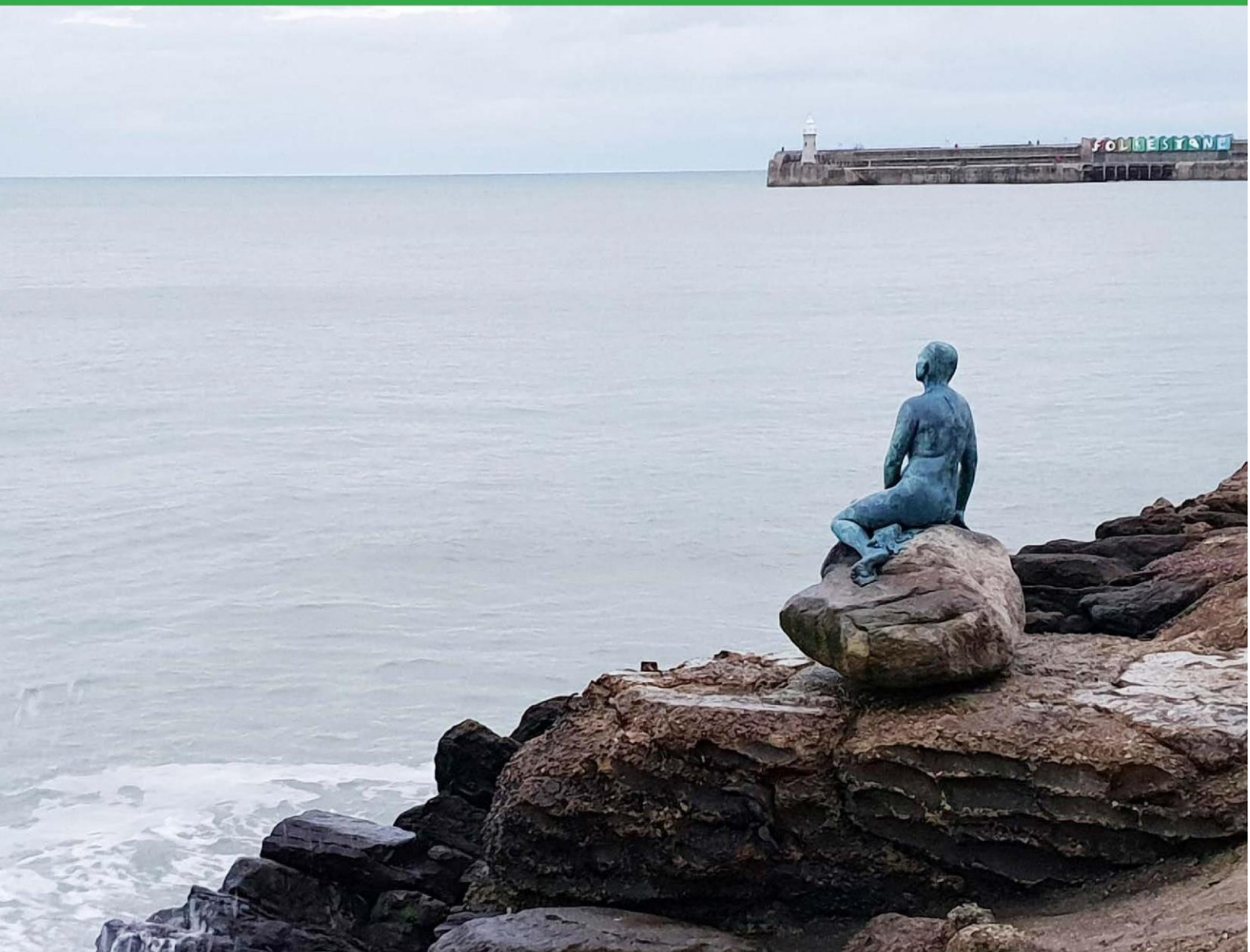


# STATEMENT OF ACCOUNTS 2021/22



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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 113,000<sup>1</sup> residents live in urban areas (63%), with the remaining 37% to be found living in rural areas.



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

### Economic and Environmental Factors

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

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

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

<sup>1</sup> 2019 Mid-Year Population Estimates - ONS

<sup>2</sup> Shepway Economic Development Strategy 2015-2020

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

**Purpose and Vision**

The Councils vision for the district is:

*Creating Tomorrow Together*



**Key Objectives**

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

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



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



### External Environment

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

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

### Covid-19

The community hubs have continued to provide a range of services to support the health and wellbeing of local communities across the district. The council during the year supported the hubs in accessing funding from Kent County Council's 'Helping Hands' fund where a total of £26k was allocated across the three hubs in the district to provide a range of support for people in need, including help with their utility bills and providing food vouchers.

Business rates reliefs and grants for businesses predominantly in the retail, hospitality and leisure sectors continued to be administered in line with government guidelines with nearly £10m being paid out during 2021/22.

Whilst the Council received a substantial amount of government funding in 2020/21 and some funding in 2021/22, the Council's financial strategy assumes there will not be a requirement for further lockdown and no specific additional expenditure relating to COVID-19 has been incorporated in the plan. A prudent view has been taken in the assumption that income realisable from sales, fees and charges will return to pre COVID levels. There are

no commitments from Central Government regarding any further longer term COVID funding for local authorities.

## GOVERNANCE

### Our Political Leadership

The political leadership of the Council during the financial year 2021/22 was through the Executive which consisted of the Leader, Deputy Leader and a further seven Portfolio Holders providing cross-party representation. The Cabinet is made up of 5 Conservative party members, 2 Folkestone & Hythe Independent Party members, 1 Green party member and 1 Liberal Democrat member.

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

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

### Our Managerial Leadership

The managerial leadership is made up of the Corporate Leadership Team (CLT: Chief Executive (the Head of Paid Service) and three Corporate Directors). CLT is supported by 1 Assistant Director and 8 Chief Officers.

### Governance Arrangements

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

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

The Council has a dedicated Audit and Governance Committee which considers the Annual Governance Statement, the local code of corporate governance and the constitution. The Annual Governance Statement has an action plan attached to it which sets out proposals

for the forthcoming year. The Monitoring Officer reports to committee each year if they consider that the constitution needs updating.

Further detail regarding the Governance of the Council can be found within the Annual Governance Statement on pages 119-137.

## OPERATIONAL MODEL AND FINANCIAL PERFORMANCE

### Budget

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

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

A balanced budget was set for both 2021/22 and 2022/23.

### Annual Performance Report 2021-22

The Council has continued to pursue an ambitious corporate agenda in 2021-22 as the district recovers from the pandemic. It is a testament to the hard work and resilience of teams across the organisation in contributing towards the priorities set out in the Corporate Plan.

Some of the highlights from the year include:

- The adoption of the Core Strategy Review (CSR) by members of Cabinet and Full Council in March 2022 that will guide future development within the district over the next 15 years to 2037. This follows an extensive process of consultation over several years and a public examination hosted by independent Planning Inspectors.
- The Housing Landlord Service seeing its 'breach consumer standard notice' lifted during the year by government's Regulator of Social Housing. This was as a result of the hard work being undertaken by the Housing team to make the necessary major improvements following the landlord service being brought back into the Council from East Kent Housing in October 2020.
- The Council during the year supported the community hubs in accessing funding from Kent County Council's 'Helping Hands' fund where a total of £26k was allocated across the three hubs to provide a range of support for people in need, including help with their utility bills and providing food vouchers. A further £30k of funding has been allocated by the Council to support the continued core work of the hubs in 2022/23 and work is ongoing to develop new grant agreements that will provide further support to the hubs' welfare response to the war in Ukraine in addition to the core work.



## NARRATIVE REPORT

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- In response to the Council's declaration of a climate change emergency back in 2019, proposals for a district wide Carbon Action Plan were approved during the year by Cabinet members that will empower local communities, businesses, residents and key partner organisations to achieve net zero by 2030. Work is being undertaken as part of the plan for the council to establish and run a 'Carbon Innovation Lab' that will work with key stakeholder groups to focus on ways of reducing carbon.
- The adoption of the Folkestone Place Plan, an ambitious plan to create a sustainable and vibrant future for Folkestone Town Centre, with work now being undertaken on identifying projects that will support an application for funding from the government's Levelling Up Fund.
- The opening of two new business centres within the district (Romney Marsh Business Hub, New Romney and Bouverie House Business centre, Folkestone) providing flexible working space to support local businesses to grow.
- The planning approval of 30 new low energy homes at the former Highview School site at Moat Farm Road, Folkestone that have been designed by the Council's in-house team with support of consultants and will feature low energy design principles, including high levels of insulation, solar panels and air source heat pumps.
- The rollout of the first new EV charging points across the district. A total of 18 points are now operational in 5 district owned car parks at the end of the year offering residents and visitors a mixture of fast and rapid charging speeds (dependent on location) for their electric vehicles. Further rollout of these new charging points will continue into the 2022-23 year.
- Securing Green Flag Status for Kingsnorth Gardens in Folkestone making it the fourth green space within the district to receive the prestigious award alongside the Royal Military Canal, Lower Leas Coastal Park and Radnor Park. The award is given to green spaces which boast the highest possible environmental standards, are beautifully maintained and have excellent visitor facilities.
- Successfully retaining the Customer Service Excellence accreditation for the eighth year in a row and building on the previous recognition for customer service by being awarded a further two compliance plusses, bringing the overall total to seventeen, the highest the Council has ever achieved since participating in accreditation and reflects the commitment to going above and beyond to support customers.
- Ranking fourth in the Best Companies 'Not-For-Profit Body's' to work for and 57th in the best companies to work for list in the South East Region in 2021.
- Achieving Gold in the Armed Forces Covenant Employer Recognition Scheme (ERS) in recognition of the council's work in employing and supporting persons within the armed forces community.

### RISKS AND OPPORTUNITIES

#### Future service provision

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

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

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

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

The Council has a Strategic Risk Management Policy in place, an updated version was agreed by Cabinet in March 2022. Risks are identified and assigned a Director lead officer as well as a lead Cabinet member. The risks are scored and actions noted, with the current Risk Register being considered at the Audit & Governance Committee. Additionally key risks are outlined within Committee reports.

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

#### What are we currently working on?

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

**Otterpool Park** - In May 2020 Cabinet agreed the corporate structuring and initial activities of Otterpool Park LLP, the Council's delivery vehicle in relation to the development of the Otterpool Park garden town. The updated Business Plan for Otterpool Park LLP was approved by Cabinet in January 2022 which sets out the LLP's priorities as it continues to progress plans to deliver a 21<sup>st</sup> century garden town at Otterpool Park. The project has attracted £3.4m of capacity funding from Government to support the Council's work to date and Homes England, the Government's housing agency, has also invested in land at Otterpool Park to support the proposals. The Business Plan also sets out the details of a proposed strategic land agreement and associated funding arrangements between the Council and the LLP which are in the process of being finalised. Work continues on a new outline planning application to secure planning in 2022.

**Climate Change** – The Climate and Ecological Emergency Working Group met for the first time in October 2019 and made a commitment to reach net zero carbon emissions by 2030. Since then, a baseline year 2018/19 was established, carbon footprint from the council's own operations and estate was calculated and the Carbon Action Plan (February 2021) was adopted setting out 33 actions to reduce our carbon emissions. Progress is being made on the 33 high level actions set out in the Carbon Action Plan which should have a positive impact on reducing emissions over the next few years. In addition, changes to the carbon

content of grid-supplied energy is also likely to reduce the emissions attributable to electricity use. However, it is uncertain whether these changes will be enough in themselves for the council to reach net zero emissions by 2030. Officers are therefore looking to commission a review of the Carbon Action Plan to provide more detailed information.

**Mountfield Road Industrial Estate, New Romney** - In 2020/21 the Council entered into a joint venture agreement with East Kent Spatial Development Company (EKSDC) relating to the development of a business hub at Mountfield Road Industrial Estate, New Romney. In 2021/22 the business hub was completed and the venture transferred to EKSDC, who now own and operate the hub and the Council no longer owns the asset. A further £3.5m funding was awarded from the Government's 'Get Building Fund' to support phase 2 of the development which will bring forward the remaining five acres of council owned land for employment purposes. The funding will deliver the necessary infrastructure to bring forward employment plots for new businesses which will in turn create 700 new jobs for the area. Work on completing phase 2 has been delayed by six months to the end of September 2022. The Council is progressing plans to dispose of a significant part of the phase 2 site for employment development purposes and is considering whether to develop the remainder itself, also for employment purposes. The aim of the project is to develop the area, and as a result realise capital appreciation on the land owned by the Council.

**Town Centre Regeneration** - In September 2021 Cabinet agreed the Folkestone Town Centre Place Plan which sets clear 'missions' to overcome decline in Folkestone's town centre to ensure it has a sustainable and vibrant future and focuses on six action areas within the town centre. The Council received £125,000 capacity funding from the Government's Levelling Up Fund in 2020/21 to assist with preparing a bid application for up to £20 million from the fund for investment in local infrastructure which has a "visible impact on people and their communities". The Council have developed several projects for inclusion in the funding application which was submitted in August 2022.

In May 2020 the Council purchased FOLCA, the former Debenhams store, in Folkestone town centre which will become a centrepiece in the town's regeneration. Proposals for the site include a health centre, leisure facilities, flexible work space and residential properties. The building is currently being used as a mass vaccination centre to aid the rollout of the national vaccination programme in response to the pandemic which will come to an end in Autumn 2022. In September 2021 Cabinet agreed the delivery of a new health centre provision by Premier Primarycare Ltd as phase 1 of the redevelopment and further use of the building is being explored.

**Biggins Wood** – The Council purchased a former brickworks site that has been vacant for over 20 years. Due to remediation costs, this site 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. In 2021/22 the Council was successful in securing £1.15m funding from the Brownfield Land Release Fund for the remediation of the site. A contract has been awarded for the remediation works which are due to complete in June 2023. Sales contracts for the residential and commercial sites are being negotiated with developers.

## NARRATIVE REPORT

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**Highview** – The Council purchased the former Highview School site in April 2017 and the site has been prepared for the development of 30 Council homes for affordable rent and shared ownership purchase. In January 2022 Cabinet agreed that the units should be delivered to a Zero Carbon in Use standard to align with the Council’s ambitions following the announcement of a Climate Emergency and the Government’s requirement for all homes to be zero carbon in use by 2050. Planning permission was approved in August 2022 and procurement of a design and build contractor is underway with construction due to start in Autumn 2022.

