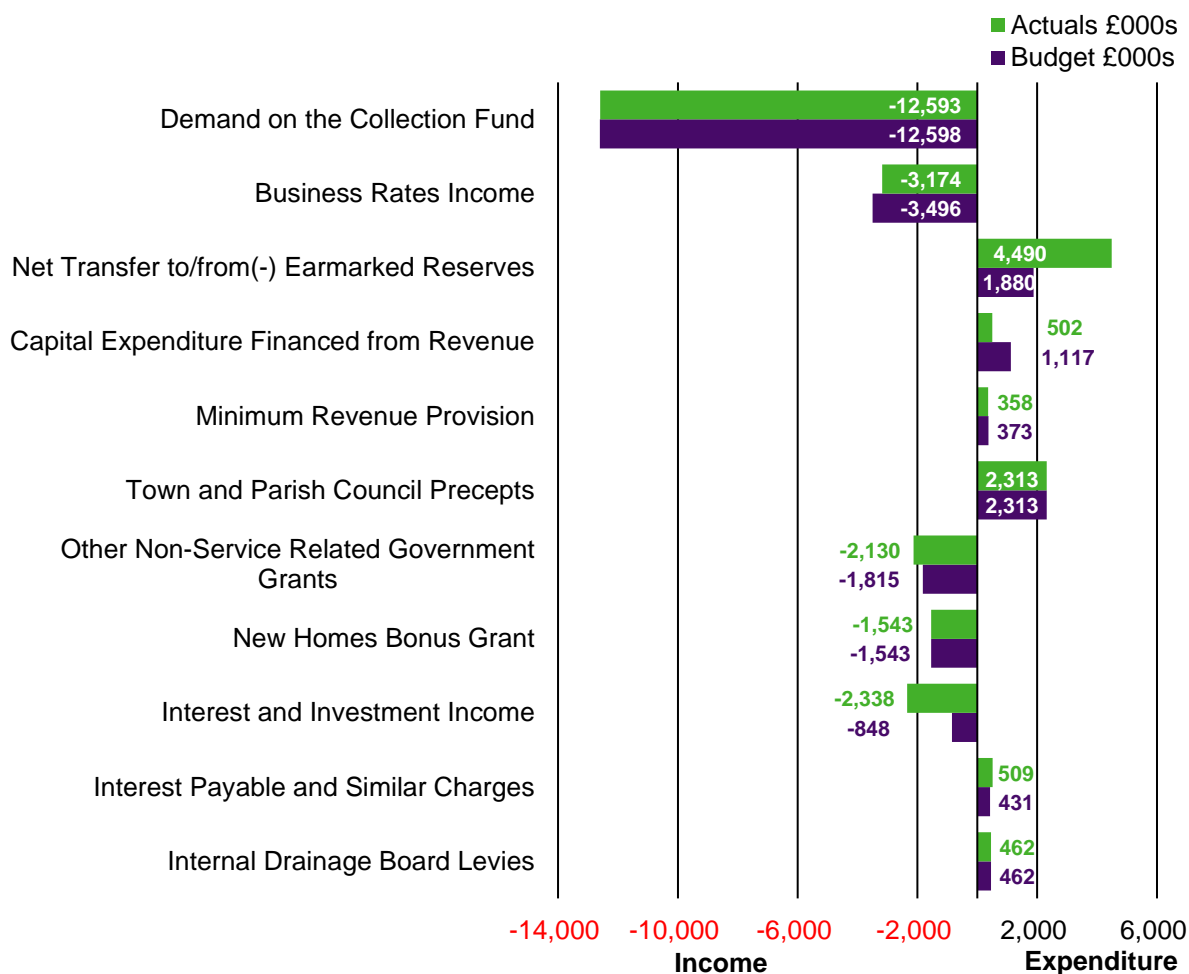
The latest approved budget for net cost of services to deliver the core services of the council and meet its strategic objectives was £19.7m. Delivering expenditure in line with agreed budgets is an important performance indicator and this was achieved in 2019/20 as outlined below:



The total net cost of services for 2019/20 of £19.0m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £17.6m before the credit adjustment in respect of the HRA of £1.4m, under the heading of “As reported for resource management”.

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

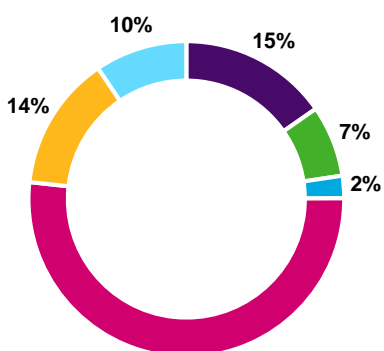
NARRATIVE REPORT



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

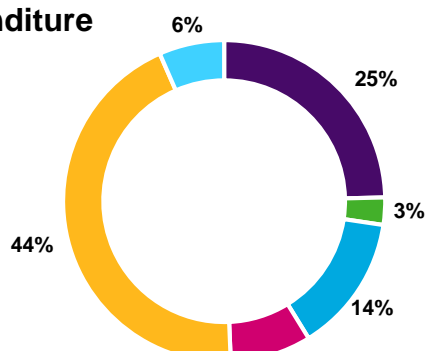
Sources of income and expenditure were as follows:

Income



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

Expenditure



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

NARRATIVE REPORT

The 2019/20 outturn position is within 2% of the overall budget, an underspend of £93k. The key movements from the agreed budget included:

- Increase in impairment allowance in response to Covid-19 £100k
- Reduced requirement to utilise revenue to fund capital expenditure in year £615k
- Reduced Business Rates income £322k

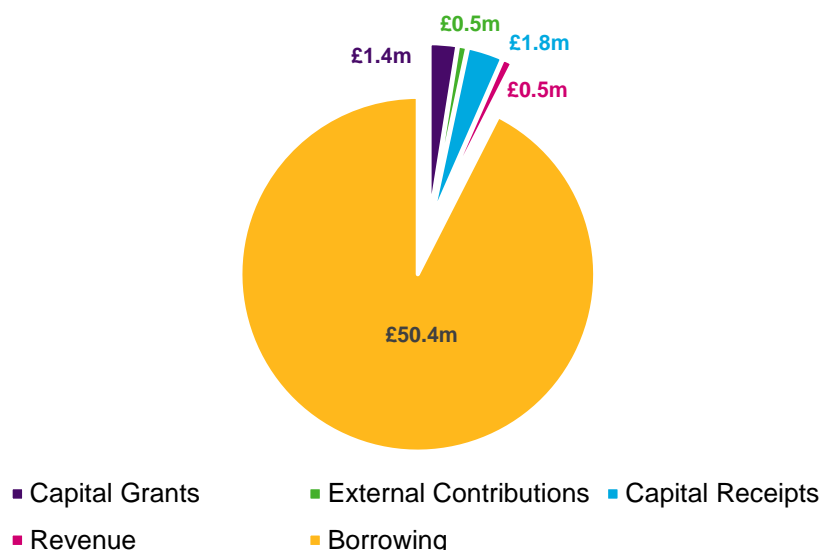
Further detail can be found in the Outturn report to Cabinet in June 2020.

General Fund Capital

The General Fund Capital summary position is outlined below:

	Latest Budget 2019/20	Final Outturn 2019/20	Variance Budget to Outturn
Service Units	£'000	£'000	£'000
Operations	18,471	18,459	(12)
Finance, Strategy & Corporate Services	3,740	2,712	(1,028)
Governance & Law	12	13	1
Housing	1,855	1,486	(369)
Economic Development	0	23	23
Strategic Development	34,297	31,816	(2,481)
Total Capital Expenditure	58,375	54,509	(3,866)

The capital programme was financed from the following funding sources:



The key movements relate to slippage in the capital programme particularly in relation to Temporary Housing Accommodation, Ship Street, Folkestone and the drawdown of funding for Otterpool Park. There was also a reclassification between capital revenue funding for the Transformation project.

Further details can be found in the June Cabinet report.

NARRATIVE REPORT

Housing Revenue Account

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

	Latest Budget 2019/20 £'000	Final Outturn 2019/20 £'000	Variance Budget to Outturn £'000
Income	(16,236)	(16,204)	32
Expenditure	10,366	14,618	4,252
HRA Share of Corporate Costs	206	160	(46)
Net Cost of HRA Services	(5,664)	(1,426)	4,238
Interest Payable/Receivable	1,494	1,491	(3)
HRA Surplus/Deficit	(4,170)	65	4,235
Other items of Income & Expenditure	0	(3,763)	(3,763)
Revenue Contribution to Capital	8,311	1,387	(6,924)
Decrease/(Increase) to HRA Reserve	4,141	(2,311)	(6,452)

The key reasons for the variance are a £6.9m reduction in the revenue contribution to capital expenditure required. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisitions programme.

A summary of the capital programme outturn is noted below:

	Latest Budget 2019/20 £'000	Final Outturn 2019/20 £'000	Variance Budget to Outturn £'000
HRA Capital programme	15,634	4,769	(10,865)

The largest variation in outturn position to the agreed budget relates to the re-phasing of the new build/acquisitions programme. Additionally external enveloping, rewiring and heating improvement works have been re-profiled to 2020/21 due to re-procurement of contracts and identification of works.

OUTLOOK

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

The Council also takes a robust view of capital investments and this is included as part of a medium term capital programme and is refreshed annually during the budget process. For the current programme agreed in February 2020, there is capital investment planned totalling £186.2 million. This sits alongside the planned revenue budget and use of reserves

NARRATIVE REPORT

which are considered by the Council throughout its budget process to ensure a sustainable approach to its finances.



Transformation Programme

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

The Transformation Programme has three core drivers for change:

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

The Transformation Programme is also a key element of the plan to address the shortfall within the Medium Term Financial Plan. Phases 1 and 2 were successfully implemented during 2019/20 with the final phases 3 and 4 planned for 2020/21.

AUDIT OF THE STATEMENT OF ACCOUNTS

The Council appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31st March 2020.

FURTHER INFORMATION

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

Date: 18th June 2020

Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2019/20.

COUNCIL RESPONSIBILITIES:

The Council is required to:

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

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 *2019/20 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

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

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

CERTIFICATION OF ACCOUNTS

I certify that the Statement of Accounts gives a true and fair view of the financial position of Folkestone & Hythe District Council at 31st March 2020 and its income and expenditure for the year then ended.

Signed:



Charlotte Spendley, FCCA
Director of Corporate Services

Date:

18th June 2020

STATEMENT OF RESPONSIBILITIES

APPROVAL OF ACCOUNTS

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on 30th July 2020.

Signed:

Councillor Philip Martin
Chairman, Audit and Governance Committee

Date:

30th July 2020

Core Financial Statements



**FINANCIAL STATEMENTS
MOVEMENT IN RESERVES STATEMENT**

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

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Unapplied Account Capital Grants	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
2019/20								
Balance at 31 March 2019	(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)
Movement in reserves during 2019/20								
Total Comprehensive Income and Expenditure	10,207	(521)	-	-	-	9,686	(21,404)	(11,718)
Adjustments between accounting basis and funding basis under regulations (Note 5)	(11,492)	(1,790)	942	216	70	(12,054)	12,054	-
(Increase) or Decrease in 2019/20	(1,285)	(2,311)	942	216	70	(2,368)	(9,350)	(11,718)
Balance at 31st March 2020 carried forward	(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)
2018/19								
Balance at 31 March 2018	(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)
Movement in reserves during 2018/19								
Total Comprehensive Income and Expenditure	(25,488)	386	-	-	-	(25,102)	(22,210)	(47,312)
Adjustments between accounting basis and funding basis under regulations (Note 5)	21,681	(2,503)	(1,734)	(501)	(1,976)	14,967	(14,967)	-
(Increase) or Decrease in 2018/19	(3,807)	(2,117)	(1,734)	(501)	(1,976)	(10,135)	(37,177)	(47,312)
Balance at 31st March 2019 carried forward	(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)

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

FINANCIAL STATEMENTS
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Restated 2018/19			2019/20			
Gross Expenditure £000s	Income £000s	Net Expenditure £000s	Gross Expenditure £000s	Income £000s	Net Expenditure £000s	
Continuing Operations						
910	(16)	894	Leadership Support	1,013	(89)	924
9,764	(3,118)	6,646	Governance & Law	10,549	(3,375)	7,174
837	(45)	792	Human Resources	835	(138)	697
42,241	(37,274)	4,967	Finance, Strategy & Corporate Services	37,361	(32,013)	5,348
2,963	(2,610)	353	Strategic Development	1,800	(681)	1,119
610	(112)	498	Economic Development	673	(147)	526
1,081	(699)	382	Planning	1,387	(1,105)	282
8,618	(5,469)	3,149	Operations	10,798	(6,201)	4,597
2,168	(2,118)	50	Housing	3,312	(2,325)	987
914	(20)	894	Transition & Transformation	1,462	(18)	1,444
12,633	(16,022)	(3,389)	Local Authority Housing (HRA)	14,066	(16,320)	(2,254)
3,286	-	3,286	Local Authority Housing (HRA) - exceptional item (Note 8)	828	-	828
86,025	(67,503)	18,522	(Surplus)/Deficit on Continuing Operations	84,084	(62,412)	21,672
2,955	(1,249)	1,706	Other Operating Expenditure (Note 10)	2,995	(711)	2,284
5,408	(25,558)	(20,150)	Financing and Investment Income and Expenditure (Note 11)	7,801	(2,342)	5,459
5,794	(30,974)	(25,180)	Taxation and Non-specific Grant Income (Note 12)	6,462	(26,191)	(19,729)
100,182	(125,284)	(25,102)	(Surplus) or Deficit on Provision of Services	101,342	(91,656)	9,686
		(14,158)	(Surplus) or deficit on revaluation of property, plant and equipment assets			(16,637)
		(8,052)	Re-measurement of net defined liability (Note 27)			(4,767)
		(22,210)	Other Comprehensive Income and Expenditure			(21,404)
		(47,312)	TOTAL Comprehensive Income and Expenditure			(11,718)

*2018/19 has been restated due to a change in reporting structure. Further detail is provided at Note 18 to the accounts.