**Princes Parade Development** - The Council has long-held ambitions to replace the popular, but old and failing swimming pool in Hythe. Since 2002 the Council has been working to secure a suitable site and financial commitment to build a new pool and recreation area. Feasibility studies were undertaken on the potential sites, and in April 2016 Cabinet decided the basis of a planning application would be for a new pool, recreation centre, up to 150 new homes and new public open space. Work had been on hold whilst a judicial review was concluded, and in December 2020 our previous planning decision for the development was upheld by the high court and permission to appeal the judicial review was refused. The project recommenced in January 2021 and the Council appointed BAM Construction to deliver a new leisure centre, promenade and infrastructure works, as well as new homes. During 2021/22 significant ecological work and extensive site investigations were undertaken, the remediation strategy was developed, disposal of residential land areas was undertaken and Freedom Leisure (Wealden Leisure Ltd) have been appointed as the Leisure Centre operator. Work continues on the project to deliver the key priorities.

**Council Offices Relocation** – Cabinet agreed in January 2021 that detailed work be carried out on proposals to provide a customer access point and to relocate the civic offices. The access point is part of the Council’s long-term proposal to move out of the Civic Centre which has been prompted by the drive to reduce its carbon footprint and has been accelerated by the successful way in which staff have delivered services whilst working from home during the pandemic. In June 2021 Cabinet agreed that a new Customer Access Point would be established initially within the Civic Offices and subsequently within FOLCA in Folkestone Town Centre in Autumn 2021 when the building ceases use as a COVID vaccination centre. The relocation of the Civic Offices is being taken forward separately and proposals include the creation of a smaller, purpose built, carbon-efficient facility with office space, meeting rooms and a civic chamber at Otterpool Park.

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

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

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

### STRATEGY AND RESOURCE ALLOCATION

The Council has consistently planned its finances on a medium to long term basis ensuring reserves are maintained at a level which supports financial sustainability while protecting services from reductions. The current Medium Term Financial Strategy (MTFS) pushes the planning horizon to March 2026. The MTFS was reported to Council on the 24<sup>th</sup> November 2021 and significantly shaped the annual budget setting cycle for 2022/23. Similarly the MTFS considered by Cabinet on 11<sup>th</sup> November 2020 and the Budget Strategy on 9<sup>th</sup> December 2020 shaped the framework for the setting of a balanced budget for 2021/22.

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

The current MTFS forecasts a cumulative funding gap of £5.8 million over the lifetime of the MTFS (2022/23-2025/26). Cabinet's budget recommendation for 2021/22 was considered at a meeting of Full Council on 24 February 2021. Council approved a balanced budget for 2022/23 on 23<sup>rd</sup> February 2022.

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

#### Approach to Monitoring

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

### PERFORMANCE

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

The outturn performance for the councils KPIs was reported to the June 2022 Cabinet meeting.

The Councils outturn performance includes:

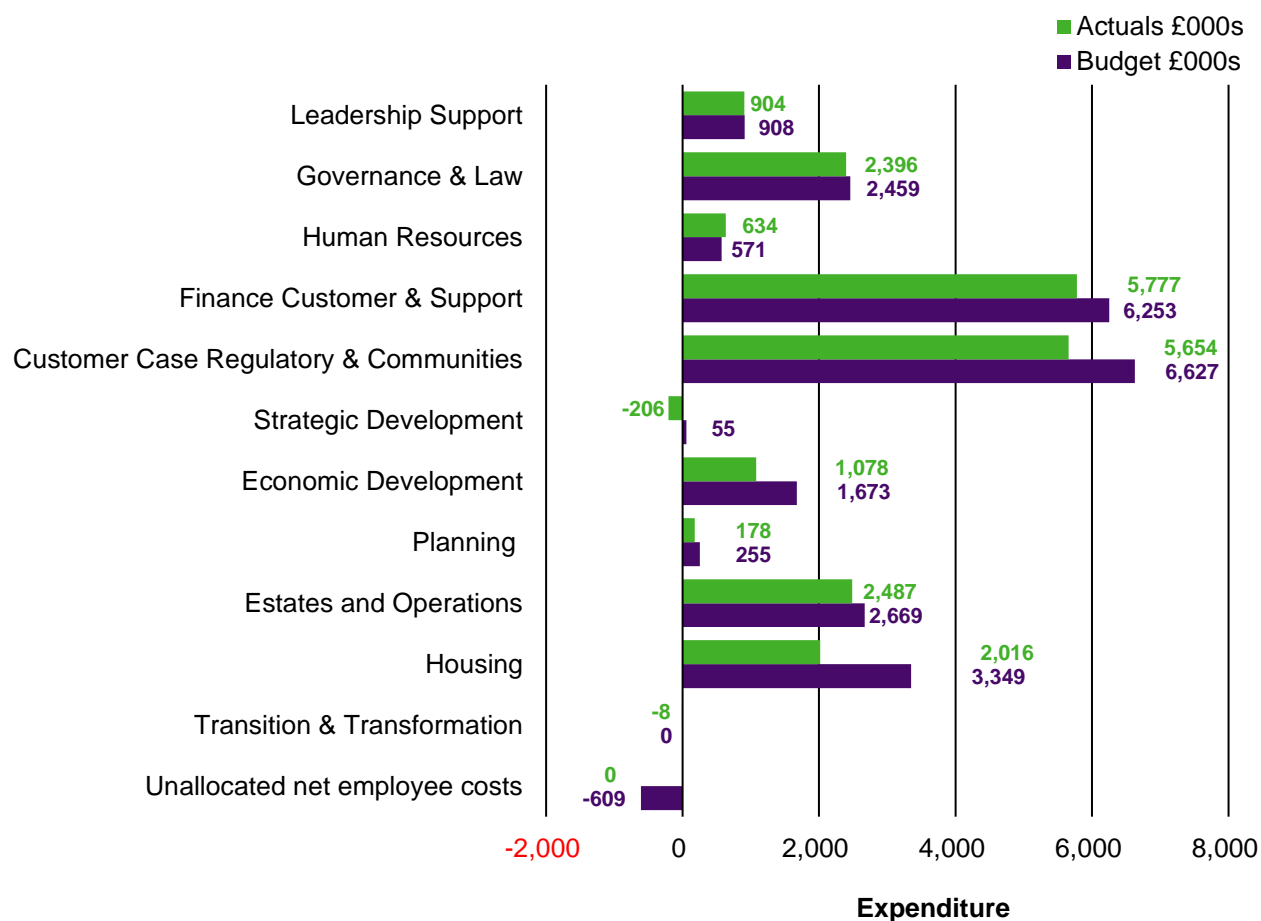
## NARRATIVE REPORT

Performance Indicator	Actual	Target	Status	2020/21 Comparison
Percentage of Council Tax due collected in year	96.30%	97.30%	✘	↑
Percentage of Non-Domestic Rates due collected in year	96.81%	97.50%	✘	↑
Average number of days taken to process new claims for Housing Benefit	12.2 days	17 days	✓	↑
Average time for graffiti to be removed from the time of being reported	30 hours	48 hours	✓	↑
Percentage of compliant air quality monitoring sites	100.00%	100.00%	✓	↑
Percentage of major planning applications to be determined within statutory period	87.20%	60.00%	✓	↓
Average number of households in Temporary Accommodation	29	35	✓	↑
Average number of rough sleepers in the period	5.63	6.00	✓	N/A

## FINANCIAL PERFORMANCE

### General Fund – Revenue

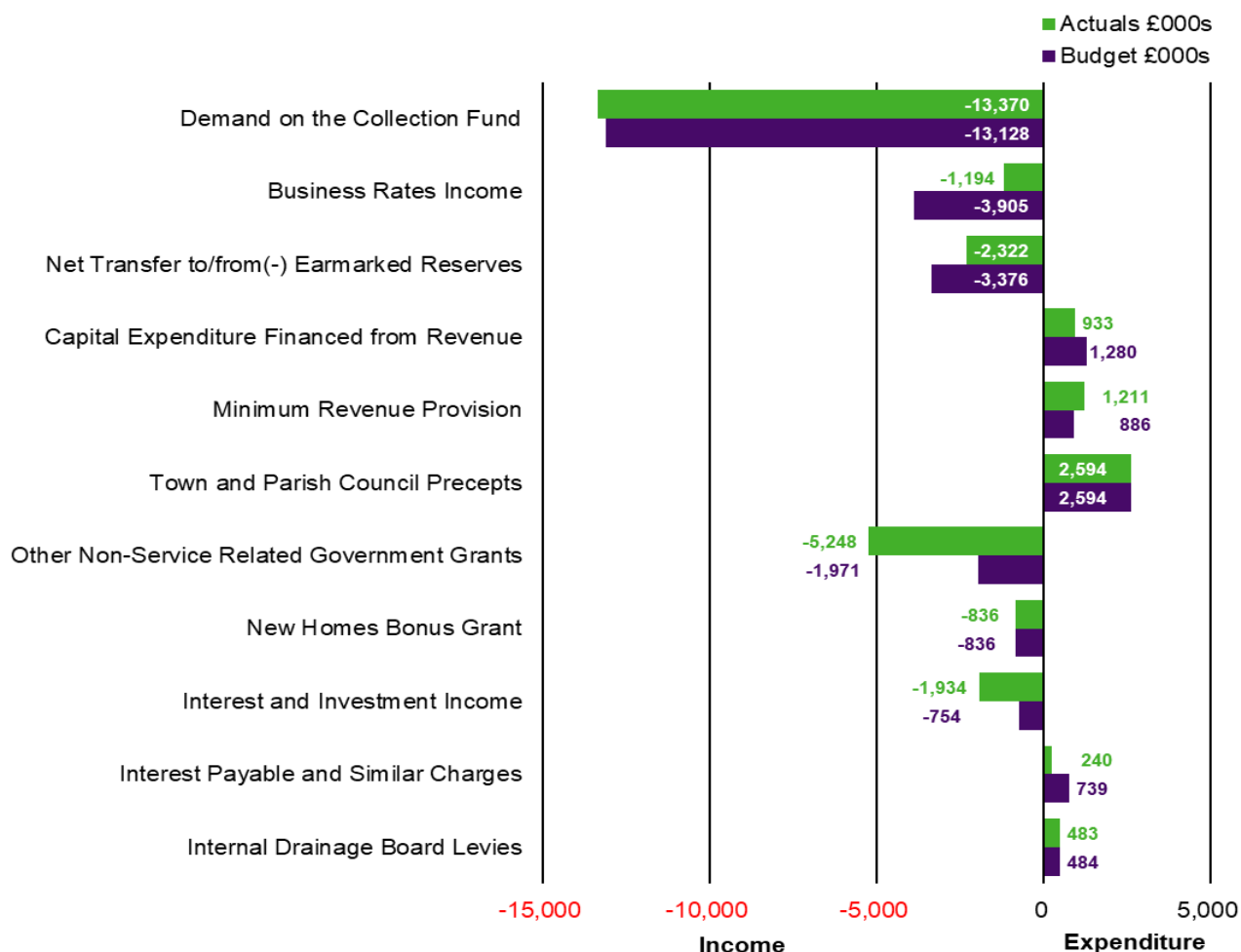
The latest approved budget for net cost of services to deliver the core services of the council and meet its strategic objectives was £24.2m. Delivering expenditure in line with agreed budgets is an important performance indicator and this was achieved in 2021/22 as outlined below:



## NARRATIVE REPORT

The total net cost of services for 2021/22 of £20.7m can be identified on the Expenditure and Funding Analysis (EFA) as the deficit on Continuing Operations of £22.3m before the debit adjustment in respect of the HRA of £1.6m, under the heading of “As reported for resource management”.

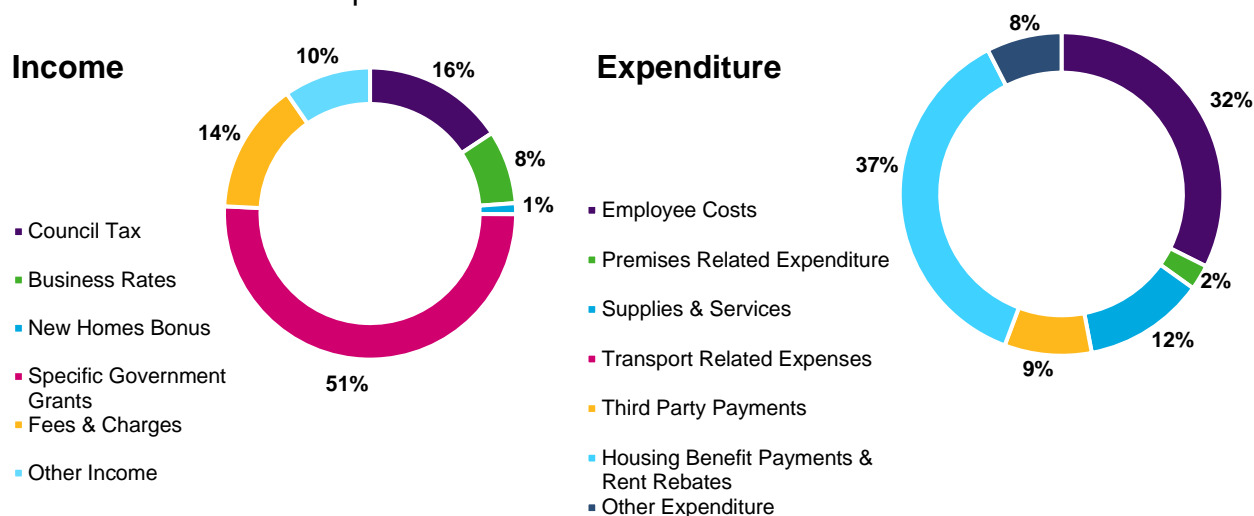
The following entries affect the Other Income and Expenditure within the EFA (in addition to entries from the HRA), are reported to Members through the in-year monitoring and outturn reports.



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

## NARRATIVE REPORT

Sources of income and expenditure were as follows:



The final outturn shows a net deficit for the year of £1.2m against the latest approved budgeted deficit of £6.3m. This represents a favourable variance of £5.1m compared to the latest approved 2021/22 budget.