FINANCIAL STATEMENTS
BALANCE SHEET

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

31-Mar-19		31-Mar-20
£000s	Note	£000s
164,931	Council dwellings	19 165,183
17,328	Other land and buildings	19 26,732
1,472	Vehicles, plant, furniture and equipment	19 1,654
12,370	Infrastructure assets	19 11,272
3,461	Community assets	19 3,461
10,076	Surplus assets	19 12,377
969	Assets under construction	19 1,677
-	Heritage assets	20 2,998
31,841	Investment property	21 75,920
58	Intangible assets	- 61
20,321	Long term investments	22 15,425
7,417	Long term debtors	22 7,103
270,244	Long Term Assets	323,863
10,051	Short term investments	22 3,510
9	Inventories	- 15
11,665	Short term debtors	23 10,285
13,492	Cash and cash equivalents	24 10,570
35,217	Current Assets	24,380
(1,705)	Short term borrowing	22 (31,921)
(12,480)	Short term creditors	25 (10,882)
(80)	Capital grants received in advance	- (80)
(1,659)	Provisions	26 (2,351)
(15,924)	Current Liabilities	(45,234)
(54,755)	Long term borrowing	22 (58,455)
(64,881)	Net pensions liability	27 (62,935)
(67)	Provisions	26 (67)
(119,703)	Long Term Liabilities	(121,457)
169,834	Net Assets	181,552
(51,176)	Usable reserves	28 (53,544)
(118,658)	Unusable reserves	29 (128,008)
(169,834)	Total Reserves	(181,552)

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 2020.

ASpendley

Charlotte Spendley, FCCA

Director of Corporate Services Date: 18th June 2020

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.

2018/19		2019/20
£000s	Note	£000s
25,102	Net surplus or (deficit) on the provision of services	(9,686)
(9,020)	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	18,972
(5,335)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(3,350)
10,747	Net cash flow from operating activities	5,936
1,976	Net cash flow from investing activities	(43,618)
(1,560)	Net cash flow from financing activities	34,760
11,163	Net increase or decrease in cash and cash equivalents	(2,922)
2,329	Cash and cash equivalents at the beginning of the reporting period	13,492
13,492	Cash and cash equivalents at the end of the reporting period	10,570

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 2019/20 financial year and its position at the year end of 31st March 2020. 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 2019/20* supported by International Financial Reporting Standards (IFRS).

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

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

1.2 Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place (not simply when cash payments are made or received) and with due regard to material levels of adjustment. In particular:

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

1.3 Grants and Contributions

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

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

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

1.4 Cash and Cash Equivalents

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

1.5 Changes in Accounting Policy

In 2019/20 the Council has purchased land which includes the freehold of the former Folkestone Racecourse site and several houses as part of the Otterpool Park Garden Town project. In order to present a true and fair view of the cost of property, plant and equipment the Council has changed its accounting policy for borrowing costs incurred where items of property, plant and equipment take a substantial period of time to get ready for their intended use. Previously the Council had expensed borrowing costs as they were incurred. A review of past transactions has not identified any similar assets with substantial construction periods where there would be a material misstatement of the asset balance and so no prior period adjustment is required.

1.6 Exceptional Items

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

1.7 Overheads and Support Services

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

1.8 Reserves

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

1.9 Property, Plant and Equipment

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

Recognition

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

Disposal

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

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

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

1.10 Borrowing Costs

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

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

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

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

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

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

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

Capitalisation of borrowing costs will cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete; this may require

capitalisation to be carried out in relation to specific parts of a project if the parts are capable of being used while preparation continues on other parts.

1.11 Non-current Assets Held For Sale

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

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

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

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

1.12 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.

1.13 Investment Property

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

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

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

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

1.14 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.

1.15 Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

Post-Employment Benefits

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

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

- the liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees.
- the assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value.
- the change in the net pensions liability is analysed into the following components:
 - i) Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the CIES to the services for which the employees worked
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the (Surplus) or Deficit on the Provision of Services in the CIES as part of Non-distributed Costs
 - net interest on the net defined liability - the expected increase in the present value of liabilities during the year as they move one year closer to being paid offset by the interest on assets held at the start of the year and cash flows occurring during the period. The net interest expense is charged to the Financing and Investment Income and Expenditure line in the CIES.
 - ii) Re-measurements comprising:
 - the return on plan assets excluding amounts included in net interest and actuarial gains and losses (changes in the net pensions liability that arise because the actuaries have updated their assumptions). These are charged to the CIES as Other Comprehensive Income and Expenditure.
 - iii) Contributions paid to the KCC pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

1.16 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.

1.17 Financial Assets

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

Financial assets are classified into one of three categories:

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

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

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

1.18 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.

1.19 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.

1.20 Value Added Tax

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

1.21 Interests in Companies and Other Entities

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

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

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

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015 - 2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

- IFRS 16 Leases (deferral to 1st April 2021)

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

3. Critical Judgements in Applying Accounting Policies

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

Funding levels

There continues to be a high degree of uncertainty about future levels of funding for local government, with the Fair Funding Review and Business Rates Retention Scheme having been delayed and will no longer be implemented in 2021/22. The government will continue to work with councils on the best approach to the next financial year, including how to treat accumulated business rates growth and the approach to the 2021/22 local government finance settlement. The Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close any facilities and reduce levels of service provision.

Folkestone Parks and Pleasure Grounds Charity

The Council is the sole trustee of the Folkestone Parks and Pleasure Grounds Charity, a charitable trust that owns and operates certain parks and pleasure grounds previously managed by the Council. It has been determined that on the grounds of materiality the preparation of group accounts is not required. Further information is disclosed in note 37 on page 92.

Joint waste and recycling contract

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

East Kent Housing – Arms-Length Management Organisation

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

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

East Kent Housing Limited's pension liability has increased from £9.5m to £9.9m at 31st March 2020. The company remains able to meet its current pension obligations and will not be making calls on the four owner Councils towards its pension liability. The Council's share

NOTES TO THE FINANCIAL STATEMENTS

of this liability is £2.5m but it has been concluded that the financial risk associated with the liability crystallising is immaterial and on this basis the liability has not been accounted for at fair value through profit and loss.

Oportunitas Limited

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

Otterpool Park LLP

In 2019/20 the Council set up a delivery vehicle to deliver its objectives for the Otterpool Park Garden Town. FHDC and Otterpool Park Development Company Ltd were appointed members in February 2020, with FHDC owning 99.9% of the company. On the basis of control and significant influence there is a group relationship, however for 2019/20 the interest in Otterpool Park LLP is not material to the Council's overall financial position so group accounts have not been prepared. It is anticipated that group accounts will be prepared in 2020/21.

Heritage Assets

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Valuations	<p>The outbreak of the Novel Coronavirus (Covid-19) has impacted global financial markets. Market activity is being impacted in many sectors and as at the valuation date, less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuations.</p>	<p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recognised in the CIES.</p>

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for non-housing assets would increase by £195k 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. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £2.7m.</p> <p>Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 27.</p>
Impairment allowance for doubtful debt	At 31 March 2020, the Council had a balance of sundry debtors of £1m. A review of balances indicated that an impairment of doubtful debts of 17% (£172k) was appropriate. However, it is not fully certain whether such an allowance may be sufficient. The full extent of the economic impact of Covid-19 on debt recovery is unknown and has made the estimation of debt impairment more difficult due to the increased uncertainty.	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts, for example, would require an additional £172k to be set aside as an allowance.
Provisions	The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors. Due to delays in the assessment of appeals by the Valuation Office since the implementation of 'Check, Challenge, Appeal' it is difficult to assess the impact of successful appeals.	The business rates rateable value at 31/3/2020 was £77m. For every 1% successful reduction in the rateable value, it is equal to a cost of £151k to the Council (for a single year).

NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>The provision also includes an estimate of refunds payable to retailers following the Supreme Court ruling in May 2020 that ATMs on retail sites are not separately rateable. The detailed methodology of how the VOA will apply this decision to rateable values and the consequential impacts are unknown at this stage so there remains some uncertainty around the value of the provision.</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 21 and 22.</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>

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

NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT

Adjustments Between Accounting Basis and Funding Basis Under Regulations
2018/19

	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
Adjustments to Revenue Resources						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(2,113)	(130)	-	-	-	2,243
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	143	(13)	-	-	-	(130)
Council Tax and NDR (transferred to or from the Collection Fund Adjustment Account)	406	-	-	-	-	(406)
Holiday pay (transferred to the Accumulated Absences Reserve)	(4)	-	-	-	-	4
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	19,168	(6,852)	-	-	-	(12,316)
Total Adjustments to Revenue Resources	17,600	(6,995)	-	-	-	(10,605)
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	215	2,165	-	(3,939)	-	1,559
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,567)	-	-	2,567
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	373	-	-	-	-	(373)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	757	2,330	-	-	-	(3,087)
Total Adjustments to between Capital and Revenue Resources	1,126	4,495	(2,567)	(3,720)	-	666
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,986	-	(1,986)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	2,066	-	-	(2,066)
Application of capital grants to finance capital expenditure	2,959	-	-	-	(1,976)	(983)
Cash payments in relation to deferred capital receipts	(4)	(3)	-	-	-	7
Total Adjustments to Capital Resources	2,955	(3)	2,066	1,986	(1,976)	(5,028)
Total Adjustments	21,681	(2,503)	(501)	(1,734)	(1,976)	(14,967)

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 2019/20. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

<u>Earmarked Reserves</u>	Balance 01-Apr-18 £000s	Transfers In £000s	Out £000s	Balance 31-Mar-19 £000s	Transfers In £000s	Out £000s	Balance 31-Mar-20 £000s
<u>General Fund</u>							
Business Rates	(3,160)	(2,336)	-	(5,496)	(209)	6	(5,699)
Leisure Reserve	(197)	-	-	(197)	(511)	211	(497)
Carry Forwards	(420)	(637)	334	(723)	(388)	430	(681)
Vehicles, Equipment and Technology	(654)	(144)	161	(637)	(294)	674	(257)
Invest to Save	(366)	-	-	(366)	-	-	(366)
Maintenance of Graves	(12)	-	-	(12)	-	-	(12)
New Homes Bonus	(2,713)	(1,025)	1,214	(2,524)	(1,543)	1,707	(2,360)
Corporate Initiatives	(379)	(90)	65	(404)	(1,034)	440	(998)
IFRS Reserve	(49)	-	11	(38)	-	7	(31)
Otterpool Park Garden Town	(2,232)	-	103	(2,129)	(100)	659	(1,570)
Economic Development	(2,194)	(729)	22	(2,901)	(1,777)	294	(4,384)
Community Led Housing	(437)	-	-	(437)	-	20	(417)
Lydd Airport	(9)	-	-	(9)	-	-	(9)
Homelessness Prevention	(215)	(319)	215	(319)	(544)	462	(401)
High Street Regeneration	-	-	-	-	(3,000)	-	(3,000)
	(13,037)	(5,280)	2,125	(16,192)	(9,400)	4,910	(20,682)

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	Towards the regeneration of the district and to support the generation of new income.
Community Led Housing	To support community-led housing developments and to deliver more affordable housing units of mixed tenure.
Lydd Airport	To fund the anticipated ongoing costs of monitoring the conditions at Lydd Airport.
Homelessness Prevention	To flexibly fund ways to reduce the homelessness expenditure by taking preventative action.
High Street Regeneration	To support the delivery of regeneration projects within the district's high street areas.

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 2019/20 (i.e. government grants, rents, Council Tax and Business Rates) has been used to provide the services in comparison with those resources consumed or earned under generally accepted accounting practice (GAAP). The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes across the Council's management structure. Income and expenditure accounted for under GAAP is presented more fully in the CIES.

	As reported for resource management	2019/20 Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	803	208	1,011	(87)	924
Governance & Law	6,249	658	6,907	267	7,174
Human Resources	625	119	744	(47)	697
Finance, Strategy & Corporate Services	5,708	(216)	5,492	(144)	5,348
Strategic Development	1,210	(50)	1,160	(41)	1,119
Economic Development	444	74	518	8	526
Planning	164	194	358	(76)	282
Operations	1,714	(188)	1,526	3,071	4,597
Housing	699	47	746	241	987
Transition & Transformation	1,397	74	1,471	(27)	1,444
Local Authority Housing (HRA)	(1,426)	(3,711)	(5,137)	3,711	(1,426)
(Surplus)/Deficit on Continuing Operations	17,587	(2,791)	14,796	6,876	21,672
Other Income and Expenditure	(14,029)	(4,363)	(18,392)	6,406	(11,986)
(Surplus) or Deficit on Provision of Services	3,558	(7,154)	(3,596)	13,282	9,686
Opening General Fund and HRA Balance			(32,870)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(3,596)		
Closing General Fund and HRA Balance at 31 March*			(36,466)		

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

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2018/19 Restated				
	As reported for resource management	Adjustment to arrive at the net chargeable to the General fund and HRA	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000s	£000s	£000s	£000s	£000s
Leadership Support	789	180	969	(75)	894
Governance & Law	6,043	712	6,755	(109)	6,646
Human Resources	734	95	829	(37)	792
Finance, Strategy & Corporate Services	6,133	(1,073)	5,060	(93)	4,967
Strategic Development	575	(202)	373	(20)	353
Economic Development	422	70	492	6	498
Planning	223	260	483	(101)	382
Operations	1,682	(70)	1,612	1,537	3,149
Housing	656	(542)	114	(64)	50
Transition & Transformation	849	70	919	(25)	894
Local Authority Housing (HRA)	(103)	(5,735)	(5,838)	5,735	(103)
(Surplus)/Deficit on Continuing Operations	18,003	(6,235)	11,768	6,754	18,522
Other Income and Expenditure	(18,888)	1,196	(17,692)	(25,932)	(43,624)
(Surplus) or Deficit on Provision of Services	(885)	(5,039)	(5,924)	(19,178)	(25,102)
Opening General Fund and HRA Balance			(26,946)		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			(5,924)		
Closing General Fund and HRA Balance at 31 March*			(32,870)		

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

2018/19 has been restated due to a change in the reporting structure. Further detail is provided at Note 18 to the accounts.