It is important to note that this deficit position includes a net transfer from earmarked reserves of (£3.3m) which relates to the Collection Fund and the required accounting entries to comply with Collection Fund accounting regulations. It relates to the additional Covid reliefs awarded by the Government in 2020/21 and 2021/22 to businesses impacted by the pandemic. Due to the timing of Collection Fund accounting, the awarding of these reliefs result in a deficit to the General Fund in the subsequent year. An amount of £5.8m was set aside in earmarked reserves at the end of 2020/21 to offset the impact to the General Fund in 2021/22 and (£5.6m) has been drawn down. At the end of 2021/22 an amount of £2.3m has been set aside to offset the anticipated adverse impact on the General Fund in 2022/23. Excluding this amount the outturn position is a deficit of £4.5m, which is an underspend of (£1.8m).

Further detail can be found in the Outturn report to Cabinet in June 2022.

### General Fund Capital

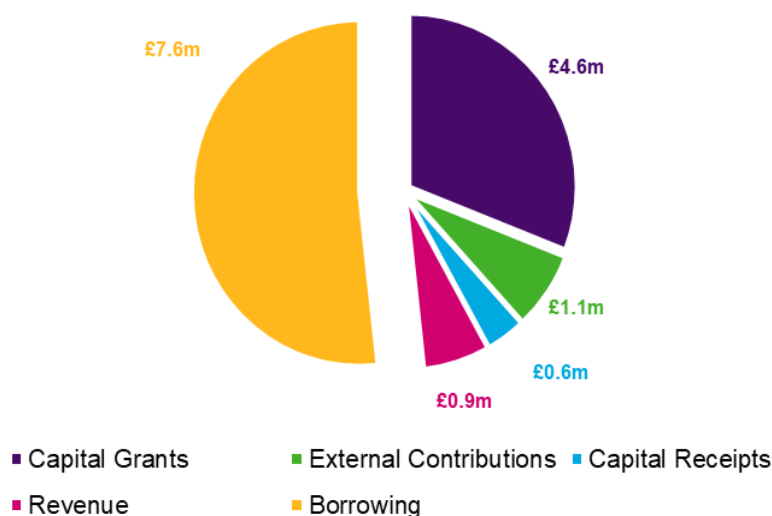
The General Fund Capital summary position is outlined below:

	Latest Budget 2021/22	Final Outturn 2021/22	Variance Budget to Outturn
<b>Service Units</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Operations	4,516	2,954	(1,562)
Corporate Services	1,416	1,124	(292)
Housing	1,587	1,630	43
Place	14,662	8,965	(5,697)
Governance & Law	0	22	22
Economic Development	625	44	(581)
<b>Total Capital Expenditure</b>	<b>22,806</b>	<b>14,739</b>	<b>(8,067)</b>



## NARRATIVE REPORT

The capital programme was financed from the following funding sources:



The key movements relate to slippage in the capital programme particularly in relation to Otterpool Park, Princes Parade, Mountfield Road Industrial Estate, Community Led Local Development ERDF Capital Projects (externally funded) and Oportunitas Loan and Share Capital Phase 2.

Further details can be found in the June 2022 Cabinet report.

### Housing Revenue Account

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

	Latest Budget 2021/22 £000's	Final Outturn 2021/22 £000's	Variance Budget to Outturn £000's
Income	(15,831)	(18,569)	(2,738)
Expenditure	12,943	20,064	7,121
HRA Share of Corporate Costs	175	160	(15)
<b>Net Cost of HRA Services</b>	<b>(2,713)</b>	<b>1,655</b>	<b>4,368</b>
Interest Payable/Receivable	1,623	999	(624)
<b>HRA Surplus/Deficit</b>	<b>(1,090)</b>	<b>2,654</b>	<b>3,744</b>
Other items of Income & Expenditure	(295)	(4,832)	(4,537)
Revenue Contribution to Capital	5,938	4,287	(1,651)
<b>Decrease/(Increase) to HRA Reserve</b>	<b>4,553</b>	<b>2,109</b>	<b>(2,444)</b>

The main reason for the variance is a £1.7m reduction in the revenue contribution to capital expenditure required. The amount of revenue contribution to capital will change from year to year depending on the profile of the new build/acquisitions programme.

## NARRATIVE REPORT

A summary of the capital programme outturn is noted below:

	<b>Latest Budget 2021/22 £000's</b>	<b>Final Outturn 2021/22 £000's</b>	<b>Variance Budget to Outturn £000's</b>
<b>HRA Capital programme</b>	<b>14,605</b>	<b>11,136</b>	<b>(3,469)</b>

The main reason for the variance compared to the latest approved budget, is an underspend on the current year's planned programme due to delays in sites being ready for works to commence. These schemes have been re-profiled and works on site are now due to commence in 2022/23 for Highview and Biggins Wood.

## OUTLOOK

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

The Council also takes a robust view of capital investments and this is included as part of a medium term capital programme and is refreshed annually during the budget process. For the current programme agreed in February 2022, there is capital investment planned for the next three years totalling £154.3 million. This sits alongside the planned revenue budget and use of reserves which are considered by the Council throughout its budget process to ensure a sustainable approach to its finances.



**Future Financial Resilience**

The Council has coped well with the impact of COVID-19. It had maintained a level of reserves which has and continues to provide it with some protection against the difficult economic times and short-term gaps in funding. The table below shows the Council's reserves position for the last five years which allowed it to withstand the impact of the pandemic in 2019/20 and 2020/21.

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

	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<b>Usable Reserves</b>	(41,041)	(51,176)	(53,544)	(56,334)	(53,947)
<b>Unusable Reserves</b>	(81,481)	(118,658)	(128,008)	(138,128)	(191,264)
<b>Total Reserves</b>	(122,522)	(169,834)	(181,552)	(194,462)	(245,211)
<b>% Increase</b>	<b>13%</b>	<b>39%</b>	<b>7%</b>	<b>7%</b>	<b>26%</b>

The Medium Term Financial Strategy for 2022/23 to 2025/26 details the Council's future financial strategy.

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

The Public Sector Audit Appointments (PSAA) appointed Grant Thornton UK LLP for the audit of the accounts for the year ended 31<sup>st</sup> March 2022.

## **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: XXXX

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# Statement of Responsibilities for the Statement of Accounts

This statement is given in respect of the Statement of Accounts 2021/22.

## 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 31<sup>st</sup> July.

## CHIEF FINANCE OFFICER RESPONSIBILITIES

The Chief Finance Officer is responsible for the preparation of Folkestone & Hythe District Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy *2021/22 Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

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

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

## CERTIFICATION OF ACCOUNTS

I certify that the Statement of Accounts gives a true and fair view of the financial position of Folkestone & Hythe District Council at 31<sup>st</sup> March 2022 and its income and expenditure for the year then ended.

Signed:

*Charlotte Spendley, FCCA*  
Director of Corporate Services

Date: XXXX

## STATEMENT OF RESPONSIBILITIES

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### APPROVAL OF ACCOUNTS

In accordance with the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts was approved by the Audit Committee on XXXX 2022.

Signed:

*Councillor Philip Martin*  
Chairman, Audit and Governance Committee

Date: XXXX

# Core Financial Statements



**FINANCIAL STATEMENTS**  
**MOVEMENT IN RESERVES STATEMENT**

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

	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Unapplied Capital Grants Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>2021/22</b>								
Balance at 31 March 2021	(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)
<b>Movement in reserves during 2021/22</b>								
Total Comprehensive Income and Expenditure	(3,805)	2,654	-	-	-	(1,151)	(49,598)	(50,749)
Adjustments between accounting basis and funding basis under regulations (Note 5)	4,173	(545)	(633)	3,271	(2,728)	3,538	(3,538)	-
<b>(Increase) or Decrease in 2021/22</b>	<b>368</b>	<b>2,109</b>	<b>(633)</b>	<b>3,271</b>	<b>(2,728)</b>	<b>2,387</b>	<b>(53,136)</b>	<b>(50,749)</b>
<b>Balance at 31st March 2022 carried forward</b>	<b>(27,027)</b>	<b>(9,928)</b>	<b>(9,069)</b>	<b>-</b>	<b>(7,923)</b>	<b>(53,947)</b>	<b>(191,264)</b>	<b>(245,211)</b>
<b>2020/21</b>								
Balance at 31 March 2020	(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)
<b>Movement in reserves during 2020/21</b>								
Total Comprehensive Income and Expenditure	(3,896)	8,221	-	-	-	4,325	(17,235)	(12,910)
Adjustments between accounting basis and funding basis under regulations (Note 5)	492	(7,783)	(305)	1,324	(843)	(7,115)	7,115	-
<b>(Increase) or Decrease in 2020/21</b>	<b>(3,404)</b>	<b>438</b>	<b>(305)</b>	<b>1,324</b>	<b>(843)</b>	<b>(2,790)</b>	<b>(10,120)</b>	<b>(12,910)</b>
<b>Balance at 31st March 2021 carried forward</b>	<b>(27,395)</b>	<b>(12,037)</b>	<b>(8,436)</b>	<b>(3,271)</b>	<b>(5,195)</b>	<b>(56,334)</b>	<b>(138,128)</b>	<b>(194,462)</b>



**FINANCIAL STATEMENTS**  
**MOVEMENT IN RESERVES STATEMENT**

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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.

2020/21			2021/22			
Gross		Net		Gross	Net	
Expenditure	Income	Expenditure		Expenditure	Expenditure	
£000s	£000s	£000s		£000s	£000s	
<b>Continuing Operations</b>						
1,198	(121)	1,077	Leadership Support	1,271	(306)	965
2,922	(354)	2,568	Governance & Law	3,265	(386)	2,879
900	(213)	687	Human Resources	845	(128)	717
44,490	(37,704)	6,786	Finance Customer & Support	36,751	(31,643)	5,108
851	(17)	834	Strategic Development	591	(721)	(130)
1,784	(935)	849	Economic Development	1,838	(675)	1,163
1,621	(1,337)	284	Planning	1,697	(1,288)	409
9,035	(5,234)	3,801	Operations	9,936	(6,278)	3,658
4,235	(4,085)	150	Housing	5,584	(6,004)	(420)
8,709	(2,700)	6,009	Place	9,060	(3,111)	5,949
31	-	31	Transition & Transformation	8	-	8
23,323	(16,517)	6,806	Local Authority Housing (HRA)	20,384	(18,729)	1,655
<b>99,099</b>	<b>(69,217)</b>	<b>29,882</b>	<b>(Surplus)/Deficit on Continuing Operations</b>	<b>91,230</b>	<b>(69,269)</b>	<b>21,961</b>
3,381	(852)	2,529	Other Operating Expenditure (Note 9)	3,297	(837)	2,460
4,569	(7,889)	(3,320)	Financing and Investment Income and Expenditure (Note 10)	5,219	(5,237)	(18)
6,717	(31,483)	(24,766)	Taxation and Non-specific Grant Income (Note 11)	6,603	(32,157)	(25,554)
<b>113,766</b>	<b>(109,441)</b>	<b>4,325</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>106,349</b>	<b>(107,500)</b>	<b>(1,151)</b>
		(21,908)	(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 32)			(40,885)
		4,673	Re-measurement of net defined liability (Note 30)			(8,713)
		<b>(17,235)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(49,598)</b>
		<b>(12,910)</b>	<b>TOTAL Comprehensive Income and Expenditure</b>			<b>(50,749)</b>

**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'.

<b>31-Mar-20</b>		<b>31-Mar-21</b>
<b>£000s</b>	Note	<b>£000s</b>
185,603	Council dwellings	220,220
26,423	Other land and buildings	27,084
3,766	Vehicles, plant, furniture and equipment	4,710
10,346	Infrastructure assets	9,390
3,461	Community assets	3,461
14,736	Surplus assets	20,543
2,034	Assets under construction	8,036
2,998	Heritage assets	2,998
84,160	Investment property	90,014
179	Intangible assets	206
19,922	Long term investments	19,675
7,919	Long term debtors	9,032
<b>361,547</b>	<b>Long Term Assets</b>	<b>415,369</b>
8	Inventories	9
17,407	Short term debtors	15,468
2,320	Cash and cash equivalents	14,730
<b>19,735</b>	<b>Current Assets</b>	<b>30,207</b>
(6,902)	Short term borrowing	(40,602)
(27,381)	Short term creditors	(24,893)
(1,447)	Capital grants received in advance	(3,089)
(2,277)	Provisions	(2,011)
<b>(38,007)</b>	<b>Current Liabilities</b>	<b>(70,595)</b>
(72,155)	Long term borrowing	(57,155)
(76,591)	Net pensions liability	(72,548)
(67)	Provisions	(67)
<b>(148,813)</b>	<b>Long Term Liabilities</b>	<b>(129,770)</b>
<b>194,462</b>	<b>Net Assets</b>	<b>245,211</b>
(56,334)	Usable reserves	(53,947)
(138,128)	Unusable reserves	(191,264)
<b>(194,462)</b>	<b>Total Reserves</b>	<b>(245,211)</b>

I certify that the accounts present a true and fair view of the financial position of the Council and of its income and expenditure for the year ended 31 March 2021.

Charlotte Spendley, FCCA  
Director of Corporate Services      Date: XXXX

**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.

2020/21		2021/22
£000s	Note	£000s
(4,325)		1,151
Net surplus or (deficit) on the provision of services		
19,328	35	7,860
Adjustments to net surplus or (deficit) on the provision of services for non-cash movements		
(5,965)	35	(10,514)
Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities		
<hr/>		
<b>9,038 Net cash flow from operating activities</b>		<b>(1,504)</b>
<b>(10,755) Net cash flow from investing activities</b>		<b>(12,000)</b>
<b>(6,533) Net cash flow from financing activities</b>		<b>25,914</b>
<hr/>		
<b>(8,250) Net increase or decrease in cash and cash equivalents</b>		<b>12,410</b>
<hr/>		
10,570 Cash and cash equivalents at the beginning of the reporting period		2,320
<b>2,320 Cash and cash equivalents at the end of the reporting period</b>		<b>14,730</b>

# 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 2021/22 financial year and its position at the year end of 31 March 2022. 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 2021/22* 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.

#### 1.2 Accruals of Income and Expenditure

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

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

### 1.3 Grants and Contributions

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

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

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

### 1.4 Cash and Cash Equivalents

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

### 1.5 Council Tax and Non-Domestic Rates

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

#### Accounting for Council Tax and NDR

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

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

### 1.6 Exceptional Items

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

### 1.7 Overheads and Support Services

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

### 1.8 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account to score against (Surplus) or Deficit on the Provision of Services in the CIES. 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 economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

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

#### Measurement

Items of PPE are initially measured at cost, comprising:

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



## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

### Impairment

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

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

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

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

### Disposal

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

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

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

### 1.10 Borrowing Costs

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

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

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

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

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

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

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

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

### 1.11 Heritage Assets

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

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

Heritage assets are then carried at valuation rather than current or fair value, reflecting the fact that sales and exchanges of heritage assets are uncommon. Valuations may be made by any method that is appropriate and relevant, including replacement cost, purchase cost

and insurance valuation. There is no requirement for valuations to be carried out or verified by an external valuer, nor is there any prescribed minimum period between valuations, but the carrying amounts of heritage assets carried at valuation must be reviewed with sufficient regularity to ensure they remain current. In some cases it may not be practicable to establish a valuation for a heritage asset, in which case the asset is carried at historical cost if this information is available.

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

### **1.12 Investment Property**

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

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

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

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

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

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

### **1.14 Employee Benefits**

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

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

### Termination Benefits

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

## NOTES TO THE FINANCIAL STATEMENTS

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remove the notional debits and credits for retirement benefits and replace them with cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The debit balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

### 1.15 Events after the Reporting Period

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

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

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

### 1.16 Financial Assets

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

Financial assets are classified into one of three categories:

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

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances

## NOTES TO THE FINANCIAL STATEMENTS

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outstanding at the date of de-recognition of an asset) are debited/credited to the Financing and Investment Income and Expenditure line in the CIES.

### **1.17 Financial Liabilities**

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

### **1.18 Provisions**

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

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

### **1.19 Value Added Tax**

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

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

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

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

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

- IAS IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

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:

### Valuation of Assets

The Council carries out a rolling programme of valuations to ensure that all PPE required to be measured at current value is revalued at least every five years. Properties with a higher valuation are valued annually to ensure a materially correct carrying value. The value of council dwellings is reviewed at the end of each financial year to reflect the experience of property price changes in the local area. In 2021/22 a full revaluation of council dwellings was undertaken resulting in a balance sheet value of £220.2m (2020/21 £185.6m).

### 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 that the Council neither controls, jointly controls, nor has significant influence over the Trust, the inclusion of the Charity in the group accounts is not required. Councillors who sit on the Board of Trustees act on behalf of the Trust in their decision making, rather than in the interests of the Council. Further information is disclosed in note 39 on page 91.

### Joint waste and recycling contract

The Council entered into a new joint working arrangement with Dover District Council in January 2021 to deliver the Waste, Recycling and Street Cleansing contract for an eight year period until 2029. As part of the new contract the Councils committed to jointly fund the purchase of the new vehicle fleet and other service equipment. These assets have been



## NOTES TO THE FINANCIAL STATEMENTS

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recognised on the balance sheet and the annual contract payments have been accounted for as supplies and services within the appropriate service lines in the CIES.

### **Oportunitas Limited**

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

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

In 2019/20 the Council set up a delivery vehicle to deliver its objectives for the Otterpool Park Garden Town. FHDC and Otterpool Park Development Company Ltd were appointed members in February 2020, with FHDC owning 99.9% of the company. It is deemed that by its nature and context in the Council's operations the companies are material and so their results have been consolidated into the group accounts.

### **Mountfield Road Industrial Estate Joint Venture**

In 2020/21 the Council entered into a joint venture agreement with East Kent Spatial Development Company (EKSDC) relating to the development of a business hub at Mountfield Road Industrial Estate, New Romney. The business hub was completed in 2021/22 and the venture transferred to EKSDC, who now own and operate the hub and the Council no longer own the asset. The cost of £473k relating to this venture has been treated in the accounts as a Revenue Expenditure Funded from Capital under Statute (REFCUS) as this expenditure is of a capital nature but does not result in the creation of a non-current asset on the Balance Sheet. With due regard to both the quantitative and qualitative aspects of materiality the economic activity of this joint venture is not deemed material and therefore has not been included within the group accounts but has been disclosed as a related party in Note 38 on page 90.

### **Mountfield Road – New Businesses**

A further £3.5m funding was awarded from the Government's 'Get Building Fund' to support phase 2 of the development which will bring forward the remaining five acres of council owned land for employment purposes. The funding will deliver the necessary infrastructure to bring forward employment plots for new businesses which will in turn create 700 new jobs for the area. Work on completing phase 2 has been delayed by six months to the end of September 2022. The Council is progressing plans to dispose of a significant part of the phase 2 site for employment development purposes and is considering whether to develop the remainder itself, also for employment purposes. The aim of the project is to develop the area, as a result realise capital appreciation on the land owned by the Council and as such the existing land and expenditure incurred of £3.01m as at 31 March 2022 are held as assets under construction on the balance sheet.

### **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**

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Valuations (Property, Plant and Equipment, Investment Property and Heritage Assets)	<p>The outbreak of Covid-19 has and continues to impact the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. The pandemic and the measures taken to tackle Covid-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are mostly functioning again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value.</p> <p>Valuations are therefore not reported as being subject to ‘material valuation uncertainty’ as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.</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> <p>The effects on the overall asset valuations of a 10% reduction or increase would result in a change of £34.8m on the revaluation reserve and/or CIES.</p>
Pension liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £3.6m.</p> <p>Further sensitivity analysis of factors affecting the Pensions Fund is set out in Note 29.</p>
Provisions	<p>The Council has made a provision for possible successful appeals to business rates rateable values. The provision is based on past experience and may not necessarily reflect future success, which can be due to a number of factors. Due to delays in the assessment of appeals by the Valuation Office since the implementation of ‘Check, Challenge, Appeal’ it is difficult to assess the impact of successful appeals.</p>	<p>The business rates rateable value at 31/3/2022 was £73m. For every 1% successful reduction in the rateable value, it is equal to a cost of £146k to the Council (for a single year).</p>

## NOTES TO THE FINANCIAL STATEMENTS

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<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
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 18 and 27.</p>	Significant changes in any of the unobservable inputs would result in a significantly higher or lower fair value measurement for investment properties and financial instruments.

# Notes Supporting The Movement in Reserves Statement



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

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

Adjustments Between Accounting Basis and Funding Basis Under Regulations 2021/22	General Fund Balance	Housing Revenue Account	Major Repairs Reserve	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000s	£000s	£000s	£000s	£000s	£000s
<b>Adjustments to Revenue Resources</b>						
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>						
Pension costs (transferred to or from the Pensions Reserve)	(3,870)	(800)	-	-	-	4,670
Financial instruments (transferred to or from the Financial Instruments Adjustment Account or Financial Instrument Revaluation Reserve)	793	-	-	-	-	(793)
Council Tax and National Domestic Rates (transferred to or from the Collection Fund Adjustment Account)	1,693	-	-	-	-	(1,693)
Holiday pay (transferred to the Accumulated Absences Reserve)	74	12	-	-	-	(86)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(2,928)	(7,758)	-	-	-	10,686
<b>Total Adjustments to Revenue Resources</b>	<b>(4,238)</b>	<b>(8,546)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,784</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	129	1,728	-	(2,619)	-	762
Payments to the government housing receipts pool (funded by a transfer from the Capital Receipts Reserve)	(219)	-	-	219	-	-
Posting of HRA resources from revenue to the Major Repairs Reserve	-	-	(2,408)	-	-	2,408
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	1,211	-	-	-	-	(1,211)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	932	4,288	-	-	-	(5,220)
<b>Total Adjustments to between Capital and Revenue Resources</b>	<b>2,053</b>	<b>6,016</b>	<b>(2,408)</b>	<b>(2,400)</b>	<b>-</b>	<b>(3,261)</b>
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-	1,767	-	(1,767)
Use of the Major Repairs Reserve to finance capital expenditure	-	-	5,679	-	-	(5,679)
Application of capital grants to finance capital expenditure	6,363	1,989	-	-	(2,728)	(5,624)
Cash payments in relation to deferred capital receipts	(5)	(4)	-	-	-	9
<b>Total Adjustments to Capital Resources</b>	<b>6,358</b>	<b>1,985</b>	<b>5,679</b>	<b>1,767</b>	<b>(2,728)</b>	<b>(13,061)</b>
<b>Total Adjustments</b>	<b>4,173</b>	<b>(545)</b>	<b>3,271</b>	<b>(633)</b>	<b>(2,728)</b>	<b>(3,538)</b>

**NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT**

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

**NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT**

**6. Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2021/22. Earmarked Reserves are shown in the MIRS as included in General Fund and HRA Fund balances as appropriate.

<u>Earmarked Reserves</u>	<b>Balance 01-Apr-20 £000s</b>	<b>Transfers</b>		<b>Balance 31-Mar-21 £000s</b>	<b>Transfers</b>		<b>Balance 31-Mar-22 £000s</b>
		<b>In £000s</b>	<b>Out £000s</b>		<b>In £000s</b>	<b>Out £000s</b>	
<b><u>General Fund</u></b>							
Business Rates	(5,699)	(589)	3,565	(2,723)	(706)	767	<b>(2,662)</b>
Leisure Reserve	(497)	(50)	-	(547)	(50)	150	<b>(447)</b>
Carry Forwards	(681)	(393)	383	(691)	(999)	334	<b>(1,356)</b>
Vehicles, Equipment and Technology	(257)	(166)	140	(283)	(150)	146	<b>(287)</b>
Invest to Save	(366)	-	366	-	-	-	-
Maintenance of Graves	(12)	-	-	(12)	-	-	<b>(12)</b>
New Homes Bonus	(2,360)	(1,422)	1,441	(2,341)	(830)	1,174	<b>(1,997)</b>
Corporate Initiatives	(998)	-	400	(598)	(497)	135	<b>(960)</b>
IFRS Reserve	(31)	-	23	(8)	-	3	<b>(5)</b>
Otterpool Park Garden Town	(1,570)	-	1,570	-	-	-	-
Economic Development	(4,384)	(428)	2,821	(1,991)	(287)	293	<b>(1,985)</b>
Community Led Housing	(417)	-	52	(365)	-	55	<b>(310)</b>
Lydd Airport	(9)	-	-	(9)	-	-	<b>(9)</b>
Homelessness Prevention	(401)	(444)	357	(488)	(895)	425	<b>(958)</b>
High Street Regeneration	(3,000)	-	930	(2,070)	-	495	<b>(1,575)</b>
Climate Change	-	(5,000)	54	(4,946)	-	66	<b>(4,880)</b>
COVID	-	(6,501)	-	(6,501)	(2,871)	5,846	<b>(3,526)</b>
	<b>(20,682)</b>	<b>(14,993)</b>	<b>12,102</b>	<b>(23,573)</b>	<b>(7,285)</b>	<b>9,889</b>	<b>(20,969)</b>

**NOTES SUPPORTING THE MOVEMENT IN RESERVES STATEMENT**

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



# Notes Supporting the Comprehensive Income And Expenditure Statement



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

## 7. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2021/22 (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.

	<b>As reported for resource management</b>	<b>2021/22 Adjustment to arrive at the net amount chargeable to the General fund and HRA</b>	<b>Net Expenditure Chargeable to the General Fund and HRA Balances</b>	<b>Adjustments between the Funding and Accounting Basis</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Leadership Support	904	185	1,089	(123)	966
Governance & Law	2,396	349	2,745	133	2,878
Human Resources	634	136	770	(53)	717
Finance Customer & Support	5,540	(48)	5,492	(384)	5,108
Strategic Development	(206)	128	(78)	(52)	(130)
Economic Development	1,078	99	1,177	(13)	1,164
Planning	178	378	556	(147)	409
Operations	2,487	(292)	2,195	1,463	3,658
Housing	2,016	(2,358)	(342)	(78)	(420)
Place	5,654	621	6,275	(326)	5,949
Transition & Transformation	(8)	26	18	(10)	8
Local Authority Housing (HRA)	1,654	(6,382)	(4,728)	6,382	1,654
<b>(Surplus)/Deficit on Continuing Operations</b>	<b>22,327</b>	<b>(7,158)</b>	<b>15,169</b>	<b>6,792</b>	<b>21,961</b>
Other Income and Expenditure	(18,970)	6,278	(12,692)	(10,420)	(23,112)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>3,357</b>	<b>(880)</b>	<b>2,477</b>	<b>(3,628)</b>	<b>(1,151)</b>
Opening General Fund and HRA Balance			<b>(39,432)</b>		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			<b>2,477</b>		
Closing General Fund and HRA Balance at 31 March*			<b>(36,955)</b>		

\*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**

	<b>2020/21</b>				
	<b>As reported for resource management</b>	<b>Adjustment to arrive at the net chargeable to the General fund and HRA</b>	<b>Net Expenditure Chargeable to the General Fund and HRA Balances</b>	<b>Adjustments between the Funding and Accounting Basis</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Leadership Support	1,002	191	1,193	(116)	1,077
Governance & Law	2,499	194	2,693	(125)	2,568
Human Resources	651	92	743	(56)	687
Finance Customer & Support	6,587	432	7,019	(233)	6,786
Strategic Development	767	123	890	(56)	834
Economic Development	758	90	848	1	849
Planning	79	343	422	(138)	284
Operations	2,590	(81)	2,509	1,292	3,801
Housing	27	257	284	(134)	150
Place	5,549	848	6,397	(388)	6,009
Transition & Transformation	10	35	45	(14)	31
Local Authority Housing (HRA)	6,806	(5,846)	960	5,846	6,806
<b>(Surplus)/Deficit on Continuing Operations</b>	<b>27,325</b>	<b>(3,322)</b>	<b>24,003</b>	<b>5,879</b>	<b>29,882</b>
Other Income and Expenditure	(21,235)	(5,734)	(26,969)	1,412	(25,557)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>6,090</b>	<b>(9,056)</b>	<b>(2,966)</b>	<b>7,291</b>	<b>4,325</b>
Opening General Fund and HRA Balance			<b>(36,466)</b>		
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year			<b>(2,966)</b>		
Closing General Fund and HRA Balance at 31 March*			<b>(39,432)</b>		