8. Exceptional Items

Valuation issues affecting both the council's property portfolio and its investments holdings have required an exceptional item of a net £6.95m debit to be recognised in the CIES and is summarised in the table below:

Issue Description	£000s
i) Valuation adjustment for council dwellings acquired during 2019/20 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	1,146
ii) On the advice of the council's external valuer, the council's dwelling value has increased by a further 0.38% over the year in line with regional property valuation changes. A valuation gain has been taken reversing previous losses.	(318)
iii) On the advice of the council's external valuer, part of the council's operational and non-operational property portfolio has seen a reduction in its value in excess of any previous gains for these assets. It should be noted that remainder of this portfolio has seen a valuation gain of approximately £13.7m and this has been taken directly to the Revaluation Reserve.	1,997
iv) On the advice of the council's external valuer, the council's investment property portfolio has seen a net reduction in its value.	1,431
v) There has been a reduction to the fair value of the council's holdings in pooled fund investments because of the economic downturn from the COVID-19 crisis (see note 11)	1,385
vi) On external advice received, there has been a reduction to the fair value of the council's equity holding in Oportunitas Limited, in part reflecting a delay in the company's investment plans (see note 11)	1,310
	6,951

9. Material Items of Income and Expense

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

2018/19			2019/20		
Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s	£000s	£000s	£000s
					Other Housing Services
26,322	(26,789)	(467)	22,779	(22,449)	330
9,350	(9,198)	152	8,953	(8,622)	331
					Housing Rebates

10. Other Operating Expenditure

Other Operating Expenditure	2018/19 £000s	2019/20 £000s
Parish precepts	2,283	2,313
Internal Drainage Board levies	453	462
Payments to the Government Housing Capital Receipts Pool	219	219
Gains or losses on the disposal of non-current assets	<u>(1,249)</u>	<u>(710)</u>
	<u>1,706</u>	<u>2,284</u>

11. Financing and Investment Income and Expenditure

Financing and Investment Income and Expenditure	2018/19 £000s	2019/20 £000s
Interest payable and similar charges	2,030	2,201
Net interest on net defined liability	1,764	1,521
Investment property rental income	(165)	(1,394)
Interest receivable and similar income	(1,015)	(1,059)
Financial Instruments fair valuation adjustments	(897)	2,695
Income and expenditure in relation to investment properties and changes in their fair value (see Note 21)	(21,867)	1,495
	<u>(20,150)</u>	<u>5,459</u>

12. Taxation and Non-Specific Grant Income

Taxation and Non-specific Grant Income	2018/19 £000s	2019/20 £000s
Council tax income	(12,257)	(12,593)
Non domestic rates	(8,096)	(3,174)
Non-ring fenced government grants	(3,082)	(3,673)
Capital grants and contributions	<u>(1,745)</u>	<u>(289)</u>
	<u>(25,180)</u>	<u>(19,729)</u>

13. Agency Services – On Street Parking

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

Agency Services - On Street	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
Income	(557)	(670)	(621)	(730)	(715)
Expenditure	639	632	607	806	886
Deficit /(surplus)	<u>82</u>	<u>(38)</u>	<u>(14)</u>	<u>76</u>	<u>171</u>

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

14. Members' Allowances

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

Members Allowances	2018/19	2019/20
	£000s	£000s
Allowances	316	299
Expenses	21	16
Total	337	315

15. Officers' Remuneration

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

		Salary, including fees and allowances	Compensation for loss of office	Total Remuneration, excluding pension contributions	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£	£	£
Chief Executive	2019/20	149,279	-	149,279	16,690	165,969
	2018/19	111,994	-	111,994	13,485	125,479
Director of Corporate Services*+	2019/20	26,484	-	26,484	3,510	29,994
	2018/19	-	-	-	-	-
Director - Housing & Operations+	2019/20	26,909	-	26,909	3,510	30,419
	2018/19	-	-	-	-	-
Director of Transition and Transformation (Interim Director of Place)	2019/20	108,835	-	108,835	14,347	123,182
	2018/19	101,994	-	101,994	13,485	115,479
Director of Development	2019/20	108,110	-	108,110	14,347	122,457
	2018/19	101,994	-	101,994	13,485	115,479
Assistant Director Strategy, Performance & Communications**	2019/20	68,401	29,103	97,504	8,923	106,427
	2018/19	80,552	-	80,552	10,001	90,553
Assistant Director Governance, Law & Regulatory Services ***	2019/20	89,016	-	89,016	11,441	100,457
	2018/19	78,514	-	78,514	9,909	88,423

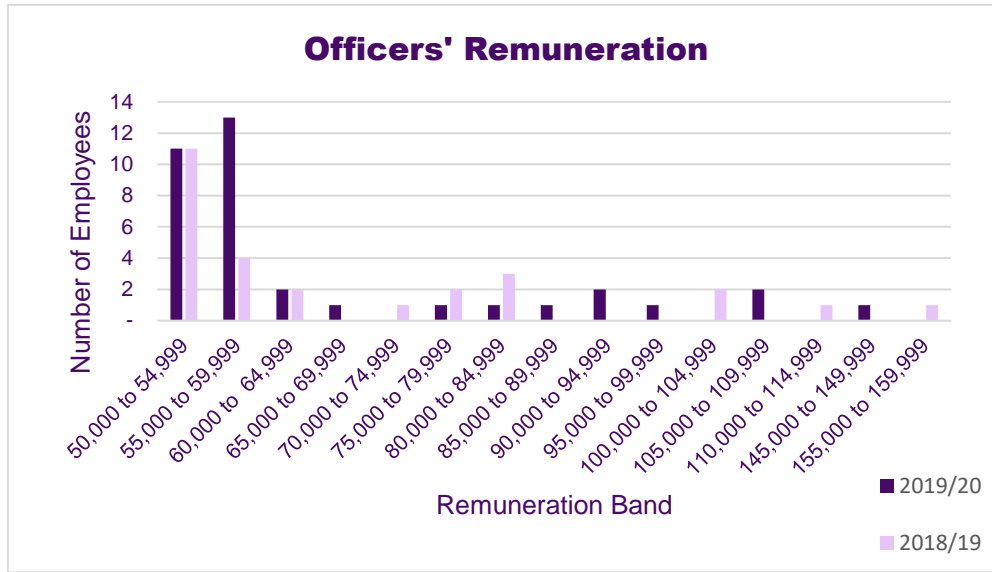
* Section 151 Officer

** Vacant since 27th January 2020

*** Monitoring Officer

+ New role from 1st January 2020

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



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

Exit package cost band (including special payments)	Number of compulsory redundancies (a)		Number of other departures agreed (b)		Total number of exit packages by cost band (a+b)		Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£							£000s	£000s
0-20,000	-	-	13	1	13	1	88	9
20,001-40,000	-	-	3	1	3	1	102	29
100,001-150,000	-	-	1	-	1	-	102	-
Total	-	-	17	2	17	2	292	38

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

16. External Audit Costs

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

NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

External Audit Fees	2018/19	2019/20
	£000s	£000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	47	59
Rebate of PSAA fees	-	(6)
Fees payable for the certification of grant claims and returns for the year	11	20
	58	73

17. Grant Income

The Council credited the following grants, contributions and donations to the CIES in 2019/20:

Grant Income	2018/19	2019/20
	£000s	£000s
Credited to Taxation and Non Specific Grant Income		
Business rates reliefs	1,429	1,730
Non-service related grants	291	400
New Homes Bonus Grant	1,362	1,543
Capital Grants and Contributions	1,745	289
	4,827	3,962
Credited to Services		
REFCUS related Grants	1,199	1,149
KCC sundry grants	1,465	1,516
Council Tax Reduction Scheme grants	148	141
DWP – benefits subsidy	25,841	21,298
- rent rebate Subsidy	9,104	8,528
- benefits administration	386	347
Other grants and contributions	2,204	1,907
	40,347	34,886

18. Restatement of Accounts – Working Papers

Note to restated Consolidated Income and Expenditure Statement 2018/19

Continuing Operations	Reported 2018/19	Change in Reporting Structure	Restated 2018/19
Leadership Support	664	230	894
Strategy, Performance & Communications	3,079	(3,079)	-
Governance & Law	4,880	1,766	6,646
Human Resources	792	-	792
Finance, Strategy & Corporate Services	4,801	166	4,967
Strategic Development	353	-	353
Economic Development	416	82	498
Planning	382	-	382
Environment & Corporate Assets	3,258	(3,258)	-
Operations	-	3,149	3,149
Housing	-	50	50
Transition & Transformation	-	894	894
Local Authority Housing (HRA)	(3,389)	-	(3,389)
Local Authority Housing (HRA) - exceptional item (Note 8)	3,286	-	3,286
(Surplus)/Deficit on Continuing Operations	18,522	-	18,522
Other Operating Expenditure (Note 10)	1,706	-	1,706
Financing and Investment Income and Expenditure (Note 11)	(20,150)	-	(20,150)
Taxation and Non-specific Grant Income (Note 12)	(25,180)	-	(25,180)
(Surplus) or Deficit on Provision of Services	(25,102)	-	(25,102)
(Surplus) or deficit on revaluation of non-current assets (Note 29)	(14,158)	-	(14,158)
(Surplus) or deficit on revaluation of Available for Sale assets	-	-	-
Re-measurement of net defined liability (Note 27)	(8,052)	-	(8,052)
Other Comprehensive Income and Expenditure	(22,210)	-	(22,210)
TOTAL Comprehensive Income and Expenditure	(47,312)	-	(47,312)

Note to restated Expenditure and Funding Analysis 2018/19

Continuing Operations	Reported Outturn 2018/19	Changes in Reporting Structure	Restated Outturn 2018/19
Leadership Support	664	230	894
Strategy, Performance & Communications	3,079	(3,079)	-
Governance & Law	4,880	1,766	6,646
Human Resources	792	-	792
Finance, Strategy & Corporate Services	4,801	166	4,967
Strategic Development	353	-	353
Economic Development	416	82	498
Planning	382	-	382
Environment & Corporate Assets	3,258	(3,258)	-
Operations	-	3,149	3,149
Housing	-	50	50
Transition & Transformation	-	894	894
Local Authority Housing (HRA)	(103)	-	(103)
(Surplus)/Deficit on Continuing Operations	18,522	-	18,522

Notes Supporting the Balance Sheet



19. Property, Plant and Equipment

Measurement

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued to £31.4m as at 1st April 2019 by an external independent valuer – BPS Chartered Surveyors. This is an increase of £9.8m compared to the existing valuation, based on valuations undertaken as at 1st April 2014. The increase has largely resulted from a change in valuation methods applied by the newly appointed valuer for the 2019/20 valuations.

BPS Chartered Surveyors also reviewed the same assets to determine if there had been any material change in their value over the year to 31st March 2020 and their advice was these remained unchanged from those at 1st April 2019.

The external valuer also reviewed the value of the Council's surplus assets as at 31 March 2020, resulting in an increase of £2.3m. The majority of this is attributable to an increase in the value of the land at Princes Parade, Hythe which is planned to be used for the proposed leisure, housing and commercial development.

The Council's housing assets were re-valued in April 2015 by Sibley Pares (Taylor Riley) Ltd at £141m, of which £136m relates to council dwellings. The valuation of the council dwellings has increased from 32% to 33% of the open market value for these assets based on their existing use value for social housing from 1st April 2016. This valuation adjustment is in accordance with Ministry of Housing, Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents. The value of the council dwellings is reviewed at the end of each financial year to reflect the experience of property price changes seen in the local area. For the year end 31st March 2020 this was undertaken by BPS Chartered Surveyors and on their advice the value of the council dwellings has increased by 0.38% over the year.

The external valuer has also advised that, based on rental income values, the value of the various housing non-dwelling assets categories (garages, parking spaces and stores) have risen on average by 2.6% over the year to March 2020.

Contractual Commitments

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

- Kitchen and bathroom replacement 2010-2020 - approximately £0.54m per annum
- Window/door servicing and maintenance 2015-2022 approximately £0.213m per annum.

The Kitchen and Bathroom contract was due for renewal April 2020 but is currently being reviewed to extend for a further 2 years.

NOTES SUPPORTING THE BALANCE SHEET

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

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

NOTES SUPPORTING THE BALANCE SHEET

Property, Plant and Equipment	Council Dwellings	Land and Buildings	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Assets Under Construction	Surplus Assets	Total
2018/19	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation								
At 1 April 2018	165,434	16,162	9,080	35,112	3,461	1,962	263	231,474
Additions	4,951	559	308	319	-	362	-	6,499
Revaluation increases/(decreases) recognised in the Revaluation Reserve	2,347	1,999	-	-	-	-	9,812	14,158
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,286)	(135)	-	-	-	-	10	(3,411)
De-recognition – disposals	(174)	-	(14)	-	-	-	-	(188)
Assets reclassified (to)/from Held for Sale	(871)	-	-	-	-	-	-	(871)
Other reclassifications	1,355	219	-	-	-	(1,355)	(9)	210
Other movements in cost or valuation #	(4,825)	(124)	-	-	-	-	-	(4,949)
At 31 March 2019	164,931	18,680	9,374	35,431	3,461	969	10,076	242,922
Depreciation and Impairment								
At 1 April 2018	-	(1,012)	(7,451)	(21,643)	-	-	-	(30,106)
Depreciation charge for the year	(2,336)	(340)	(451)	(1,418)	-	-	-	(4,545)
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(2,489)	(124)	-	-	-	-	-	(2,613)
Other movements in depreciation and impairment #	4,825	124	-	-	-	-	-	4,949
At 31 March 2019	-	(1,352)	(7,902)	(23,061)	-	-	-	(32,315)
Balance Sheet amount at 31 March 2019	164,931	17,328	1,472	12,370	3,461	969	10,076	210,607
Balance Sheet amount at 1 April 2018	165,434	15,150	1,629	13,469	3,461	1,962	263	201,368

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

20. Heritage Assets

The Council purchased Westenhanger Castle and grounds in August 2019. Westenhanger Castle is a scheduled monument consisting of a fortified 14th century moated quadrangle with a Grade I listed manor house and barn which sits in 14 acres of surrounding parkland.

It has been classified as a heritage asset as it has historical qualities and is held and maintained principally for its contribution to knowledge and culture.

Cost or Valuation	Buildings £000s	Other Items £000s	Total Assets £000s
At 1 April 2019	-	-	-
Additions	3,261	98	3,359
Disposals	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(361)	-	(361)
At 31 March 2020	2,900	98	2,998

21. Investment Properties

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

Investment Property	2018/19 £000s	2019/20 £000s
Rental income from investment property	(172)	(1,525)
Direct operating expenses arising from investment property	7	130
Net (gain)/loss	(165)	(1,395)

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

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

Fair Value Movement	2018/19 £000s	2019/20 £000s
Cost or Valuation		
At 1 April	8,003	31,841
Additions – acquisitions	2,048	45,260
Additions – construction	143	453
Net gain/(loss) from fair value adjustments	21,857	(1,431)
Impairment losses/(reversals) recognised in the CIES	-	(203)
Transfers to PPE	(210)	-
At 31 March	31,841	75,920

NOTES SUPPORTING THE BALANCE SHEET

During 2019/20 the Council acquired further land and property as part of the land assembly for the Otterpool Park Garden Town development (£27.6m). It also acquired the Connect 38 office building in Ashford (£17.7m) to provide an ongoing net income stream to the General Fund.

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2020 are as follows:

2019/20 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £000s	Significant unobservable inputs (Level 3) £000s	Fair value at 31-Mar-20 £000s
Otterpool Park - Residential Properties	5,325	-	5,325
Otterpool Park - Land	50,605	-	50,605
Agricultural Land	10	-	10
Offices	17,000	-	17,000
Commercial Units	-	1,617	1,617
Commercial Land	767	-	767
Total at Fair Value	73,707	1,617	75,324
Assets Under Construction	-	-	596
Total Investment Properties	73,707	1,617	75,920

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

Significant observable inputs – Level 2

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

Significant unobservable inputs - Level 3

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

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

NOTES SUPPORTING THE BALANCE SHEET

risk of rents changing significantly from their current levels that may give rise to a change in carrying value of the assets.

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

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

Valuation Techniques

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

Valuation Process for Investment Properties

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

Investment Properties Categorised with Level 3	31-Mar-20 £000s
Opening Balance	1,511
Total gains (or losses) for the period included in the Surplus or Deficit on the Provision of Services resulting from changes in fair value	106
Closing Balance	1,617

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

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

Subcategory at Fair Value Level	31-Mar-20 £000s	Valuation technique used to measure fair value	Unobservable inputs	Estimated average
Commercial Units	1,617	Implicit (all-risk yield) capitalisation model	Rental growth Vacancy level Discount Rate	2.50% 5% 8%

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

22. Financial Instruments

Financial Instruments - Classifications

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

Financial Liabilities

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

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

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

Financial Assets

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

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

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

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

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

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

NOTES SUPPORTING THE BALANCE SHEET

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-19 £000s	31-Mar-20 £000s	31-Mar-19 £000s	31-Mar-20 £000s
Loans amortised cost:				
- Principal sum borrowed	(54,755)	(58,455)	(1,600)	(31,800)
- Accrued interest	-	-	(105)	(121)
Total Borrowing	(54,755)	(58,455)	(1,705)	(31,921)
Loans at amortised cost:				
- Bank overdraft	-	-	-	-
Total Cash Overdrawn	-	-	-	-
Total Other Long-term Liabilities	-	-	-	-
Liabilities at amortised cost:				
- Trade payables	-	-	(2,301)	(2,389)
Included in Creditors	-	-	(2,301)	(2,389)
Total Financial Liabilities	(54,755)	(58,455)	(4,006)	(34,310)

The total short-term borrowing includes £121k (£105k 2018/19) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £8.493m (£10.179m 2018/19) short-term creditors that do not meet the definition of a financial liability.

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

Financial Assets	Long Term		Short Term	
	31-Mar-19 £000s	31-Mar-20 £000s	31-Mar-19 £000s	31-Mar-20 £000s
At amortised cost:				
- Principal	3,507	-	10,000	3,505
- Accrued interest	4	-	51	5
At fair value through profit & loss:				
- Fair value	16,810	15,425	-	-
Total investments	20,321	15,425	10,051	3,510
At amortised cost:				
- Principal	-	-	310	(1,289)
At fair value through profit & loss:				
- Fair value	-	-	13,182	11,859
Total Cash & Cash Equivalents	-	-	13,492	10,570
At amortised cost:				
- Trade receivables	-	-	870	649
- Lease receivables	137	-	8	8
- Loans made for service purposes	4,400	5,001	485	1,041
- Accrued interest	-	-	458	-
- Loss allowance Expected Credit Loss*	(54)	(173)	-	-
Included in Debtors	4,483	4,828	1,821	1,698
Total Financial Assets	24,804	20,253	25,364	15,778

NOTES SUPPORTING THE BALANCE SHEET

*2018/19 comparatives have been restated due to the Expected Credit Loss being incorrectly classified as a short-term debtor.

The debtors line on the Balance Sheet includes £8.587m (£9.844m 2018/19*) short-term debtors that do not meet the definition of a financial asset and £2.275m (£2.934m 2018/19) long-term debtors (i.e. being soft loans) that do not meet the definition of a financial asset.

Included within short-term debtors is a loan of £278k to EKH. Due to a decision taken in February 2020 to bring the housing service back in-house the Council will review the loan during 2020/21 and consider writing it off.

Material Soft Loans

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

	2018/19	2019/20
	£000s	£000s
Opening carrying amount of soft loans on 1st April	3,142	2,935
Cash value of new loans made in year	-	-
Fair value adjustment on initial recognition	-	-
Amounts repaid to the Council	(275)	(498)
Amounts written off	-	(192)
Change in impairment loss allowance	-	-
Increase in discounted amount due to passage of time	67	30
Closing Carrying Amount of Soft Loans on 31st March	2,934	2,275

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

Financial Instruments - Fair Values

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

Financial assets classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- 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.

NOTES SUPPORTING THE BALANCE SHEET

- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount.

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

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

Financial Liabilities	Fair Value Level	Balance Sheet 31-Mar-19 £000s	Fair Value 31-Mar-19 £000s	Balance Sheet 31-Mar-20 £000s	Fair Value 31-Mar-20 £000s
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	54,755	65,812	53,455	64,409
Other long-term loans	2	-	-	5,000	5,180
Short-term loans from PWLB	2	1,100	1,110	1,300	1,317
Short-term loans	2	500	499	30,500	30,654
Total		56,355	67,421	90,255	101,560
Liabilities for which fair value is not disclosed *		2,406		2,510	
Total Financial Liabilities		58,761		92,765	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		2,301		2,389	
Short-term borrowing		1,705		31,921	
Long-term borrowing		54,755		58,455	
Total Financial Liabilities		58,761		92,765	

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

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

NOTES SUPPORTING THE BALANCE SHEET

	Fair Value Level	Balance Sheet 31-Mar-19 £'000	Fair Value £'000	Balance Sheet 31-Mar-20 £'000	Fair Value £'000
Financial Assets					
Financial assets held at fair value					
Money market funds	1	13,181	13,181	11,859	11,855
Bond, equity and funds	1	9,992	9,992	8,804	8,804
Property funds	2	5,518	5,519	5,320	5,320
Shares in unlisted companies	3	1,300	1,300	1,300	1,300
Financial assets held at amortised cost					
Corporate, covered and government bonds	1	3,512	3,508	3,510	3,505
Long-term loans to companies	3	4,346	5,096	4,699	6,188
Lease receivables	3	137	137	128	128
Total		37,986	38,733	35,620	37,100
Assets for which fair value is not disclosed*		12,182		411	
Total Financial Assets		50,168		36,031	
Recorded on balance sheet as:					
Long-term investments		20,321		15,425	
Long-term debtors		4,483		4,827	
Short-term investments		10,051		3,510	
Short-term debtors		1,821		1,699	
Cash and cash equivalents		13,492		10,570	
Total Financial Assets		50,168		36,031	

* 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 - 20 years
- Discount Rate – average default rate for capital equipment companies published by Moodys
- Corporation Tax – 19% of profits until 2020/21 and 17% thereafter. Profits to exclude that due to upward property revaluations.
- Property price inflation 2%
- General price inflation 2%

NOTES SUPPORTING THE BALANCE SHEET

- Rental yield 5% until 2024/25, thereafter to rise with inflation
- Coronavirus – Assumed 6 month delay in property acquisition programme in 2020/21 and 2021/22

Sensitivity Analysis

Change in Assumption	Impact on Fair Value
30 year time period	Increases to £2.6m
Discount rate falls/rises by 1%	No significant change
Corporation Tax Rate falls/rises by 2%	No significant change / falls to £1.2m
Property price inflation falls/rises by 1%	Falls to £1.2m / rises to £1.4m
Inflation falls/rises by 1%	Falls to £1.0m / rises to £1.5m
Rental yield in 2024/25 is 1% lower/higher than expected	Falls to £0.7m / rises to £2.3m

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

	£'000
Balance 1 April	1,300
Unrealised valuation gain on Oportunitas equity holding taken to CIES in 2019/20	-
Balance 31 March	1,300

*An error in the assumptions used in the 2018/19 calculation has resulted in no change to the Fair Value for 2019/20

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	19/20 Total	18/19 Total
	£000s	£000s	£000s	£000s	£000s
Financial Instruments Income, Expense, Gains and Losses 2019/20					
Interest expense	1,921	-	-	1,921	1,965
Losses from changes in fair value	-	-	2,695	2,695	0
(Gains)/Losses on derecognition impairment losses	-	-	119	119	54
Total Expense in Surplus or Deficit on the Provision of Services	1,921	-	2,814	4,735	2,019
Interest and dividend income	-	(235)	(793)	(1,028)	(948)
Gains from changes in fair value	-	-	-	-	(897)
Total Income in Surplus or Deficit on the Provision of Services	-	(235)	(793)	(1,028)	(1,845)
Net (gain)/loss for the year	1,921	(235)	2,021	3,707	174

23. Short Term Debtors

Short Term Debtors	2018/19*	2019/20
	£000s	£000s
Trade Receivables	4,133	3,593
Receivables from Related Parties	4,957	3,380
Prepayments	367	706
Other Receivables	3,949	4,477
	<u>13,406</u>	<u>12,156</u>
Impairment of debt		
Trade Receivables	(1,085)	(1,130)
Other Receivables	(657)	(741)
Total	<u>(1,742)</u>	<u>(1,871)</u>
Balance as at 31 March	<u>11,664</u>	<u>10,285</u>

*2018/19 comparatives have been restated following re-categorisation of debtors

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

Age of Debt	2018/19	2019/20
	£000s	£000s
0 to 30 days	174	280
31 to 60 days	14	9
61 to 90 days	87	7
over 90 days	405	227
Total	<u>680</u>	<u>523</u>

24. Cash and Cash Equivalents

Cash and Cash Equivalents	2018/19	2019/20
	£000s	£000s
Bank Accounts	310	(1,289)
Money Market Funds	13,182	11,859
Total	<u>13,492</u>	<u>10,570</u>

25. Short Term Creditors

Short Term Creditors	2018/19*	2019/20
	£000s	£000s
Trade Payables	1,257	834
Payables to Related Parties	4,822	3,852
Receipts in Advance	2,373	2,615
Accrued Creditors	643	1,149
Other payables	3,385	2,432
	12,480	10,882

*2018/19 comparatives have been restated following re-categorisation of creditors

26. Provisions

Provisions	Balance	Provisions	Amounts	Balance	Short	Long
	31-Mar-19	made	used	31-Mar-20	term	term
	£000s	£000s	£000s	£000s	£000s	£000s
MMI Scheme of Arrangement	(67)	-	-	(67)	-	(67)
Business rate appeals	(1,659)	(1,213)	521	(2,351)	(2,351)	-
	(1,726)	(1,213)	521	(2,418)	(2,351)	(67)

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

Business rates appeals – with the introduction of the Retained Business Rates system from 1 April 2013, local authorities are required to allow for the cost of outstanding valuation appeals that remain unsettled as at the end of the financial year. The estimate is based on previous years' appeals success experience. The provision for 2019/20 includes an estimate of refunds payable to retailers following the Supreme Court ruling in May 2020 that ATMs in retail outlets are exempt from business rates.

27. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

NOTES SUPPORTING THE BALANCE SHEET

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. The estimated impact on the total liabilities at 31st March 2020 has been allowed for as a past service cost and has resulted in a slight increase in the defined benefit obligation. The projected service cost has also increased as a result of this additional allowance.