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

**Expenditure and Income Analysed by Nature**

	2020/21*	2021/22
	£000s	£000s
<b>Expenditure</b>		
Employee Benefits Expense	25,952	23,485
Other Services Expense	62,959	56,141
Depreciation, Amortisation & Impairment	10,312	11,604
Interest Payments	3,180	3,508
Precepts & Levies	3,242	3,297
Gain / (Loss) on Disposal of Assets	(837)	(837)
<b>Total Expenditure</b>	<b>104,808</b>	<b>97,198</b>
<b>Income</b>		
Fees, Charges & Other Service Income	(29,947)	(31,114)
Interest & Investment Income	(5,332)	(4,909)
Income from Council Tax & NDR	(11,919)	(14,564)
Government Grants & Contributions	(53,285)	(47,762)
<b>Total Income</b>	<b>(100,483)</b>	<b>(98,349)</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>4,325</b>	<b>(1,151)</b>

\*Prior year comparatives have been restated to include Apprenticeship Levy funding

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

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

2020/21			2021/22		
Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s	£000s	£000s	£000s
					Other Housing Services
21,772	(21,068)	704	19,374	(19,280)	94
8,521	(8,267)	254	7,958	(7,713)	245
					Housing Benefit
					Housing Rebates

**9. Other Operating Expenditure**

Other Operating Expenditure	2020/21	2021/22
	£000s	£000s
Parish precepts	2,549	2,594
Internal Drainage Board levies	474	484
Payments to the Government Housing Capital Receipts Pool	219	219
Gains or losses on the disposal of non-current assets	(837)	(837)
Movement in fair value of surplus assets	124	-
	<b>2,529</b>	<b>2,460</b>

## **10. Financing and Investment Income and Expenditure**

<b>Financing and Investment Income and Expenditure</b>	<b>2020/21 £000s</b>	<b>2021/22 £000s</b>
Interest payable and similar charges	1,708	2,017
Net interest on net defined liability	1,472	1,491
Investment property rental income	(1,005)	(1,073)
Interest receivable and similar income	(912)	(860)
Financial Instruments fair valuation adjustments	(1,168)	1,383
Income and expenditure in relation to investment properties and changes in their fair value (see Note 20)	(3,415)	(2,976)
	<b><u>(3,320)</u></b>	<b><u>(18)</u></b>

## **11. Taxation and Non-Specific Grant Income**

<b>Taxation and Non-specific Grant Income</b>	<b>2020/21 £000s</b>	<b>2021/22 £000s</b>
Council tax income	(12,878)	(13,370)
Non domestic rates	959	(1,194)
Non-ring fenced government grants	(11,211)	(6,084)
Capital grants and contributions	(1,636)	(4,906)
	<b><u>(24,766)</u></b>	<b><u>(25,554)</u></b>

## **12. Members' Allowances**

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

<b>Members Allowances</b>	<b>2020/21 £000s</b>	<b>2021/22 £000s</b>
Allowances	<b>318</b>	<b>322</b>
Expenses	<b>10</b>	<b>11</b>
Total	<b><u>328</u></b>	<b><u>333</u></b>

**13. Officers' Remuneration**

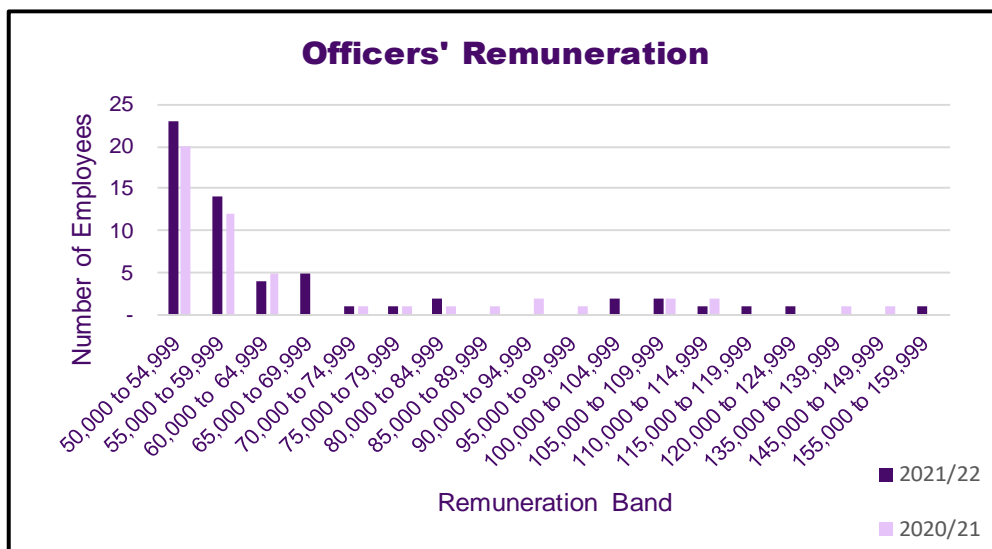
The remuneration paid to the authority's senior employees is as follows:

		Salary, including fees and allowances	Employer Pension Contributions	Total Remuneration, including pension contributions
		£	£	£
Chief Executive	2021/22	153,066	24,500	<b>177,566</b>
	2020/21	136,714	23,334	<b>160,048</b>
Director of Place	2021/22	110,115	18,492	<b>128,607</b>
	2020/21	94,260	15,860	<b>110,120</b>
Director of Corporate Services+	2021/22	109,665	18,492	<b>128,157</b>
	2020/21	105,936	17,824	<b>123,760</b>
Director - Housing & Operations	2021/22	109,920	18,492	<b>128,412</b>
	2020/21	105,936	17,824	<b>123,760</b>
Director of Transition and Transformation	2021/22	117,181	19,828	<b>137,009</b>
	2020/21	113,398	19,160	<b>132,558</b>
Director of Development	2021/22	120,326	19,828	<b>140,154</b>
	2020/21	113,398	19,160	<b>132,558</b>
Assistant Director Governance, Law & Regulatory Services ++	2021/22	101,617	17,328	<b>118,945</b>
	2020/21	95,007	16,248	<b>111,255</b>

+ Section 151 Officer

++ Monitoring Officer

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



## NOTES SUPPORTING THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21 £000s	2021/22 £000s
0-20,000	2	-	2	1	4	1	36	13
20,001-40,000	1	-	1	-	2	-	50	-
40,001-60,000	-	-	-	1	-	1	-	41
60,001-100,000	-	-	1	-	1	-	79	-
100,001-150,000	-	-	1	-	1	-	109	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>5</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>274</b>	<b>54</b>

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

### 14. External Audit Costs

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

External Audit Fees	2020/21 £000s	2021/22 £000s
Fees payable with regard to external audit services carried out by the appointed auditor for the year	71	74
Fees relating to prior years audits	-	(2)
Rebate of PSAA fees	-	(9)
Fees payable for the certification of grant claims and returns for the year	17	17
	<b>88</b>	<b>80</b>

**15. Grant Income**

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

<b>Grant Income</b>	<b>2020/21*</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>
Credited to Taxation and Non Specific Grant Income		
Business rates reliefs	7,557	4,399
Covid related grants	2,082	690
Non-service related grants	150	159
New Homes Bonus Grant	1,422	836
Capital Grants and Contributions	<u>1,636</u>	<u>4,906</u>
	<b><u>12,847</u></b>	<b><u>10,990</u></b>
Credited to Services		
REFCUS related Grants	1,303	1,335
KCC sundry grants	1,497	3,590
Council Tax Reduction Scheme grants	150	166
DWP – benefits subsidy	20,145	18,447
- rent rebate Subsidy	8,174	7,666
- benefits administration	342	330
Covid related grants	7,335	2,914
Other grants and contributions	<u>1,492</u>	<u>2,324</u>
	<b><u>40,438</u></b>	<b><u>36,772</u></b>

\*Prior year comparatives restated to include Apprenticeship Levy funding



# Notes Supporting the Balance Sheet



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

### **Measurement**

The Council's non-housing assets (excluding vehicles, plant, equipment, infrastructure and community assets) were re-valued as at 31 March 2022 by an external independent valuer, Wilks Head & Eve Chartered Surveyors, and increased in value by £0.39m compared to their value at 31 March 2021.

The external valuer also reviewed the value of the Council's surplus assets as at 31 March 2022, resulting in an increase of £5.8m. This is entirely attributable to an increase in the value of the surplus land at Princes Parade, Hythe where an agreement has been reached to dispose of it for housing and commercial development once the Council has completed remediation and infrastructure works as part of the wider redevelopment of the site.

The Council's housing assets were also re-valued as at 31 March 2022 by Wilks Head & Eve Chartered Surveyors. Council dwellings were valued at £220m at 33% of the open market value based on their existing use value for social housing, an increase of almost 20% (£44m) compared to 31 March 2021. The valuation adjustment to the existing use value for social housing is in accordance with Ministry of Housing, Communities and Local Government guidance issued in 2016 for council dwellings stock valuations in South-East England, reflecting the economic cost of providing council housing at less than open market rents.

The external valuer also advised that, based on rental income values, the value of the various housing non-dwelling assets categories (garages, parking spaces and stores) have been valued at £4.1m, an increase of £0.3m compared to their value at 31 March 2021.

### **Contractual Commitments**

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

- Heating replacement programme 2019-2023 – approximately £0.48m
- Kitchen & Bathroom replacement - approximately £0.54m per annum
- External Planned Works programme 2021-2024 – approximately £0.35m per annum

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

The Council has entered into two contracts for the acquisition of new HRA dwellings direct from the developer through stage payments and the value of these commitments at 31<sup>st</sup> March 2022 is:

- Shepway Close, Folkestone £1.44m
- Radnor Park Avenue, Folkestone £1.72m

**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
2021/22	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>								
At 1 April 2021	185,603	28,110	12,500	36,156	3,461	2,034	14,736	282,600
Additions	9,516	1,211	1,635	387	-	6,002	-	18,751
Revaluation increases/(decreases) recognised in the Revaluation Reserve	35,212	(134)	-	-	-	-	5,807	40,885
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(938)	178	-	-	-	-	-	(760)
De-recognition - Disposals	(156)	-	-	-	-	-	-	(156)
Assets reclassified (to)/from Held for Sale	(810)	-	-	-	-	-	-	(810)
Other movements in cost or valuation #	(8,207)	(244)	-	-	-	-	-	(8,451)
<b>At 31 March 2022</b>	<b>220,220</b>	<b>29,121</b>	<b>14,135</b>	<b>36,543</b>	<b>3,461</b>	<b>8,036</b>	<b>20,543</b>	<b>332,059</b>
<b>Depreciation and Impairment</b>								
At 1 April 2021	-	(1,687)	(8,734)	(25,810)	-	-	-	(36,231)
Depreciation charge for the year	(2,263)	(313)	(691)	(1,343)	-	-	-	(4,610)
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,253	(37)	-	-	-	-	-	2,216
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(8,197)	(244)	-	-	-	-	-	(8,441)
Other movements in depreciation and impairment #	8,207	244	-	-	-	-	-	8,451
<b>At 31 March 2022</b>	<b>-</b>	<b>(2,037)</b>	<b>(9,425)</b>	<b>(27,153)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(38,615)</b>
<b>Balance Sheet amount at 31 March 2022</b>	<b>220,220</b>	<b>27,084</b>	<b>4,710</b>	<b>9,390</b>	<b>3,461</b>	<b>8,036</b>	<b>20,543</b>	<b>293,444</b>
Balance Sheet amount at 1 April 2021	185,603	26,423	3,766	10,346	3,461	2,034	14,736	246,369

# 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
2020/21	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Cost or Valuation</b>								
At 1 April 2020	165,183	28,713	9,941	35,720	3,461	1,677	12,377	257,072
Additions	7,676	420	2,559	436	-	357	2,340	13,788
Revaluation increases/(decreases) recognised in the Revaluation Reserve	20,923	(78)	-	-	-	-	1,063	21,908
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,517)	(960)	-	-	-	-	(124)	(4,601)
De-recognition - Disposals	-	-	-	-	-	-	(920)	(920)
Assets reclassified (to)/from Held for Sale	(403)	35	-	-	-	-	-	(368)
Other movements in cost or valuation #	(4,259)	(20)	-	-	-	-	-	(4,279)
<b>At 31 March 2021</b>	<b>185,603</b>	<b>28,110</b>	<b>12,500</b>	<b>36,156</b>	<b>3,461</b>	<b>2,034</b>	<b>14,736</b>	<b>282,600</b>
<b>Depreciation and Impairment</b>								
At 1 April 2020	-	(1,981)	(8,287)	(24,448)	-	-	-	(34,716)
Depreciation charge for the year	(2,401)	(632)	(447)	(1,362)	-	-	-	(4,842)
Depreciation written out to the Surplus/Deficit on the Provision of Services	2,397	926	-	-	-	-	-	3,323
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	(4,255)	(20)	-	-	-	-	-	(4,275)
Other movements in depreciation and impairment #	4,259	20	-	-	-	-	-	4,279
<b>At 31 March 2021</b>	<b>-</b>	<b>(1,687)</b>	<b>(8,734)</b>	<b>(25,810)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(36,231)</b>
<b>Balance Sheet amount at 31 March 2021</b>	<b>185,603</b>	<b>26,423</b>	<b>3,766</b>	<b>10,346</b>	<b>3,461</b>	<b>2,034</b>	<b>14,736</b>	<b>246,369</b>
Balance Sheet amount at 1 April 2020	165,183	26,732	1,654	11,272	3,461	1,677	12,377	222,356

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

## 17. Heritage Assets

The Council's heritage assets were last valued as at 31<sup>st</sup> March 2020 by an external independent valuer – BPS Chartered Surveyors. The Council deem this value to remain current as the asset was purchased in 2019/20 and so the asset is held at cost.