Transactions Relating to Retirement Benefits

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

Statement of Financial Position

Net Pension assets as at	31-Mar-19	31-Mar-20
	£000s	£000s
Present Value of the defined obligation	158,486	147,708
Fair Value of the Fund Assets	(93,605)	(84,773)
Net defined benefit liability / (asset)	64,881	62,935

NOTES SUPPORTING THE BALANCE SHEET

Statement of Profit and Loss for the year

The amounts recognised in the profit and loss statement are:	Year to 31-Mar-19 £000s	Year to 31-Mar-20 £000s
Service Cost	3,525	4,230
Net interest on the defined liability (asset)	1,764	1,521
Administration expenses	44	54
Total Loss / (profit)	5,333	5,805

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

	Year to 31-Mar-19 £000s	Year to 31-Mar-20 £000s
Opening defined benefit obligation	159,374	158,486
Current service cost	3,319	3,408
Interest cost	4,002	3,748
Change in financial assumptions	5,586	(11,150)
Change in demographic assumptions	(9,035)	(1,828)
Experience loss (gain) on defined benefit obligation	-	(1,152)
Estimated benefits paid net of transfers in	(5,584)	(5,268)
Past service costs, including curtailment	206	822
Contribution by scheme participants and other employers	618	642
	158,486	147,708

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

	Year to 31-Mar-19 £000s	Year to 31-Mar-20 £000s
Opening fair value of scheme assets	88,684	93,605
Interest on assets	2,238	2,227
Return on assets, less interest	4,603	(9,128)
Actuarial gains / (losses)	-	(235)
Administration Expenses	(44)	(54)
Contributions from employer including unfunded	3,090	2,984
Contributions by scheme participants	618	642
Estimated benefits paid plus unfunded net of transfers	(5,584)	(5,268)
	93,605	84,773

NOTES SUPPORTING THE BALANCE SHEET

Re-measurement of net assets (defined liability)

	Year to 31-Mar-19	Year to 31-Mar-20
	£000s	£000s
Return on fund assets in excess of interest	4,603	(9,128)
Other actuarial gains / (losses) on assets	-	(235)
Change in financial assumptions	(5,586)	11,150
Change in demographic assumptions	9,035	1,828
Experience loss (gain) on defined benefit obligation	-	1,152
	8,052	4,767

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels etc. The County Council pension scheme has been assessed by Barnett Waddingham, an independent firm of actuaries. Estimates for the Fund are based on the latest full valuation of the scheme as at 31st March 2019.

The significant assumptions used by the actuary have been:

Statistical assumptions	2018/19	2019/20
Mortality assumption		
Longevity at 65 for current pensioners		
-men	22.0 yrs	21.8 yrs
-women	24.0 yrs	23.7 yrs
Longevity at 65 for future pensioners		
-men	23.7 yrs	23.2 yrs
-women	25.8 yrs	25.2 yrs
Rate of inflation - CPI	2.40%	2.00%
Rate of inflation - RPI	3.40%	2.80%
Rate of increase in salaries	3.90%	3.00%
Rate of increase in pensions	2.40%	2.00%
Rate for discounting scheme liabilities	2.40%	2.35%
Take up of option to convert annual pension into retirement Lump Sum	50%	50%

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

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some

NOTES SUPPORTING THE BALANCE SHEET

of the assumptions may be inter-related. The assumptions in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

Sensitivity Analysis	£000s	£000s	£000s
Adjustment to Discounted rate	0.10%	0.00%	-0.10%
Present value of total obligation	144,979	147,708	150,491
Projected Service Cost	3,134	3,221	3,310
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	147,933	147,708	147,485
Projected Service Cost	3,223	3,221	3,219
Adjustment to Pension increases and deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	150,273	147,708	145,190
Projected Service Cost	3,309	3,221	3,135
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	154,196	147,708	141,514
Projected Service Cost	3,321	3,221	3,124

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 (62% of scheme assets) and bonds (13%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 14% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable.

Impact on the Council's Cash Flows

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

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31st March 2014. The Act provides for scheme regulations to be made within a common framework, to

NOTES SUPPORTING THE BALANCE SHEET

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

	Year to
Projection for the year to 31 March 2021	31-Mar-21
	£000s
Service cost	3,221
Net Interest and defined liability / (asset)	1,443
Administration Expenses	49
Total loss / (profit)	4,713
Employer Contributions	3,038

The weighted average duration of the defined benefit obligation for scheme members is 19 years 2019/20 (18 years 2018/19).

28. Usable Reserves

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

29. Unusable Reserves

Unusable Reserves	2018/19	2019/20
	£000s	£000s
Revaluation Reserve	(39,852)	(55,508)
Financial Instruments Revaluation Reserve	(509)	876
Capital Adjustment Account	(143,937)	(137,821)
Financial Instruments Adjustment Account	96	39
Deferred Capital Receipts reserve	(144)	(137)
Collection Fund Adjustment Account	564	1,387
Pensions Reserve	64,881	62,935
Accumulated Absences Account	243	221
	(118,658)	(128,008)

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	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		(26,324)		(39,852)
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(14,158)		(16,637)
Difference between fair value depreciation and historic cost depreciation	499		857	
Revaluation balances on assets sold or scrapped	131		124	
Amount written off to the Capital Adjustment Account		630		981
Balance as at 31 March		<u>(39,852)</u>		<u>(55,508)</u>

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

Financial Instruments Revaluation Reserve

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

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

Financial Instruments Revaluation Reserve	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		-		(509)
Transfer from Available for Sale Reserve		(433)		-
Upward revaluation of investments	(76)		-	
Downward revaluation of investments	-		1,385	
		<u>(76)</u>		<u>1,385</u>
Balance as at 31 March		<u>(509)</u>		<u>876</u>

Capital Adjustment Account

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

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

NOTES SUPPORTING THE BALANCE SHEET

Capital Adjustment Account	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		(126,639)		(143,937)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement				
Charges for depreciation and impairment of non-current assets	7,211		8,143	
Revaluation (gains)/losses on Property, Plant and Equipment	3,411		2,840	
Amortisation of intangible assets	45		35	
Revenue expenditure funded from capital under statute	1,203		1,572	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,058		764	
Capital debtors written down	1,577		715	
Equity Valuation (gains)/losses	(821)		1,310	
		13,684		15,379
Adjusting amounts written out of the Revaluation Reserve		(630)		(981)
Net written out amount of the cost of non-current assets consumed in the year		13,054		14,398
Capital financing applied in the year:				
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,986)		(2,831)	
Use of the Major Repairs Reserve to finance new capital expenditure	(2,066)		(2,807)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(255)		(319)	
Application of grants to capital financing from the capital Grants Unapplied Account	(728)		(1,508)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(373)		(358)	
Capital expenditure charged against the General Fund and HRA balances	(3,087)		(1,890)	
		(8,495)		(9,713)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(21,857)		1,431
Balance as at 31 March		(143,937)		(137,821)

NOTES SUPPORTING THE BALANCE SHEET

Financial Instruments Adjustment Account

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

Financial Instruments Adjustment	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		167		96
Repaid renovation advances	(17)		(26)	
Amortised interest on renovation advances	(67)		(31)	
Net write down deferred discounts to revenue	13	(71)	-	(57)
Balance as at 31 March		96		39

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	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		(151)		(144)
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	7		7	
Gain on sale of assets	-	7	-	7
Balance as at 31 March		(144)		(137)

Collection Fund Adjustment Account

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

NOTES SUPPORTING THE BALANCE SHEET

Collection Fund Adjustment Account	2018/19 £000s	2019/20 £000s
Balance at 1 April	970	564
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	(406)	823
Balance as at 31 March	564	1,387

Pensions Reserve

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

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

Pensions Reserve	2018/19 £000s	2019/20 £000s
Balance at 1 April	70,690	64,881
Remeasurement of Net defined Liability	(8,052)	(4,767)
Reversal of items relating to retirement benefits debited or credited to the (Surplus) or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,333	5,805
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,090)	(2,984)
Balance as at 31 March	64,881	62,935

Accumulated Absences Account

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

NOTES SUPPORTING THE BALANCE SHEET

Accumulated Absences Account	2018/19		2019/20	
	£000s	£000s	£000s	£000s
Balance at 1 April		239		243
Settlement or cancellation of accrual made at the end of the preceding year	(239)		(243)	
Amounts accrued at the end of the current year	<u>243</u>		<u>221</u>	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		4		(22)
Balance as at 31 March		<u>243</u>		<u>221</u>

30. Capital Expenditure and Capital Financing

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

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

Capital Expenditure and Financing	2018/19 £000s	2019/20 £000s
Opening Capital Financing Requirement	65,542	67,794
Capital Investment		
Property, Plant and Equipment	6,499	6,177
Heritage assets	-	3,359
Investment Properties	2,191	45,713
Intangible assets	-	38
Loans to and equity in subsidiary	-	1,310
Other loans	855	1,132
Revenue expenditure funded from capital under statute	1,203	1,548
Sources of Finance		
Capital Receipts	(1,986)	(2,831)
Government grants and other contributions	(983)	(1,827)
Sums set aside from revenue:		
Direct Revenue Contributions	(5,154)	(4,697)
Revenue provision for debt repayment	(373)	(358)
Closing Capital Financing Requirement	<u>67,794</u>	<u>117,358</u>
Increase in underlying need to borrow (unsupported by Government financial assistance)	2,625	49,922
Revenue provision for debt repayment	(373)	(358)
Increase / (decrease) in Capital Financing Requirement	<u>2,252</u>	<u>49,564</u>

31. Nature and Extent of Risks arising from Financial Instruments

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

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

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

The main risks covered are:

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

Credit Risk: Treasury Investments

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

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

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

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

NOTES SUPPORTING THE BALANCE SHEET

Credit Rating	31-Mar-19		31-Mar-20	
	Long-term	Short-term	Long-term	Short-term
	£000s	£000s	£000s	£000s
AAA	3,507	13,172	-	15,360
AA	-	-	-	-
A	-	-	-	-
UK Part-Nationalised Banks	-	-	-	-
Unrated UK local authorities	-	10,000	-	-
Unrated pooled funds	15,510	-	14,125	-
Total Investments	19,017	23,172	14,125	15,360

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

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

The Council generally does not allow credit for customers.

Credit Risk: Loans and Loan Commitments

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

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

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

Loss allowances on loans and loan commitments to Oportunitas Limited for have been calculated by reference to published historical default rates for the construction and building sector and recovery rate for secured and unsecured loans. Only 12 month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £173k. 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
New loans made	778
Loans repaid	(80)
Opening Allowance 01/04/2019	54
Change in risk	119
Closing Allowance 31/03/2020	173

Liquidity Risk

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

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

The maturity analysis of financial instruments is as follows:

Time to maturity	31-Mar-19			31-Mar-20		
	Liabilities	Assets	Net	Liabilities	Assets	Net
	£000s	£000s	£000s	£000s	£000s	£000s
Less than 1 year	1,100	(23,172)	(22,072)	31,800	(15,360)	16,440
1 to 2 years	1,300	(19,017)	(17,717)	6,300	(14,125)	(7,825)
2 to 5 years	10,300	-	10,300	13,000	-	13,000
5 to 10 years	20,000	-	20,000	20,000	-	20,000
10 to 20 years	10,014	-	10,014	6,014	-	6,014
20 to 30 years	6,141	-	6,141	6,141	-	6,141
30 to 40 years	7,000	-	7,000	7,000	-	7,000
Total	55,855	(42,189)	13,666	90,255	(29,485)	60,770

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

NOTES SUPPORTING THE BALANCE SHEET

Council depending on how variable and fixed rates move across differing financial instrument periods. For example, a rise in interest rates would have the following effects:

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

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. An upper limit of £265,000 on the 12 month revenue impact of a 1% fall or rise in interest rates was set for 2019/20.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2020 would be:

	<u>£000s</u>
Increase in interest payable on variable rate borrowings	95
Increase in interest receivable on variable rate investments	(143)
Impact on Comprehensive Income and Expenditure	(48)
Decrease in fair value of loans and receivables and bonds	(114)
Decrease in fair value of fixed rate borrowings	(6,371)

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:

NOTES SUPPORTING THE BALANCE SHEET

Impact on Fair Value of Fund

Pooled Fund Category	1% interest rate rise	5% equity price fall	5% property price fall
	£'000	£'000	£'000
Property Fund	-	-	(259)
Diversified Income Funds	(100)	(142)	(29)
Total	(100)	(142)	(288)

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

Foreign Exchange Risk

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

32. Section 106 Receipts and Planning Condition Contributions

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

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

Opening Balance 01-Apr-19 *	New Contributions	Amounts Applied	Closing Balance 31-Mar-20
£000s	£000s	£000s	£000s
(2,558)	(664)	792	(2,430)

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

	2018/19 £000s	2019/20 £000s
Current liabilities:		
Short term creditors – Depositors	(826)	(1,155)
Capital grants received in advance – current	(85)	(85)
Reserves:		
Capital grants unapplied reserve*	(1,647)	(1,190)
	(2,558)	(2,430)

*Comparative figures for 2018/19 restated to include S106 monies not reflected in closing balance.

Notes Supporting the Cash Flow Statement



33. Reconciliation of Net Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

2018/19	2019/20
£000s	£000s
452 Interest received	549
(1,954) Interest paid	(1,887)
441 Dividends received	718

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

2018/19	2019/20
£000s	£000s
4,545 Depreciation and impairment	4,758
6,024 Impairment and downward revaluations	6,105
45 Amortisation	35
50 Change in impairment for bad debts	119
(144) Increase/(decrease) in creditors	(2,431)
160 (Increase)/decrease in debtors	1,833
2 (Increase)/decrease in inventories	(7)
2,243 Movement in pension liability	2,821
(21,857) Movement in investment property values	1,431
1,058 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	764
(1,146) Other non-cash items charged to the net surplus or deficit on the provision of services	3,544
(9,020)	18,972

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

2018/19	2019/20
£000s	£000s
(2,959) Capital grants credited to the surplus or deficit on the provision of services	(1,758)
(2,307) Proceeds from the sale of property, plant and equipment	(1,475)
(69) Any other items for which the cash effects are investing or financing cash flows	(117)
(5,335)	(3,350)

34. Cash Flow Statement – Investing Activities

2018/19		2019/20
£000s		£000s
(8,829)	Purchase of property, plant & equipment, investment property and intangible assets	(55,049)
(45,000)	Purchase of short-term and long-term investments	(1,310)
(856)	Other payments for investing activities	(1,133)
2,314	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,483
49,755	Proceeds from investments	10,000
4,592	Other receipts from investing activities	2,391
1,976	Net cash flows from investing activities	(43,618)

35. Cash Flow Statement – Financing Activities

2018/19		2019/20
£000s		£000s
500	Cash receipts of short- and long-term borrowing	40,000
(1,900)	Repayments of short- and long-term borrowing	(6,100)
(160)	Other payments for financing activities	860
(1,560)	Net cash flows from financing activities	34,760

Other Notes



36. Related Party Transactions

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

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

Details of transactions with government departments are set out in note 17 on page 54.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2019/20 is set out in note 14 (page 52). Members are required to observe the Code of Conduct for councillors, register financial interests in the Council's Register maintained under section 81(1) of the Local Government Act 2000 and register the receipt of any gifts/hospitality over £25.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The Council had no material related party transactions with officers during 2019/20, other than those disclosed in note 15 (pages 52-53).

The Council is Corporate Trustee of the Folkestone Parks and Pleasure Grounds Charity. It is responsible for providing the majority of the Charity's funding by financing its net cost. The Corporate Trustee duties of the Council are carried out by its executive councillors. The Charity's management support and grounds maintenance is carried out by the Council officers. Further details of the Trust and the Council's contribution are set out in note 37 (page 92).

The Council is joint owner of East Kent Housing Limited, an arms-length management organisation, owning 25% of the company. 2011/12 was the first year of operation. Payment of £2.4m was made in 2019/20 to East Kent Housing Limited in respect of management fees and the Council received £142k from East Kent Housing Limited in respect of services supplied to it. Balances due to/from East Kent Housing Limited at 31st March 2020 are £9k and £5k respectively.

The Council wholly owns Oportunitas Limited, a company that commenced trading in 2014/15. Group financial statements, consolidating the results of the company with those of the Council, have been prepared and are set out on pages 108-113.

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

NOTES TO THE FINANCIAL STATEMENTS

Related Parties	2018/19 £000s	2019/20 £000s
Amounts due to Central Government	2,210	3,589
Amount due to Kent County Council	2,369	79
Amount due to Oportunitas Limited	-	3
Amount due to Folkestone Parks Charity	243	181
Amounts due from Central Government	4,278	1,518
Amounts due from Kent County Council	144	1,862
Amount due from Oportunitas Limited	535	-
Amount due from Folkestone Parks Charity	32	3

37. Trust Funds

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone area. The funds do not represent assets of the Council and have not been included in the balance sheet; however the Council does hold £181k of investments and a £4k overdraft on behalf of the charity.

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

2018/19				2019/20			
Income	Expenditure	Assets	Liabilities	Income	Expenditure	Assets	Liabilities
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
(708)	708	4,306	(2,916)	(715)	715	4,845	(2,842)
			Folkestone Parks and Pleasure Grounds 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 £544k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£535k 2018/19).

Income to the Charity therefore includes a contribution of £544k from the Council (£535k in 2018/19). The remainder of the charity's income is derived from charges for services, grants and investment income.

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

38. Interests in Companies and Other Entities

East Kent Housing Limited

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

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

The financial results of the Company for 2019/20 and the Council's share are as follows:

	2018/19* £000s	2018/19* £000s	2019/20 £000s	2019/20 £000s
	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Turnover	(8,686)	(2,172)	(10,092)	(2,523)
Expenses	9,566	2,392	11,440	2,860
Operational loss	880	220	1,348	337

	2018/19* £000s	2018/19* £000s	2019/20 £000s	2019/20 £000s
	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Loss after taxation	1,156	289	3,360	840
Other comprehensive (income) and expenditure	(1,738)	(435)	(1,161)	(290)
Total comprehensive (income) and expenditure	(582)	(146)	2,199	550

	2018/19* £000s	2018/19* £000s	2019/20 £000s	2019/20 £000s
	East Kent	Council	East Kent	Council
	Housing	share	Housing	share
	Limited	(25%)	Limited	(25%)
Balance Sheet				
Non-current assets	1,634	409	283	71
Current assets	942	236	1,075	269
Current liabilities	(696)	(174)	(2,279)	(570)
Non-current liabilities	(10,499)	(2,625)	(9,897)	(2,474)
Profit and loss reserve	(882)	(221)	921	230
Pensions reserve	9,501	2,375	9,897	2,474

*2018/19 comparative figures adjusted to reflect final reported figures for East Kent Housing
The Council's investment in the company is nominal.

NOTES TO THE FINANCIAL STATEMENTS

In February 2020, after consultation with tenants and leaseholders about their view on the future of East Kent Housing, all four council owners agreed that the management of council housing stock should be brought back in-house and that a termination of the management agreement with EKH should be negotiated and concluded as soon as practicable. It is anticipated that the transfer of the majority of the staff will occur in October 2020 with the company winding up at some stage over the following six months.

Note 37 Related Party Transactions sets out the transactions that took place between the Council and East Kent Housing Limited over 2019/20. Note 3 Critical Judgements describes the guarantee the Council has entered into with East Kent Housing Limited over certain pension obligations.

Oportunitas Limited

The Council wholly owns Oportunitas Limited, a company set up for housing and regeneration purposes. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 108.

The Council holds 955 shares in the company at a cost of £1.788m and has loans outstanding of £4.31m from it.

Company turnover was £275k in 2019/20 (£305k 2018/19). Oportunitas made a loss on ordinary activities of £42k in 2019/20 (loss of £32k in 2018/19*). Its holdings in investment property was £6.128m at 31st March 2020 (£4.563m 31/3/2019).

*The 2018/19 comparatives have been restated following a post-audit adjustment to Oportunitas accounts.

39. Contingent Liabilities

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

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

The Council is aware of a revaluation exercise being carried out on purpose built GP surgeries by the Valuation Office Agency (VOA) which is likely to result in reductions to rateable values. No provision has been made within the accounts for the potential reduction at this stage as the amount of the obligation cannot be measured reliably given the uncertainties around the criteria being applied by the VOA. However, it is estimated that the maximum impact could be in the region of £210k for the Council.

40. Events after the Balance Sheet Date

The date that the accounts were authorised for issue was the date that the Director of Corporate Services signed the Balance Sheet on page 24. That date was 18th June 2020. Events after the balance sheet date (31st March 2020) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31st March 2020, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31st March 2020 as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

- In May 2020 the council completed on the purchase of the former Debenhams store in Folkestone town centre for £2.5m. The site has been acquired as part of the Council's commitment to the continued regeneration of Folkestone and the district as a whole.

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

2018/19 £000s		2019/20 £000s
	Income	
(14,669)	Dwelling Rents (Gross)	(14,854)
(279)	Non dwelling rents (Gross)	(318)
(896)	Charges for services and facilities	(979)
(52)	Contributions towards expenditure	(52)
(15,896)		(16,203)
	Expenditure	
2,963	Repairs and maintenance	3,487
4,142	Supervision and management	4,610
36	Rents, rates, taxes and other charges	19
5,088	Depreciation and impairment of non-current assets (HRA Note 6)	5,511
3,286	Exceptional item – valuation change (HRA Note 10)	828
22	Debt management costs	22
101	Increase in bad debt provision (HRA Note 7)	140
15,638		14,617
(258)	Net Surplus of HRA Services as included in the whole authority CIES	(1,586)
155	HRA services share of Corporate and Democratic Core	160
(103)	Net surplus of HRA services	(1,426)
(1,120)	(Gain)/loss on sale of HRA non-current assets	(629)
1,597	Interest payable and similar charges	1,569
(89)	Interest and investment income	(78)
101	Net interest on the net defined liability (HRA Note 9)	43
386	Deficit for the year on HRA Services	(521)

HOUSING REVENUE ACCOUNT

Movement on the Housing Revenue Account Statement

2018/19 £000s		2019/20 £000s
386	Deficit on the HRA Income and Expenditure Statement	(521)
(13)	Difference between interest payable and similar charges including amortisation of premiums and discounts determined in accordance with the Code and those determined in accordance with statute	-
(5,810)	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)	(3,750)
1,120	Gain or (loss) on sale of HRA non-current assets	629
2,330	Capital expenditure funded by the HRA	1,387
(130)	HRA share of contributions to or from the Pensions Reserve (Note 5)	(56)
(2,117)	Net (increase) or decrease before transfers to or from Reserves	(2,311)
-	- Transfer from the Major Repairs Reserve	-
(2,117)	(Increase) or Decrease in year on the HRA	(2,311)
(8,047)	Balance on the HRA at the end of the previous reporting period	(10,164)
(2,117)	(Increase) or Decrease in year on the HRA (as shown above)	(2,311)
(10,164)	Balance on the HRA at the end of the current reporting period	(12,475)

1. Housing Assets

At 31st March 2020, the Council was responsible for managing 3,377 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows:	1,875
Flats and Bedsits:	1,502

The change in the stock can be summarised as follows:

Stock	2018/19	2019/20
Stock at 1 April	3,371	3,381
Acquisitions	26	10
New build	-	
Sales	(16)	(14)
Change in use/conversions	-	
Stock at 31 March	3,381	3,377

HOUSING REVENUE ACCOUNT

The Balance Sheet value was as follows:

	2018/19 £000s	2019/20 £000s
<i>Dwellings</i>	164,931	165,183
Other Land and Buildings	5,805	5,924
Infrastructure	1,091	1,047
Vehicles, Plant, Furniture and Equipment	174	156
Total Operational Assets	172,001	172,310
<i>Assets under construction</i>	258	509
Assets held for sale	-	-
Total Non Operational Assets	258	509
Total Assets	172,259	172,819

2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1st April 2019 was £499,796,882. Except for recent purchases and works made during the year, where the valuation reflects existing use, the Balance Sheet figure has been reduced to 33% to show existing use value as social housing, reflecting the economic cost of providing council housing at less than open market rents.

3. Major Repairs Reserve

	2018/19 £000s	2019/20 £000s
Balance on Major Repairs Reserve as at 1 April	(4,310)	(4,811)
The amount transferred to the Major Repairs Reserve during the financial year		
Depreciation and impairment of non-current assets	(2,567)	(2,591)
The amount transferred from the Major Repairs Reserve during the financial year		
Adjustment to depreciation to equal Major Repairs Allowance		
Capital expenditure on land, houses and other property within the HRA	2,066	2,807
Balance on the Major Repairs Reserve as at 31 March	(4,811)	(4,595)

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

	2018/19 £000s	2019/20 £000s
Land	-	-
Houses	5,241	4,721
Other Property	108	48
	5,349	4,769

HOUSING REVENUE ACCOUNT

5. Capital Financing

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

	2018/19 £000s	2019/20 £000s
Capital receipts	953	575
Section 106	-	-
Revenue	2,330	1,387
Major Repairs Reserve	2,066	2,807
	5,349	4,769

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

	2018/19 £000s	2019/20 £000s
Land	17	7
Houses and Flats	2,148	1,386
Mortgage repayments and repaid discounts	-	-
	2,165	1,393

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

2018/19				2019/20		
Revaluation	Depreciation	Impairment		Revaluation	Depreciation	Impairment
£000s	£000s	£000s		£000s	£000s	£000s
-	-	-	Land			
(3,286)	2,336	2,489	Dwellings	(828)	2,356	2,896
-	118	32	Other Land and Buildings	-	125	24
-	78	-	Infrastructure	-	78	-
-	35	-	Vehicles, Plant, Furniture and Equipment	-	32	-
(3,286)	2,567	2,521		(828)	2,591	2,920

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

Additionally in 2019/20 £2.651m was posted to the Revaluation Reserve (£2.347m 2018/19) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

HOUSING REVENUE ACCOUNT

7. Rent Arrears

	31-Mar-19	31-Mar-20
	£000s	£000s
Gross rent arrears	476	546
Current tenant arrears (excluding former tenants)	340	339
Provision for doubtful debts	101	140

Gross rent arrears include income related to properties leased by the Council to assist with providing services to prevent homelessness. Income relating to this service is credited to the General Fund. In respect of these leased properties the sums outstanding at 31st March 2020 are £1k for former tenants.

8. Difference between any other items of Income and Expenditure

	2018/19	2019/20
	£000s	£000s
HRA impairment-capital expenditure not adding value	(2,521)	(2,920)
Net valuation changes	(3,286)	(828)
Other changes	(3)	(2)
	(5,810)	(3,750)

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.

2018/19		2019/20
£000s		£000s
194	Current Service Cost	96
101	Net interest on net defined liability	43
295	Net charge to the HRA Income and Expenditure Statement	139
(130)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(56)
165		83
165	Employer Contributions	83
165	Actual amounts charged against the HRA balance for pensions	83

10. Exceptional Item – Valuation Change

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

Description	£000s
Valuation adjustment for council dwellings acquired during 2019/20 to reflect the statutory social housing factor of 33% compared to their open market value. (See Note 19)	1,146
On the advice of the council's external valuer, the council's dwelling value has increased by a further 0.38% over the year in line with regional property valuation changes. Again, a valuation gain has been taken reversing previous losses.	(318)
	<hr/> 828 <hr/>

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

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

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.569m (£1.597m 2018/19).

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 £71k (£81k 2018/19).

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.