<b>Cost or Valuation</b>	<b>Buildings £000s</b>	<b>Other Items £000s</b>	<b>Total Assets £000s</b>
At 1 April 2021	2,900	98	2,998
Additions	-	-	-
Disposals	-	-	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	-	-
At 31 March 2022	<b>2,900</b>	<b>98</b>	<b>2,998</b>

## 18. Investment Properties

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

<b>Investment Property</b>	<b>2020/21 £000s</b>	<b>2021/22 £000s</b>
Rental income from investment property	(1,190)	(1,164)
Direct operating expenses arising from investment property	185	91
Net (gain)/loss	<b>(1,005)</b>	<b>(1,073)</b>

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

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

<b>Fair Value Movement</b>	<b>2020/21 £000s</b>	<b>2021/22 £000s</b>
<b>Cost or Valuation</b>		
At 1 April	75,920	84,160
Additions – acquisitions	5,619	669
Additions – construction	26	2,210
Net gain/(loss) from fair value adjustments	3,415	3,086
Impairment losses/(reversals) recognised in the CIES	(15)	(111)
Reclassification to Capital Debtor	(805)	-
At 31 March	<b>84,160</b>	<b>90,014</b>

## NOTES SUPPORTING THE BALANCE SHEET

### Fair Value Hierarchy for Investment Properties

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31<sup>st</sup> March 2022 are as follows:

2021/22 Recurring fair value measurements using:	Other significant observable inputs (Level 2)		Other significant observable inputs (Level 2)	
	Fair value at 31-Mar-21	Fair value at 31-Mar-21	Fair value at 31-Mar-22	Fair value at 31-Mar-22
	£000s	£000s	£000s	£000s
Otterpool Park - Residential Properties	7,516	7,516	7,695	7,695
Otterpool Park - Land	56,509	56,509	61,811	61,811
Agricultural Land	32	32	32	32
Offices	17,401	17,401	16,831	16,831
Commercial Units	1,888	1,888	1,945	1,945
Commercial Land	660	660	1,700	1,700
<b>Total at Fair Value</b>	<b>84,006</b>	<b>84,006</b>	<b>90,014</b>	<b>90,014</b>
Assets Under Construction	154	154	-	-
<b>Total Investment Properties</b>	<b>84,160</b>	<b>84,160</b>	<b>90,014</b>	<b>90,014</b>

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

#### Significant observable inputs – Level 2

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

#### Significant unobservable inputs - Level 3

There were no assets categorised as Level 3 in 2021/22.

#### 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.

## NOTES SUPPORTING THE BALANCE SHEET

### 19. Long Term Investments

Long Term Investments	2020/21*	2021/22
	£000s	£000s
Bond, equity & property funds	15,204	16,105
Shares in unlisted companies	5,119	6,159
Changes in FV of equity investments in companies	(401)	(2,589)
	<u>19,922</u>	<u>19,675</u>

\*2020/21 comparatives restated to include prior year changes in Fair Value

### 20. Long Term Debtors

Long Term Debtors	2020/21*	2021/22
	£000s	£000s
Loan to Oportunitas Limited	4,252	4,222
Loan to Otterpool Park LLP	-	1,250
Expected Credit Loss (Loans to Companies)	(88)	(46)
Soft Loans (see Note 28)	2,019	1,797
Other Loans	944	927
Capital Prepayment (Otterpool Land Options)	673	773
Lease Receivables	119	109
	<u>7,919</u>	<u>9,032</u>

\*2020/21 comparatives restated to show Expected Credit Loss separately

### 21. Short Term Debtors

	£000s	£000s
Trade Receivables	4,029	6,206
Receivables from Related Parties	9,224	5,787
Prepayments	1,371	802
Other Receivables	4,670	4,151
	<u>19,294</u>	<u>16,946</u>
<b>Impairment of debt</b>		
Trade Receivables	(938)	(993)
Other Receivables	(949)	(485)
<b>Total</b>	<u>(1,887)</u>	<u>(1,478)</u>
<b>Balance as at 31 March</b>	<u>17,407</u>	<u>15,468</u>

The reduction in receivables from Related Parties is largely due to amounts owed from Central Government and Kent County Council in respect of the surplus/(deficit) on the Collection Fund.

## NOTES SUPPORTING THE BALANCE SHEET

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

Age of Debt	£000s	£000s
0 to 30 days	24	333
31 to 60 days	5	14
61 to 90 days	6	279
over 90 days	548	478
<b>Total</b>	<b>583</b>	<b>1,104</b>

## 22. Cash and Cash Equivalents

Cash and Cash Equivalents	2020/21	2021/22
	£000s	£000s
Bank Accounts	(1,300)	(405)
Money Market Funds	3,620	15,135
<b>Total</b>	<b>2,320</b>	<b>14,730</b>

## 23. Short Term Borrowing

Short Term Borrowing	2020/21	2021/22
	£000s	£000s
PWLB Loans	1,300	5,000
Loans from other authorities	5,500	35,500
Accrued loan interest	102	102
	<b>6,902</b>	<b>40,602</b>

## 24. Short Term Creditors

Short Term Creditors	2020/21	2021/22
	£000s	£000s
Trade Payables	1,300	1,312
Payables to Related Parties	16,109	12,261
Receipts in Advance	3,499	5,319
Accrued Creditors	2,593	1,864
Other payables	3,880	4,137
	<b>27,381</b>	<b>24,893</b>

The reduction in payables to Related Parties is largely due to amounts owed to Central Government under the Business Rates Retention Scheme in respect of Section 31 grants received on behalf of major preceptors and balances from the Covid-19 Business Rates Grant Schemes.



## 25. Provisions

Provisions	Balance 31-Mar-21 £000s	Provisions made £000s	Amounts used £000s	Balance 31-Mar-22 £000s	Short term £000s	Long term £000s
Business rate appeals	(2,277)	(1,462)	1,728	(2,011)	(2,011)	-
Other	(67)	-	-	(67)	-	(67)
	<b>(2,344)</b>	<b>(1,462)</b>	<b>1,728</b>	<b>(2,078)</b>	<b>(2,011)</b>	<b>(67)</b>

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

## 26. Long Term Borrowing

Long Term Borrowing	2020/21 £000s	2021/22 £000s
PWLB Loans	52,155	47,155
Loans from other authorities	20,000	10,000
	<b>72,155</b>	<b>57,155</b>

## 27. Financial Instruments

### Financial Instruments - Classifications

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

### Financial Liabilities

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

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

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

### Financial Assets

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

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

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

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

### Financial Instruments - Balances

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

Financial Liabilities	Long Term		Short Term	
	31-Mar-21 £000s	31-Mar-22 £000s	31-Mar-21 £000s	31-Mar-22 £000s
Loans amortised cost:				
- Principal sum borrowed	(72,155)	(57,155)	(6,800)	(40,500)
- Accrued interest	-	-	(102)	(102)
<b>Total Borrowing</b>	<b>(72,155)</b>	<b>(57,155)</b>	<b>(6,902)</b>	<b>(40,602)</b>
Liabilities at amortised cost:				
- Trade payables	-	-	(4,703)	(4,020)
<b>Included in Creditors</b>	<b>-</b>	<b>-</b>	<b>(4,703)</b>	<b>(4,020)</b>
<b>Total Financial Liabilities</b>	<b>(72,155)</b>	<b>(57,155)</b>	<b>(11,605)</b>	<b>(44,622)</b>

The total short-term borrowing includes £102k (£102k 2020/21) representing accrued interest on long-term borrowing. The creditors lines on the Balance Sheet includes £20.873m (£22.678m 20/21) short-term creditors that do not meet the definition of a financial liability.

## NOTES SUPPORTING THE BALANCE SHEET

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

Financial Assets	Long Term		Short Term	
	31-Mar-21 £000s	31-Mar-22 £000s	31-Mar-21 £000s	31-Mar-22 £000s
At amortised cost:				
- Principal	-	-	-	-
- Accrued interest	-	-	-	-
At fair value through profit & loss:				
- Fair value	19,922	19,675	-	-
<b>Total investments</b>	<b>19,922</b>	<b>19,675</b>	<b>-</b>	<b>-</b>
At amortised cost:				
- Principal	-	-	(1,300)	(405)
At fair value through profit & loss:				
- Fair value	-	-	3,620	15,135
<b>Total Cash &amp; Cash Equivalents</b>	<b>-</b>	<b>-</b>	<b>2,320</b>	<b>14,730</b>
At amortised cost:				
- Trade receivables	-	-	2,787	4,979
- Lease receivables	119	109	9	10
- Loans made for service purposes	7,215	6,855	569	387
- Loss allowance Expected Credit Loss	(88)	(46)	(193)	(55)
<b>Included in Debtors</b>	<b>7,246</b>	<b>6,918</b>	<b>3,172</b>	<b>5,321</b>
<b>Total Financial Assets</b>	<b>27,168</b>	<b>26,593</b>	<b>5,492</b>	<b>20,051</b>

The debtors line on the Balance Sheet includes £10.147m (£14.235m 2020/21) short-term debtors that do not meet the definition of a financial asset.

### Material Soft Loans

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

The movements on material soft loan balances are:

	2020/21 £000s	2021/22 £000s
<b>Opening carrying amount of soft loans on 1st April</b>	<b>2,275</b>	<b>2,019</b>
Amounts repaid to the Council	(152)	(148)
Amounts written off	(130)	(49)
Increase in discounted amount due to passage of time	26	(25)
<b>Closing Carrying Amount of Soft Loans on 31st March</b>	<b>2,019</b>	<b>1,797</b>

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

**Financial Instruments - Fair Values**

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

Financial assets classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2022, using the following methods and assumptions:

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

<b>Financial Liabilities</b>	<b>Fair Value Level</b>	<b>Balance Sheet 31-Mar-21</b>		<b>Balance Sheet 31-Mar-22</b>	
		<b>Fair Value £000s</b>	<b>Fair Value £000s</b>	<b>Fair Value £000s</b>	<b>Fair Value £000s</b>
<i>Financial liabilities held at amortised cost:</i>					
Long-term loans from PWLB	2	52,155	63,743	47,155	52,699
Other long-term loans	2	20,000	20,102	10,000	9,774
Short-term loans from PWLB	2	1,300	1,331	5,000	5,100
Short-term loans	2	5,500	5,572	35,500	35,388
<b>Total</b>		<b>78,955</b>	<b>90,748</b>	<b>97,655</b>	<b>102,961</b>
Liabilities for which fair value is not disclosed *		4,805		4,122	
<b>Total Financial Liabilities</b>		<b>83,760</b>		<b>101,777</b>	
<i>Recorded on balance sheet as:</i>					
Short-term creditors		4,703		4,020	
Short-term borrowing		6,902		40,602	
Long-term borrowing		72,155		57,155	
<b>Total Financial Liabilities</b>		<b>83,760</b>		<b>101,777</b>	

\*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.

<b>Financial Assets</b>	<b>Fair Value Level</b>	<b>Balance Sheet 31-Mar-21</b>		<b>Balance Sheet 31-Mar-22</b>	
		<b>Fair Value £'000</b>	<b>Fair Value £'000</b>	<b>Fair Value £'000</b>	<b>Fair Value £'000</b>
<b>Financial assets held at fair value</b>					
Money market funds	1	3,620	3,620	15,135	15,135
Bond, equity and property funds	1	15,204	15,204	16,105	16,105
Shares in unlisted companies	3	4,718	4,718	3,570	3,570
<b>Financial assets held at amortised cost</b>					
Long-term loans to companies	3	5,108	6,121	6,353	6,592
Soft Loans	3	2,019	2,019	1,797	1,797
Lease receivables	3	119	119	109	109
<b>Total</b>		<b>30,788</b>	<b>31,801</b>	<b>43,069</b>	<b>43,308</b>
<b>Assets for which fair value is not disclosed*</b>		<b>2,738</b>		<b>5,743</b>	
<b>Total Financial Assets</b>		<b>33,526</b>		<b>48,812</b>	
<b>Recorded on balance sheet as:</b>					
Long-term investments		19,922		19,675	
Long-term debtors		7,919		9,032	
Short-term debtors		3,365		5,375	
Cash and cash equivalents		2,320		14,730	
<b>Total Financial Assets</b>		<b>33,526</b>		<b>48,812</b>	

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

Financial Asset - Equity Investment in Oportunitas Limited

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

Key quantitative assumptions used for valuation:

- Time period - 2 year period of business plan, plus an in perpetuity calculation
- Discount Rate – 8.5%: the return on capital of similar companies traded on the London Stock Exchange, plus a 1% risk premium
- Corporation Tax – 19%, rising to 25% on realised profits excluding that due to upward revaluations
- Inflation – 6.2% in 2022/23, 2.8% in 2023/24 and 2% in perpetuity
- Property price inflation – 7.1% based on average increase in Folkestone local area
- Rental yield - 6% rental yield in perpetuity based on company business plan

### Sensitivity Analysis

Change in Assumption	Impact on Fair Value
Discount rate falls by 1%	Increases to £5.4m / decreases to £474k
Corporation Tax Rate does not increase as expected	Increases to £2.7m
Inflation falls/rises by 1%	Falls to £1.4m / rises to £3.5m
Property price inflation falls/rises by 1%	Falls to £1.0m / rises by £4.0m
Rental yield in 2024/25 is 1% lower/higher than expected	Falls to £461k / rises to £4.2m

Financial Asset - Equity Investment in Otterpool Park LLP

Valuation method – Fair Value deemed to be current value as at 31<sup>st</sup> March 2022 due to uncertainties around projected future cash flows due to the early stages of the project at the time of preparing the accounts.

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

	<b>£'000</b>
<b>Balance 1 April</b>	<b>4,718</b>
Oportunitas Equity Purchased 21/22	1,040
Unrealised valuation loss	(2,188)
<b>Balance 31 March</b>	<b><u>3,570</u></b>

## NOTES SUPPORTING THE BALANCE SHEET

### Financial Instruments - Gains and Losses

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

	Financial Liabilities measured at amortised cost	Financial Assets at Amortised Cost	Financial Assets at Fair Value Profit & Loss	21/22 Total	20/21 Total
<b>Financial Instruments Income,Expense,Gains and Losses 2021/22</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Interest expense	1,866	-	-	1,866	1,962
Losses from changes in fair value	2,188	-	-	2,188	-
(Gains)/Losses on derecognition impairment losses	(43)	-	-	(43)	(83)
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>4,011</b>	<b>-</b>	<b>-</b>	<b>4,011</b>	<b>1,879</b>
Interest and dividend income	-	(231)	(643)	(874)	(887)
Gains from changes in fair value	(805)	-	-	(805)	(1,168)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>(805)</b>	<b>(231)</b>	<b>(643)</b>	<b>(1,679)</b>	<b>(2,055)</b>
<b>Net (gain)/loss for the year</b>	<b>3,206</b>	<b>(231)</b>	<b>(643)</b>	<b>2,332</b>	<b>(176)</b>

### 28. Borrowing Costs

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

In 2021/22 £193k of borrowing costs were capitalised using a capitalisation rate of 0.76%.