2018/19			2019/20		
Council Tax £000s	Business Rates £000s	Total £000s	Council Tax £000s	Business Rates £000s	Total £000s
Amounts required by statute to be credited to the Collection					
(69,910)		(69,910)	(74,013)		(74,013)
14		14	22		22
	(29,109)	(29,109)		(26,534)	(26,534)
	408	408		371	371
(69,896)	(28,701)	(98,597)	(73,991)	(26,163)	(100,154)
Amounts required by statute to be debited to the Collection					
Council tax precepts and demands:					
47,418		47,418	50,752		50,752
6,481		6,481	7,544		7,544
2,893		2,893	3,037		3,037
12,183		12,183	12,598		12,598
250		250	683		683
210		210	322		322
310		310	(228)		(228)
Payment of Business Rates					
	147	147		146	146
	-	-		13,783	13,783
	16,372	16,372		2,481	2,481
	277	277		276	276
	11,100	11,100		11,027	11,027
	397	397		(1,736)	(1,736)
	175	175		171	171
	(108)	(108)		28	28
	(369)	(369)		1,731	1,731
69,745	27,991	97,736	74,708	27,907	102,615
(151)	(710)	(861)	717	1,744	2,461
(116)	2,243	2,127	(267)	1,533	1,266
(267)	1,533	1,266	450	3,277	3,727

Folkestone & Hythe District Council

Statement of Accounts 2019/20

COLLECTION FUND

1. Council Tax

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

2018/19		2019/20
£		£
1,237.68	Kent County Council	1,299.42
169.15	Kent Police Commissioner	193.15
75.51	Kent Fire and Rescue Service	77.76
258.39	Folkestone & Hythe District Council (including Special Expenses charged on Folkestone)	263.34
59.60	Town and Parish Councils	59.22
1,800.33		1,892.89

The amount of income generated in 2019/20 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,229	2,819	(5,336)
B	8,986	6,989	(13,229)
C	11,396	10,130	(19,175)
D	7,052	7,052	(13,348)
E	4,594	5,615	(10,628)
F	2,493	3,601	(6,816)
G	1,760	2,934	(5,554)
H	65	130	(245)
	40,575	39,270	(74,331)
			Contributions from the Ministry of Defence in lieu of council tax (714)
			In year adjustments 1,032
			Income collectable from council tax payers (74,013)

The 2019/20 tax base approved by Council was 39,057. 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 2019/20 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

2018/19		2019/20
£000s		£000s
76,627	Non domestic rateable value as at 31 March	76,982
48.0p	Non-domestic rate multiplier	49.1p
(36,781)	NDR income before allowances and other	(37,798)
7,672	Allowances, reduced assessments and other adjustments, including small business rate relief	11,264
(29,109)	Income collectable from business rate payers	(26,534)

The non-domestic rate multiplier for 2019/20 was 49.1p for qualifying properties of less than £51,000 rateable value and 50.4p for all others (2018/19 48.0p and 49.3p respectively).

Group Accounts



GROUP ACCOUNTS
GROUP MOVEMENT IN RESERVES STATEMENT

	Note	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	Council Share of subsidiary £000s	Total Group reserves £000s
2019/20											
Balance at 31 March 2019		(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)	(51)	(169,885)
Movement in reserves during 2019/20											
Total Comprehensive Income and Expenditure		10,207	(521)	-	-	-	9,686	(21,404)	(11,718)	(168)	(11,886)
Adjustments between accounting basis and funding basis under regulations	5	(11,492)	(1,790)	942	216	70	(12,054)	12,054	-	-	-
Increase or Decrease in 2019/20		(1,285)	(2,311)	942	216	70	(2,368)	(9,350)	(11,718)	(168)	(11,886)
Balance at 31st March 2020 carried forward		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(219)	(181,771)
2018/19											
Balance at 31 March 2018		(18,899)	(8,047)	(7,339)	(4,310)	(2,446)	(41,041)	(81,481)	(122,522)	25	(122,497)
Movement in reserves during 2018/19											
Total Comprehensive Income and Expenditure*		(25,488)	386	-	-	-	(25,102)	(22,210)	(47,312)	(76)	(47,388)
Adjustments between accounting basis and funding basis under regulations	5	21,681	(2,503)	(1,734)	(501)	(1,976)	14,967	(14,967)	-	-	-
Increase or Decrease in 2018/19		(3,807)	(2,117)	(1,734)	(501)	(1,976)	(10,135)	(37,177)	(47,312)	(76)	(47,388)
Balance at 31st March 2019 carried forward		(22,706)	(10,164)	(9,073)	(4,811)	(4,422)	(51,176)	(118,658)	(169,834)	(51)	(169,885)

*2018/19 comparatives restated following a post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19*			2019/20			
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
Continuing Operations						
910	(16)	894	Leadership Support	1,013	(89)	924
9,764	(3,118)	6,646	Governance & Law	10,549	(3,375)	7,174
837	(45)	792	Human Resources	835	(138)	697
42,241	(37,469)	4,772	Finance, Strategy & Corporate Services	37,361	(32,163)	5,198
2,963	(2,610)	353	Strategic Development	1,800	(681)	1,119
610	(112)	498	Economic Development	673	(147)	526
1,081	(699)	382	Planning	1,387	(1,105)	282
8,618	(5,411)	3,207	Operations	10,798	(6,183)	4,615
2,168	(2,118)	50	Housing	3,312	(2,325)	987
914	(20)	894	Transition & Transformation	1,462	(18)	1,444
12,633	(16,022)	(3,389)	Local Authority Housing (HRA)	14,066	(16,320)	(2,254)
3,286	-	3,286	Local Authority Housing (HRA) - exceptional item (Note 5)	828	-	828
86,025	(67,640)	18,385	(Surplus)/Deficit on Continuing Operations	84,084	(62,544)	21,540
2,955	(1,249)	1,706	Other operating expenditure (Note 10)	2,995	(711)	2,284
5,408	(25,389)	(19,981)	Financing and investment income and expenditure (Note 11)	7,801	(2,168)	5,633
5,794	(30,949)	(25,155)	Taxation and non-specific grant income (Note 12)	6,462	(26,191)	(19,729)
100,182	(125,227)	(25,045)	(Surplus) or Deficit on Provision of Services	101,342	(91,614)	9,728
-	-	(14,291)	(Surplus) or deficit on revaluation of non- current assets (Note 29)	-	-	(16,847)
-	-	-	(Surplus) or deficit on revaluation of Available for Sale assets	-	-	-
-	-	(8,052)	Re-measurement of net defined liability (Note 27)	-	-	(4,767)
-	-	(22,343)	Other Comprehensive Income and Expenditure	-	-	(21,614)
-	-	(47,388)	TOTAL Comprehensive Income and Expenditure	-	-	(11,886)

*2018/19 comparatives restated following post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP BALANCE SHEET

2018/19*		Note	2019/20
£000s			£000s
	Non current assets		
45,676	Property, plant and equipment		60,171
164,931	Council dwellings		165,183
36,404	Investment property	1	82,048
58	Intangible assets		61
19,842	Long term investments		13,636
3,886	Long term debtors		2,794
270,797	Long term assets		323,893
10,051	Short term investments		3,510
9	Inventories		15
11,162	Short term debtors		10,314
13,539	Cash and cash equivalents		10,776
34,761	Current assets		24,615
(1,705)	Short term borrowing		(31,921)
(12,496)	Short term creditors		(10,928)
(80)	Grants receipts in advance - capital		(80)
(1,659)	Current Provisions		(2,351)
(15,940)	Current liabilities		(45,280)
(54,755)	Long term borrowing		(58,455)
(64,881)	Other long term liabilities		(62,935)
(97)	Non-current provisions		(67)
(119,733)	Long term liabilities		(121,457)
169,885	Net assets		181,771
(51,227)	Usable reserves		(53,763)
(118,658)	Unusable reserves		(128,008)
(169,885)	Total Reserves		(181,771)

*2018/19 comparatives restated following post-audit adjustments to Oportunitas accounts

GROUP ACCOUNTS
GROUP CASH FLOW STATEMENT

2018/19*		2019/20
£000s		£000s
25,070	Net surplus or (deficit) on the provision of services	(9,728)
(8,400)	Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	19,137
(5,335)	Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(3,270)
11,335	Net cash flow from operating activities	6,139
1,219	Net cash flow from investing activities	(42,884)
(1,560)	Net cash flow from financing activities	33,982
10,994	Net increase or decrease in cash and cash equivalents	(2,763)
2,545	Cash and cash equivalents at the beginning of the reporting period	13,539
13,539	Cash and cash equivalents at the end of the reporting period	10,776

*2018/19 comparatives restated following post-audit adjustments to Oportunitas accounts

Explanation of Group Financial Statements

Group MiRS

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

Group CIES

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

Group Balance Sheet

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

Group Cash Flow Statement

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

Notes to the Group Financial Statements

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

Note 1 – Investment Properties

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

	2018/19 £000's	2019/20 £000's
Cost or Valuation		
At 1 April	11,677	36,404
Additions – acquisitions	2,947	47,067
Disposals	-	-
Transfers to PPE	(210)	-
Net gain from fair value adjustments	21,990	(1,221)
Impairment	-	(202)
At 31 March	36,404	82,048

Sensitivity Analysis Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31st March 2020 are as follows:

2019/20 Recurring fair value measurements using:	Other significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Fair value at 31-Mar-20 £'000
Residential Units	10,178	-	10,178
Agricultural Land	51,382	-	51,382
Commercial Units	17,000	1,617	18,617
Total at Fair Value	78,560	1,617	80,177
Assets Under Construction	-	-	1,871
Total Investment Properties	78,560	1,617	82,048

INDEPENDENT AUDITOR'S REPORT

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

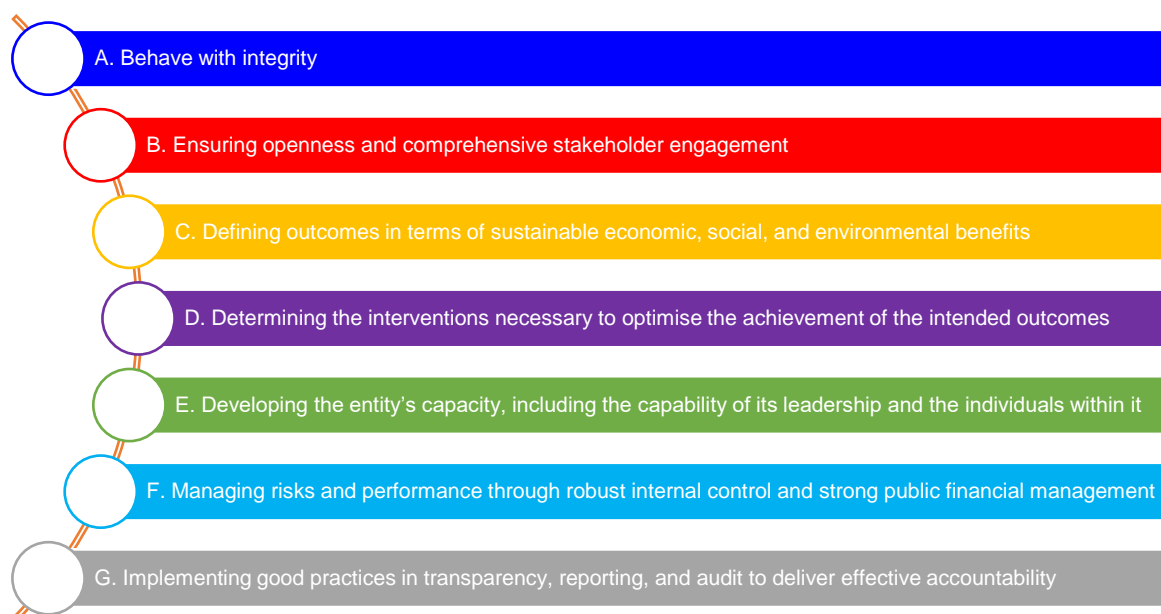
Annual Governance Statement 2019/20

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 2020, 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><u>Cabinet</u> Responsible for:</p> <ul style="list-style-type: none"> • Discharging executive functions in accordance with the policy framework and budget • Approving the authority's risk management policy statement and strategy, and for reviewing the effectiveness of risk management • Approving the Anti-Fraud and Corruption Framework • Receiving quarterly performance updates to monitor achievement of key priorities, customer charter standards, performance indicators and spend against the planned budget. 		
<p><u>Overview & Scrutiny</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Reviewing the work and decisions of the Cabinet, and all areas of the Council's work. • Carrying out specific projects and investigations and considering matters or services provided by an outside organisation that could affect local residents. • Exercise the power to call in a decision of the cabinet or a cabinet member. 	<p><u>Council</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Adopting the authority's Constitution, including codes of conduct and approving the budget and policy framework. • Setting the budget and determining the level of Council Tax 	<p><u>Audit and Governance</u></p> <p>Responsible for:</p> <ul style="list-style-type: none"> • Promoting and maintaining the highest standards of conduct by Councillors. • Monitoring the operation of the Councillors' Code of Conduct. • Advising, training or arranging to train Councillors on matters relating to the Code where necessary. • Considering and recommending to Council, when necessary, changes to the financial procedure rules and contract standing orders. • Providing independent assurance on the adequacy of the risk management framework.

ANNUAL GOVERNANCE STATEMENT

Decision Making

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

Risk Management

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

Statutory Chief Officers

- **Head of Paid Service:** This role has a duty to monitor and review the operations of the Constitution to ensure its aims and principles are given full effect. The Authority keeps the appropriateness of the Constitution under review.
- **Chief Finance Officer (Section 151):** The Director for Corporate Services holds the role of Chief Finance Officer, a fundamental building block of good corporate governance. The two critical aspects of the role are stewardship and probity in the use of resources; and performance, extracting the most value from the use of those resources.
- **Monitoring Officer:** The Assistant Director for Governance & Law holds the role of Monitoring Officer and is responsible for:
 - Maintaining and interpreting the Councils constitution, ensuring lawfulness and fairness of decision-making.
 - Providing advice to all councillors, on the scope of powers and authority to take decisions; maladministration; financial impropriety; probity; and Budget and Policy Framework issues.
 - Conducting investigations, or arrange for investigations to be conducted, into complaints concerning alleged breaches of the councillor's Code of Conduct.

Work has been undertaken during 2019/20 reviewing the governance structure of the Council and changes to the Overview & Scrutiny Committee are anticipated during 2020/21.

Strategic Planning

- 3.4. The Council identifies and communicates its aims and ambitions for the district through its Corporate Plan. The most recent plan covers the period 2017 to 2020, and was agreed by both Cabinet and Council in April 2017.

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 three years.

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

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

- More homes
- More jobs
- Appearance matters

ANNUAL GOVERNANCE STATEMENT

- Health matters
 - Achieving stability
 - Delivering excellence
- 3.5 For each strategic objective, the Council has committed to a number of priorities within the Corporate Plan. The priorities are monitored regularly to ensure they are being delivered effectively. Work is currently underway for a new Corporate Plan for the period 2021 – 2030.
- 3.6 Elected Members of the council are ultimately responsible for the delivery of the council's corporate objectives. The council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.
- 3.7 Effective communication, both within departments and across the council is continually supported through the Wider Management Team, consisting of the Head of Paid Service, Corporate Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate messages.
- 3.8 On annual basis, managers are required to develop a departmental service plan setting out the priorities and key outcomes for the coming year. Service plans form an integral part of the overall corporate planning process, linking the Council's strategic aspiration (Corporate Plan) to team performance (service plans) and individual performance (performance reviews), in order to effectively manage resources and deliver high quality services for our residents.

Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.
- 3.10 Folkestone and Hythe District Council as public funded organisation is fully committed to principles of openness and accountability. In line with the Transparency Code, the Council publishes a series of data sets including;
- Senior Staff Salaries
 - Organisational Structure Chart
 - Payment to suppliers (over the value £250)
 - Purchase Orders (£5,000 and over)
 - Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
 - Grants to Voluntary, Community and Social Enterprise Organisations

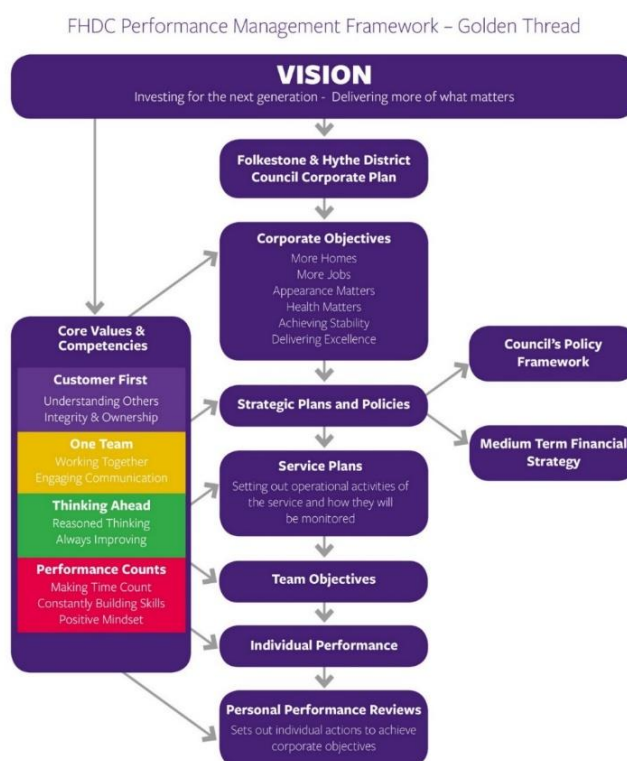
- Parking Accounts
- Local Authority Land Assets

Performance Management

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

3.12 The Performance Management Framework demonstrates how the Council’s corporate vision and objectives are cascaded down through the organisation in what is known as the ‘Golden Thread’ (See diagram 1). The objectives defined with the corporate plan and our core values help drive the development of strategic policy, operational service plans and the performance of both teams and individual members of staff.

Diagram 1: FHDC Golden Thread of Performance Management:



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

3.14 A key component of performance management for the Council is the overall quality of the service provided to the customer and the customer’s perception of the council.

ANNUAL GOVERNANCE STATEMENT

The Council's Customer Charter sets out the council's commitment to customer service for its residents. In December 2019, the Council successfully retained its Customer Service Excellence (CSE) accreditation, a Government standard developed to offer a practical tool for driving customer-focused change within organisations and was awarded full compliance and 12 compliance plusses by an independent assessor.

Risk

- 3.15 The Council's revised Risk Management Strategy (Adopted by Cabinet in December 2019) is reviewed on annual basis to reflect any future changes in the council's risk management arrangements. 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 already identified is undertaken by Directors and Chief Officers with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. Progress made against any required action in relation to the risks identified within the Corporate Risk Register is reported to the council's Corporate Leadership Team on a quarterly basis.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented at each Quarterly Audit and Governance Committee. In addition the committee will review the council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption.
- 3.18 Diagram 2 below provides an overview of the revised governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council's operations:

Diagram 2: Reporting Arrangements for Risk Management

Risk Policy and Strategy	Corporate Risk Register	Operational Risk Registers
<ul style="list-style-type: none">• Annual Review by CLT• Annual Review by Cabinet• Annual Review by Audit & Governance Committee	<ul style="list-style-type: none">• Quarterly review by CLT• Quarterly Review by Audit & Governance Committee• Annual Review by Cabinet• Emerging/Changing risks highlighted by Directors and Chief Officers	<ul style="list-style-type: none">• Ongoing: Maintained and reviewed by Managers, Chief Officers and Directors• Key Risks discussed at Portfolio Holder meetings.

Finance

- 3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2019-20, this responsibility was held by the Corporate Director – Customers, Support & Specialist Services until January 2020 after which it was held by the Director of Corporate Services. Directors, Assistant Directors and Service Managers are responsible for the financial management of service areas within the council, which includes the effective monitoring of financial performance against budget.
- 3.20 The council's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in '*Delivering Good Governance in Local Government*'.
- 3.21 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document which puts the financial perspective on the council's Corporate Plan priorities. The MTFS was updated and approved by Council in October 2019 and expresses the aims and objectives of various plans and strategies in financial terms over a four year period ending 31st March 2024. The MTFS is a key element of sound corporate governance and financial management.
- 3.22 In addition, the Overview & Scrutiny Committee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2019-20 financial year at its meeting in February 2019; Cabinet endorsed this at its subsequent meeting.
- 3.23 A mid-year Treasury Management monitoring report was presented to the Overview & Scrutiny Committee at its meeting in October 2019 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.
- 3.24 Regular budget monitoring took place in 2019-20 in order to manage the council's net revenue budget. Regular meetings are held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Overview & Scrutiny Committee and Cabinet on a quarterly basis.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process but is reported to Overview & Scrutiny Committee and Cabinet as part of the quarterly budget monitoring reports.

Partnership and Joint-working

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

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- 3.27 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency.

Internal and External Audit

Internal Audit

- 3.28 The Internal Audit function is performed by the East Kent Audit Partnership (EKAP) and aims to provide management with a level of assurance on the adequacy of internal controls and of risks to the Council's functions and systems.
- 3.29 The Head of Internal Audit plays a critical role in delivering the organisation's strategic objectives by: championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.
- 3.30 As at 31st March 2020 the Internal Auditors completed 286 days of review equating to 91% of planned completion, the remaining audits being carried over as work in progress at the year end. The East Kent Audit Partnership (EKAP) undertake a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report that will be presented to the Audit and Governance Committee in July 2020.

External Audit

- 3.31 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.
- 3.32 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.33 The 2018/19 Audit Findings Report gave an unqualified opinion on the Council's financial statements. The 2018/19 Annual Audit Letter from Grant Thornton UK LLP remains pending as there is an outstanding objection to the accounts to be considered. The auditors were also able to certify the pooling of housing capital receipts return without amendment or qualification, and the Housing Benefits Subsidy return was certified by the auditor and submitted to Department of Work & Pensions.

Counter Fraud Arrangements

- 3.34 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the

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Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:

- encourage fraud deterrence and prevention
- raise awareness of fraud and corruption and promote their detection
- perform investigations and facilitate recovery in a prompt, thorough and professional manner
- invoke disciplinary proceedings and further action as appropriate.

3.35 The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy.

3.36 The responsibility for the prevention of fraud and corruption lies with management, who ensure that adequate controls, including policies and procedures, are in place to prevent and detect fraud and corruption. The Council has developed systems and procedures that incorporate effective and efficient internal controls, and management ensure that controls minimise risk to an appropriate level. Controls are regularly reviewed to ensure they remain appropriate and effective. The internal and external auditors independently monitor the existence, effectiveness and appropriateness of these controls.

3.36 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its officers

- has made, or about to make, a decision which involves incurring unlawful expenditure
- has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
- is about to make an unlawful entry in the authority's accounts

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

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

3.38 The Council was non complaint with regards to its LGSR landlord duties for its housing stock, managed by EKH during 2019/20. A Section 5 report was issued by the Monitoring Officer to all Councillors on 12 July 2019 and reported to Cabinet

through paper C/19/15. Close liaison with the regulator has been undertaken and a voluntary undertaking has been agreed. The Council has put in place a number of actions and is currently compliant with the LGSR regulations. One instance of litigation is currently being explored in respect of a previous contractor.

4. REVIEW OF EFFECTIVENESS

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

5. GOVERNANCE ARRANGEMENTS IN RESPONSE TO COVID-19 PANDEMIC

- 5.1 In the wake of the Government's emergency response to tackle the Coronavirus pandemic, Folkestone and Hythe District Council, like all other local authorities across the UK has had to adjust the way essential services are delivered to residents.

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- 5.2 To help meet the needs of those most vulnerable within the District, the Council swiftly funded the establishment of three community hubs serving Folkestone, Hythe and the Romney Marsh. Charity, volunteer groups, town and parish councils and council staff have supported the day to day operations of these hubs, which have included the collection and delivery of essential food and medicines. Fortnightly updates on the operational progress and activities of the community hubs are provided to Corporate Leadership Team and Members by Democratic Services and Elections Lead Specialist acting as the Council's operational lead for the hubs.
- 5.3 In order to ensure the Council remains effective in managing and delivering its 'business continuity' obligations in response to the pandemic, virtual meetings have been undertaken on a daily basis with a senior team of staff, including those leading on a number of themes relating to service delivery and managing responses to requests from both Central Government and the Kent Resilience Forum.
- 5.4 The Council's Leader and Cabinet members have actively participated in regular virtual meetings with the Corporate Leadership Team and senior officers to manage the corporate response to the emergency. To ensure essential decision making and the democratic processes of the Council can continue to operate in these unprecedented circumstances, the legislative changes introduced as part of the Coronavirus Act 2020 have ensured that virtual committee meetings can take place until May 2021. The Committee Services team have taken steps in light of the legislative change by piloting virtual committee meetings through the Zoom conferencing platform with a schedule of meetings due to commence from May 2020.
- 5.5 As part of the wider emergency response to the Coronavirus pandemic, the Council is an active member of Kent Resilience Forum (KRF) formed of emergency responders and supporting agencies that are required to plan for emergencies. The Council has ensured key staff have been actively contributing to the strategic and tactical planning group meetings of the KRF on a daily basis as well as participating in the work of established recovery cells that focus on a range of themes including the economy, district/community and finance.
- 5.6 The future easing of lockdown conditions imposed by Central Government will require the Council to develop a recovery plan for the District that will engage with local stakeholders to establish a series of key priorities to support the needs of our local communities. A framework for the recovery plan will be presented to Cabinet in summer 2020.

6. CONCLUSION

- 6.1 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 2020 and up to the date of approval of the Statement of Accounts is that the arrangements in place are considered to be fit for purpose and in accordance with the council's governance framework, with no significant areas requiring attention.
- 6.2 Set out in Appendix 1 is the action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements.

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- 6.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 30th July 2020.

Signed

Signed

Cllr David Monk
Leader of the Council

Dr Susan Priest
Head of Paid Service

Date: 30 July 2020

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Appendix 1 - Action plan for improvement following review of effectiveness of governance arrangements 2020/21

	Action	Who	Date
1	<p>Annual Review of Corporate Governance</p> <p>At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Assistant Directors/Chief Officers and internal audit's opinion report</p>	Monitoring Officer	May 2021
2	<p>Governance Arrangements</p> <p>To keep under review, the Council's governance arrangements.</p>	Monitoring Officer	March 2021
3	<p>Data Retention Policy and General Data Protection Regulation</p> <p>To keep under review, the Data retention policy and the new General Data Protection Policy.</p>	Monitoring Officer	March 2021
4	<p>Review of the Overview & Scrutiny Committee function</p> <p>To implement the revised governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing
5	<p>Review of Corporate Risk Policy for the Council:</p> <p>Encourage all services to have up to date Departmental / Project Risk Registers that comply with the Corporate Policy.</p> <p>Undertake the annual review of the Policy alongside the Audit & Governance Committee and make recommendations to Cabinet.</p>	Director of Corporate Services	March 2021
6	<p>Financial Management Code</p> <p>Review and assess conformity with the CIPFA Statement of Principles of Good Financial Management, raise awareness in the organisation and make appropriate changes to processes to ensure compliance with the Financial Management Code for 2020/21.</p>	Lead Accountant & Monitoring Officer	April 2021
7	<p>Folkestone & Hythe Accelerated Delivery Board:</p> <p>Existing governance arrangements for the board will need to be reviewed and approved by CLT.</p>	Corporate Director of Place	March 2021

Glossary of Terms

Abbreviations – The following abbreviations are used throughout this report:

CIES – Comprehensive Income and Expenditure Statement

MiRS – Movement in Reserves Statement

FVOCI – Fair Value through Other Comprehensive Income

FVPL – Fair Value through Profit and Loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