### 29. Defined Benefit Pension Schemes

#### Participation in Pension Schemes

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

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

## NOTES SUPPORTING THE BALANCE SHEET

KCC and where appropriate some functions are delegated to the Fund's professional advisers.

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

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

Pension Transition Arrangements Age Discrimination – In 2015, the Government introduced reforms to public sector pensions, with most public sector workers moving into new pension schemes. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial and fire fighter's schemes as part of the reforms breached age discrimination rules and in June 2019 the Supreme Court denied the Government's request for an appeal. In July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. An allowance for this was included in the previous year's accounting results as at 31<sup>st</sup> March 2020. These results, including the allowance, have been rolled forward and re-measured to provide accounting results as at 31<sup>st</sup> March 2021.

### Transactions Relating to Retirement Benefits

During 2020/21 there were two significant events relating to the transfer into the Council from Sopra Steria Limited and East Kent Housing where the ICT and Housing services were brought back in-house. This has had a material impact on the defined benefit obligation and has been included in the accounting results provided as at 31<sup>st</sup> March 2021.

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

### Balance Sheet

Net Pension assets as at	31-Mar-21	31-Mar-22
	£000s	£000s
Present Value of the defined obligation	196,941	195,626
Fair Value of the Fund Assets	(120,350)	(123,078)
<b>Net defined benefit liability / (asset)</b>	<b>76,591</b>	<b>72,548</b>

### Comprehensive Income and Expenditure for the year



## NOTES SUPPORTING THE BALANCE SHEET

The amounts recognised in the profit and loss statement are:	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Service Cost	11,031	6,950
Net interest on the defined liability (asset)	1,472	1,491
Administration expenses	70	72
<b>Total Loss / (profit)</b>	<b>12,573</b>	<b>8,513</b>

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

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Opening defined benefit obligation	147,708	196,941
Current service cost	5,485	6,926
Interest cost	2,966	3,790
Change in financial assumptions	33,952	(8,977)
Change in demographic assumptions	(1,869)	-
Experience loss / (gain) on defined benefit obligation	(2,419)	493
Liabilities assumed / (extinguished) on settlements	14,969	-
Estimated benefits paid net of transfers in	(4,975)	(4,502)
Past service costs, including curtailment	332	24
Contribution by scheme participants and other employers	792	931
	<b>196,941</b>	<b>195,626</b>

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

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Opening fair value of scheme assets	84,773	120,350
Interest on assets	1,494	2,299
Return on assets, less interest	24,991	229
Actuarial gains / (losses)	-	-
Administration Expenses	(70)	(72)
Contributions from employer including unfunded	3,590	3,843
Contributions by scheme participants	792	931
Estimated benefits paid plus unfunded net of transfers	(4,975)	(4,502)
Settlement prices received / (paid)	9,755	-
	<b>120,350</b>	<b>123,078</b>

## NOTES SUPPORTING THE BALANCE SHEET

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

	Year to 31-Mar-21 £000s	Year to 31-Mar-22 £000s
Return on fund assets in excess of interest	24,991	229
Other actuarial gains / (losses) on assets	-	-
Change in financial assumptions	(33,952)	8,977
Change in demographic assumptions	1,869	-
Experience loss (gain) on defined benefit obligation	2,419	(493)
	<b>(4,673)</b>	<b>8,713</b>

### Basis for Estimating Assets and Liabilities

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

The significant assumptions used by the actuary have been:

Statistical assumptions	2020/21	2021/22
Mortality assumption		
Longevity at 65 for current pensioners		
-men	21.6 yrs	21.6 yrs
-women	23.6 yrs	23.7 yrs
Longevity at 65 for future pensioners		
-men	22.9 yrs	23.0 yrs
-women	25.1 yrs	25.1 yrs
Rate of inflation - CPI	2.80%	3.20%
Rate of increase in salaries	3.80%	4.20%
Rate of increase in pensions	2.80%	3.20%
Rate for discounting scheme liabilities	2.00%	2.60%

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

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

## NOTES SUPPORTING THE BALANCE SHEET

Sensitivity Analysis	£000s	£000s	£000s
Adjustment to Discounted rate	0.10%	0.00%	-0.10%
Present value of total obligation	192,020	195,626	199,303
Projected Service Cost	5,896	6,103	6,316
Adjustment to Long term Salary increments	0.10%	0.00%	-0.10%
Present value of total obligation	195,966	195,626	195,290
Projected Service Cost	6,106	6,103	6,099
Adjustment to Pension increases and deferred valuations	0.10%	0.00%	-0.10%
Present value of total obligation	198,939	195,626	192,374
Projected Service Cost	6,315	6,103	5,897
Adjustment to Life expectancy assumptions	+1yr	None	-1yr
Present value of total obligation	204,962	195,626	186,753
Projected Service Cost	6,353	6,103	5,861

### Asset and Liability Matching Strategy

Kent Pension fund has agreed to a Fund Strategy Statement that matches the type of assets invested to the liabilities in the defined benefit obligation. The Fund has matched assets to the obligations by investing in equities, corporate bonds and fixed interest Government securities/gilts. This is balanced with a need to maintain the liquidity of the Fund to ensure that it is able to make current payments. As it is required by the pensions and where relevant investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (64% of scheme assets) and bonds (14%). The scheme also invests in properties as part of the diversification of the scheme's investments and comprises 12% of the total portfolio. The Pension Fund Strategy's main objectives are to maintain a funding level of 100%, as assessed by the Actuary and to stabilise the Employer rate as far as is practicable.

### Impact on the Council's Cash Flows

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

The weighted average duration of the defined benefit obligation for scheme members is 19 years 2021/22 (19 years 2020/21).

### 30. Usable Reserves

Movements in the Council's usable reserves are detailed in the MiRS, page 24 and Notes 5 and 6 on pages 44-47.

### 31. Unusable Reserves

Unusable Reserves	2020/21	2021/22
	£000s	£000s
Revaluation Reserve	(75,585)	(115,507)
Pooled Investment Funds Adjustment Account	(204)	(1,010)
Capital Adjustment Account	(144,507)	(151,115)
Financial Instruments Adjustment Account	13	25
Deferred Capital Receipts reserve	(129)	(119)
Collection Fund Adjustment Account	5,100	3,407
Pensions Reserve	76,591	72,548
Accumulated Absences Account	593	507
	<b>(138,128)</b>	<b>(191,264)</b>

#### Revaluation Reserve

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

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

## NOTES SUPPORTING THE BALANCE SHEET

Revaluation Reserve	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>(55,508)</b>		<b>(75,585)</b>
Revaluation of assets and impairment (gains) / losses not charged to the Surplus / Deficit on the Provision of Services		(21,908)		(40,885)
Difference between fair value depreciation and historic cost depreciation	908		706	
Revaluation balances on assets sold or scrapped	923		257	
Amount written off to the Capital Adjustment Account		1,831		963
<b>Balance as at 31 March</b>		<b>(75,585)</b>		<b>(115,507)</b>

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

### Pooled Investment Funds Adjustment Account

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

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

Pooled Investment Funds Adjutsment Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>876</b>		<b>(204)</b>
Transfer from Available for Sale Reserve		-		-
Upward revaluation of investments	(1,080)		(806)	
Downward revaluation of investments	-		-	
		(1,080)		(806)
<b>Balance as at 31 March</b>		<b>(204)</b>		<b>(1,010)</b>

### Capital Adjustment Account

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

The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated

## NOTES SUPPORTING THE BALANCE SHEET

on Property, Plant and Equipment before 1<sup>st</sup> April 2007, the date that the Revaluation Reserve was created to hold such gains.

Capital Adjustment Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>(137,821)</b>		<b>(144,507)</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>				
Charges for depreciation and impairment of non-current assets	8,973		13,087	
Revaluation (gains)/losses on Property, Plant and Equipment	1,120		(1,457)	
Amortisation of intangible assets	27		11	
Revenue expenditure funded from capital under statute	2,094		1,463	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,364		966	
Capital debtors written down	1,068		775	
Equity Valuation (gains)/losses	(88)		2,188	
		<b>14,558</b>		<b>17,033</b>
Adjusting amounts written out of the Revaluation Reserve		(1,832)		(962)
<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>12,726</b>		<b>16,071</b>
<b>Capital financing applied in the year:</b>				
Use of the Capital Receipts Reserve to finance new capital expenditure	(2,336)		(1,779)	
Use of the Major Repairs Reserve to finance new capital expenditure	(3,965)		(5,679)	
Capital grants and contributions credited to the CIES that have been applied to capital financing	(1,802)		(3,438)	
Application of grants to capital financing from the capital Grants Unapplied Account	(1,118)		(2,187)	
Statutory provision for the financing of capital investment charged against the General fund and HRA balances	(775)		(1,211)	
Capital expenditure charged against the General Fund and HRA balances	(6,159)		(5,219)	
		<b>(16,155)</b>		<b>(19,513)</b>
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		<b>(3,257)</b>		<b>(3,166)</b>
<b>Balance as at 31 March</b>		<b><u>(144,507)</u></b>		<b><u>(151,115)</u></b>

## NOTES SUPPORTING THE BALANCE SHEET

### Financial Instruments Adjustment Account

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

Financial Instruments Adjustment Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		39		13
Repaid renovation advances	-		-	
Amortised interest on renovation advances	(26)		12	
Net write down deferred discounts to revenue	-	(26)	-	12
<b>Balance as at 31 March</b>		<u>13</u>		<u>25</u>

### Deferred Capital Receipts Reserve

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

Deferred Capital Receipts Reserve	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		(137)		(129)
Transfer of deferred sale proceeds in respect of finance leases where the Council is lessor	8		10	
Gain on sale of assets	-	8	-	10
<b>Balance as at 31 March</b>		<u>(129)</u>		<u>(119)</u>

### Collection Fund Adjustment Account

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

Collection Fund Adjustment Account	2020/21	2021/22
	£000s	£000s
<b>Balance at 1 April</b>	1,387	5,100
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	3,713	(1,693)
<b>Balance as at 31 March</b>	<u>5,100</u>	<u>3,407</u>

## NOTES SUPPORTING THE BALANCE SHEET

### Pensions Reserve

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

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

Pensions Reserve	2020/21	2021/22
	£000s	£000s
<b>Balance at 1 April</b>	<b>62,935</b>	<b>76,591</b>
Remeasurement of Net defined Liability	4,673	(8,713)
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	12,573	8,513
Employer's pensions contributions and direct payments to pensioners payable in the year	(3,590)	(3,843)
<b>Balance as at 31 March</b>	<b>76,591</b>	<b>72,548</b>

### Accumulated Absences Account

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

Accumulated Absences Account	2020/21		2021/22	
	£000s	£000s	£000s	£000s
<b>Balance at 1 April</b>		<b>221</b>		<b>593</b>
Settlement or cancellation of accrual made at the end of the preceding year	(221)		(593)	
Amounts accrued at the end of the current year	593		507	
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		<b>372</b>		<b>(86)</b>
<b>Balance as at 31 March</b>		<b>593</b>		<b>507</b>



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

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

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

<b>Capital Expenditure and Financing</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>
Opening Capital Financing Requirement	117,358	126,944
<b>Capital Investment</b>		
Property, Plant and Equipment	13,788	18,751
Heritage assets	-	
Investment Properties	5,645	2,879
Intangible assets	145	38
Loans to and equity in subsidiary	2,080	1,040
Loans to and equity in LLP	1,250	1,250
Other loans	640	344
Capital Debtors - prepayments	100	100
Revenue expenditure funded from capital under statute	2,094	1,463
<b>Sources of Finance</b>		
Capital Receipts	(2,336)	(1,778)
Government grants and other contributions	(2,920)	(5,632)
<b>Sums set aside from revenue:</b>		
Direct Revenue Contributions	(10,125)	(10,899)
Previous Year Financing Adjustment	-	(112)
Revenue provision for debt repayment	(775)	(1,211)
<b>Closing Capital Financing Requirement</b>	<b>126,944</b>	<b>133,177</b>
Increase in underlying need to borrow (unsupported by Government financial assistance)	10,362	7,618
Revenue provision for debt repayment	(775)	(1,211)
Other adjustments	-	(174)
<b>Increase / (decrease) in Capital Financing Requirement</b>	<b>9,587</b>	<b>6,233</b>

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

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

### Credit Risk: Overview

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

Exposure Category	31/03/2021 £'000	31/03/2022 £'000
Treasury Investments	18,824	31,240
Trade Receivables	4,029	6,206
Lease Receivables	128	119
Service Loans	5,676	5,491
Service Loan Commitments	2,470	2,470
<b>Total Credit Risk Exposure</b>	<b>31,128</b>	<b>45,526</b>

### Credit Risk: Treasury Investments

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

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

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

## NOTES SUPPORTING THE BALANCE SHEET

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

Credit Rating	31-Mar-21		31-Mar-22	
	Long-term £000s	Short-term £000s	Long-term £000s	Short-term £000s
AAA	-	3,620		15,135
Unrated pooled funds	15,204	-	16,105	
<b>Total Investments</b>	<b>15,204</b>	<b>3,620</b>	<b>16,105</b>	<b>15,135</b>

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

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

The Council generally does not allow credit for customers.

### Credit Risk: Loans and Loan Commitments

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

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

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

Loss allowances on loans and loan commitments to Oportunitas Limited have been calculated by reference to published historical default rates for the construction and building sector, the recovery rate for secured and unsecured loans, current market conditions and examination of the latest financial statements and business plan for Oportunitas Limited. Only 12 month credit losses were deemed necessary to provide for these loans and the total expected credit loss allowance was calculated to be £47k. 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
<b>Opening Allowance 01/04/2021</b>	89
Change in risk	(43)
<b>Closing Allowance 31/03/2022</b>	<b>46</b>

### Liquidity Risk

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

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

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

Time to maturity	Discounted (Principal)		Undiscounted (Principal plus interest)	
	31-Mar-21	31-Mar-22	31-Mar-21	31-Mar-22
	£000s	£000s	£000s	£000s
Less than 1 year	6,800	40,500	8,844	42,647
1 to 2 years	25,000	14,000	26,920	15,739
2 to 5 years	12,001	12,001	16,642	16,304
5 to 10 years	20,012	16,012	25,375	20,746
10 to 20 years	2,001	2,001	8,278	8,182
20 to 40 years	13,141	13,141	18,357	17,763
Over 40 years	-	-	-	-
<b>Total</b>	<b>78,955</b>	<b>97,655</b>	<b>104,416</b>	<b>121,381</b>

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

### Market Risk

#### Interest Rate Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the

## 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 £164,000 on the 12 month revenue impact of a 1% rise and £185,000 of a 1% fall in interest rates was set for 2021/22

If all interest rates had been 1% higher (with all other variables held constant) the financial effect as at 31st March 2022 would be:

	<u>£000s</u>
Increase in interest payable on variable rate borrowings	100
Increase in interest receivable on variable rate investments	(180)
<b>Impact on Comprehensive Income and Expenditure</b>	<b>(80)</b>
Decrease in fair value of loans and receivables and bonds	(48)
Decrease in fair value of fixed rate borrowings	(5,098)

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	-	-	(294)
Diversified Income Funds	(166)	(161)	(33)
<b>Total</b>	<b>(166)</b>	<b>(161)</b>	<b>(327)</b>

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

## 34. Section 106 Receipts and Planning Condition Contributions

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

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

Opening Balance 01-Apr-21 £000s	New Contributions £000s	Amounts Applied £000s	Closing Balance 31-Mar-22 £000s
(2,364)	(1,261)	924	(2,701)

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

	2020/21 £000s	2021/22 £000s
<b>Current liabilities:</b>		
Short term creditors – Depositors	(1,249)	(2,339)
Capital grants received in advance – current	(65)	(65)
<b>Reserves:</b>		
Capital grants unapplied reserve	(1,050)	(297)
	<b>(2,364)</b>	<b>(2,701)</b>

# Notes Supporting the Cash Flow Statement



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

The cash flows for operating activities include the following items:

<b>2020/21</b>	<b>2021/22</b>
<b>£000s</b>	<b>£000s</b>
241 Interest received	231
(1,981) Interest paid	(1,865)
645 Investment income	643

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

<b>2020/21</b>	<b>2021/22</b>
<b>£000s</b>	<b>£000s</b>
4,842 Depreciation and impairment	4,610
5,771 Impairment and downward revaluations	7,094
27 Amortisation	11
(81) Change in impairment for bad debts	(43)
3,790 Increase/(decrease) in creditors	(2,258)
(689) (Increase)/decrease in debtors	(5,274)
7 (Increase)/decrease in inventories	(1)
8,983 Movement in pension liability	4,670
(3,415) Movement in investment property values	(3,086)
1,364 Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	966
(1,271) Other non-cash items charged to the net surplus or deficit on the provision of services	1,171
<b>19,328</b>	<b>7,860</b>

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

<b>2020/21</b>	<b>2021/22</b>
<b>£000s</b>	<b>£000s</b>
(3,763) Capital grants credited to the surplus or deficit on the provision of services	(8,711)
(2,126) Proceeds from the sale of property, plant and equipment	(1,803)
(76) Any other items for which the cash effects are investing or financing cash flows	-
<b>(5,965)</b>	<b>(10,514)</b>



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

<b>2020/21</b>		<b>2021/22</b>
<b>£000s</b>		<b>£000s</b>
(17,902)	Purchase of property, plant & equipment, investment property and intangible assets	(22,165)
(3,330)	Purchase of short-term and long-term investments	(1,040)
(740)	Other payments for investing activities	(1,687)
2,134	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,803
3,505	Proceeds from investments	-
5,578	Other receipts from investing activities	11,089
<b>(10,755)</b>	<b>Net cash flows from investing activities</b>	<b>(12,000)</b>

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

<b>2020/21</b>		<b>2021/22</b>
<b>£000s</b>		<b>£000s</b>
20,000	Cash receipts of short- and long-term borrowing	25,000
(31,300)	Repayments of short- and long-term borrowing	(6,300)
4,767	Other payments for financing activities	7,214
<b>(6,533)</b>	<b>Net cash flows from financing activities</b>	<b>25,914</b>

# Other Notes



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

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

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

Details of transactions with government departments are set out in note 15 on page 55.

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2021/22 is set out in note 12 (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 2021/22, other than those disclosed in note 13 (pages 53-54).

The Council is Corporate Trustee of the Folkestone Parks and Pleasure Grounds Charity. It is responsible for providing the majority of the Charity's funding by financing its net cost. The Corporate Trustee duties of the Council are carried out by its executive councillors. The Charity's management support and grounds maintenance is carried out by the Council officers. Further details of the Trust and the Council's contribution are set out in note 39 (page 91).

The Council has three subsidiaries; wholly owned Oportunitas Limited, a company that commenced trading in 2014/15; wholly owned Otterpool Park Development Company Ltd (OPDCL); and Otterpool Park LLP (OPLLP) of which the Council owns 99.9%. OPLLP, set up by the Council to deliver its objectives for the Otterpool Park Garden Town, was incorporated on 15<sup>th</sup> August 2019 and FHDC and OPDCL were appointed members on 4<sup>th</sup> February 2020. Group financial statements, consolidating the results of the companies with those of the Council, have been prepared and are set out on pages 106-117.

Payment of £1.0m was made in 2021/22 to Oportunitas Limited in respect of share purchases. The Council received £250k from Oportunitas in respect of loan repayments, £63k in respect of services supplied to it and £5k in respect of Council Tax payments. A balance of £30k is due from Oportunitas Limited at 31<sup>st</sup> March 2022.

The Council also has charges over all properties owned by Oportunitas Limited.

Payment of £1.3m was made in 2021/22 to OPLLP in respect of a company loan and £63k in respect of rents and commission. The Council received £116k from OPLLP in respect of

## NOTES TO THE FINANCIAL STATEMENTS

property lease costs and £264k in respect of services supplied to it. A balance of £34k is due from OPLLP at 31<sup>st</sup> March 2022.

Payment of £9k was made in 2021/22 to OPDCL in respect of a contribution towards operating costs. There were no payments received from OPDCL and no balances outstanding to/from OPDCL at 31<sup>st</sup> March 2022.

The Council is in a joint venture with East Kent Spatial Development Company (EKSDC) to deliver a business hub at Mountfield Road Industrial Estate, New Romney. Payments totalling £910k were made in 2021/22 to EKSDC in respect of Stage 1 of the project. There was a nil balance due to/from EKSDC at 31<sup>st</sup> March 2022.

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

<b>Related Parties</b>	<b>2020/21</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>
Amounts due to Central Government	15,455	11,921
Amounts due to East Kent Spatial Development Company	438	-
Amount due to Oportunitas Limited	1	1
Amount due to Folkestone Parks Charity	215	339
Amounts due from Central Government	5,924	4,375
Amounts due from Kent County Council	3,300	1,412
Amount due from Oportunitas Limited	4,193	4,207
Amount due from Folkestone Parks Charity	524	509

### 39. Trust Funds

The Council's Executive acts as sole trustee for the Folkestone Parks and Pleasure Grounds Charity. The net expenditure of the Charity is treated as special expenses to be charged upon the Folkestone area. The funds do not represent assets of the Council and have not been included in the balance sheet; however the Council does hold £339k of investments and a £4k overdraft on behalf of the charity.

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

2020/21				2021/22			
Income	Expenditure	Assets	Liabilities	Income	Expenditure	Assets	Liabilities
£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
(707)	707	5,140	(3,349)	(943)	943	5,429	(3,395)
				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.

## NOTES TO THE FINANCIAL STATEMENTS

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The special expenses of £579k have been included under Cultural and Related Services, Environmental and Regulatory Services and Planning Services in the CIES (£509k 2020/21).

Income to the Charity therefore includes a contribution of £579k from the Council (£509k in 2020/21). The remainder of the charity's income is derived from charges for services, grants and investment income.

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

### **40. Interests in Companies and Other Entities**

#### **Oportunitas Limited**

The Council wholly owns Oportunitas Limited, a company set up for housing and regeneration purposes. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 106.

The Council holds 2,515 shares in the company at a cost of £4.9m and has loans outstanding of £4.2m from it.

Company turnover was £351k in 2021/22 (£275k 2020/21). Oportunitas made a loss on ordinary activities of £67k in 2021/22 (loss of £85k in 2020/21\*). Its holdings in investment property was £10.0m at 31<sup>st</sup> March 2022 (£7.7m 31/03/2021).

\*The 2020/21 comparatives have been restated following a post-audit adjustment to Oportunitas accounts.

#### **Otterpool Park LLP**

The Council owns 99.9% of OPLLP, a company set up to deliver its objectives for the Otterpool Park Garden Town. The results of the company have been consolidated with those of the Council and are shown within the Group Financial Statements commencing on page 106.

The Council's member capital in the company is £1.3m.

Company turnover was £143k in 2021/22 (£119k 2020/21). OPLLP made an operating loss of £635k in 2021/22 (£61 in 2020/21). It held tangible assets of £41k at 31<sup>st</sup> March 2022 (£28k 31/03/2021).

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

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

## NOTES TO THE FINANCIAL STATEMENTS

Company turnover was £NIL in 2021/22 (£NIL 2020/21) and made an operating profit of £1k in 2021/22 (£NIL 2020/21).

### 41. The Council Acting as Agent

In 2021/22 the Council acted as an intermediary in its role as agent to administer grants to businesses as part of the Government's financial support package provided in response to Covid-19. Where the Council acts as agent year-end balances only are reflected in the accounts as either a debtor or creditor.

The Council acted as agent for the following grant schemes:

Grant	Purpose of Grant	Opening Balance 01-Apr-21 £000s	New Grants £000s	Expended £000s	Closing Balance 31-Mar-22 £000s	Balance Sheet Analysis
Test & Trace Support Payment (Self-Isolation)	Payments to those on low incomes whilst self-isolating in line with Government guidelines	125	79	(305)	(101)	Debtor
Business Rates Grant Schemes	Payments to business ratepayers for periods of enforced closure by Government regulations	5,864	9,307	(14,811)	360	Creditor
Council Tax Energy Rebate Scheme	Payments to households to help with the cost of rising energy bills	-	5,991	-	5,991	Creditor
		<u>5,989</u>	<u>15,377</u>	<u>(15,116)</u>	<u>6,250</u>	

### 42. Contingent Assets

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

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

The Council and Dover District Council are seeking to claim additional costs and contract penalties from Veolia related to service failures in the joint Waste Management and Recycling Contract arising from the route optimisation project in 2022. The claim comprises of additional staffing costs, postage and printing costs, deferred contract costs during the suspension of the garden waste collection, garden waste subscription rebate costs and contract penalties. The estimated total is £450k. The claim is disputed by Veolia and legal options are being considered including a negotiated settlement.

### **43. 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 26. That date was XXXX 2022. Events after the balance sheet date (31<sup>st</sup> March 2022) have only been considered up to the authorisation date.

Where events taking place before this date provided information about conditions existing at 31<sup>st</sup> March 2022, the figures in the financial statements and notes are adjusted in all material respects to reflect the impact of this information.

There have been no such events since 31<sup>st</sup> March 2022.

# 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

2020/21		2021/22
£000s		£000s
	<b>Income</b>	
(14,944)	Dwelling Rents (Gross)	(15,231)
(279)	Non dwelling rents (Gross)	(280)
(1,049)	Charges for services and facilities	(1,017)
(52)	Contributions towards expenditure	(52)
-	Capital Grants and Contributions	(1,989)
<b>(16,324)</b>		<b>(18,569)</b>
	<b>Expenditure</b>	
3,826	Repairs and maintenance	3,959
10,292	Supervision and management	6,898
21	Rents, rates, taxes and other charges	20
6,887	Depreciation and impairment of non-current assets (HRA Note 6)	10,668
1,828	Exceptional item – valuation change	(1,469)
25	Debt management costs	24
95	Decrease in bad debt provision	(36)
<b>22,974</b>		<b>20,064</b>
<b>6,650</b>	<b>Net (surplus)/deficit of HRA Services as included in the whole authority CIES</b>	<b>1,495</b>
<b>156</b>	HRA services share of Corporate and Democratic Core	<b>160</b>
<b>6,806</b>	<b>Net (surplus)/deficit of HRA services</b>	<b>1,655</b>
(277)	(Gain)/loss on sale of HRA non-current assets	(762)
1,546	Interest payable and similar charges	1,520
(18)	Interest and investment income	(14)
164	Net interest on the net defined liability (HRA Note 9)	255
<b>8,221</b>	<b>(Surplus)/Deficit for the year on HRA Services</b>	<b>2,654</b>

## HOUSING REVENUE ACCOUNT

### Movement on the Housing Revenue Account Statement

2020/21	2021/22
£000s	£000s
8,221	2,654
Deficit on the HRA Income and Expenditure Statement	
(6,132)	(4,794)
Difference between any other items of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements (HRA Note 8)	
277	762
Gain or (loss) on sale of HRA non-current assets	
2,966	4,287
Capital expenditure funded by the HRA	
(4,894)	(800)
HRA share of contributions to or from the Pensions Reserve (HRA Note 9)	
<b>438</b>	<b>2,109</b>
<b>Net (increase) or decrease before transfers to or from Reserves</b>	
-	-
Transfer from the Major Repairs Reserve	
<b>438</b>	<b>2,109</b>
<b>(Increase) or Decrease in year on the HRA</b>	
(12,475)	(12,037)
Balance on the HRA at the end of the previous reporting period	
438	2,109
(Increase) or Decrease in year on the HRA (as shown above)	
<b>(12,037)</b>	<b>(9,928)</b>
<b>Balance on the HRA at the end of the current reporting period</b>	

## 1. Housing Assets

At 31<sup>st</sup> March 2022, the Council was responsible for managing 3,381 units of accommodation (excluding shared ownership properties).

The stock was made up as follows:

Houses and bungalows:	1,872
Flats and Bedsits:	1,509

The change in the stock can be summarised as follows:

Stock	2020/21	2021/22
Stock at 1 April	3,377	3,388
Acquisitions	17	7
Sales	(6)	(14)
Stock at 31 March	<b>3,388</b>	<b>3,381</b>

## HOUSING REVENUE ACCOUNT

The Balance Sheet value was as follows:

	2020/21 £000s	2021/22 £000s
<i>Dwellings</i>	185,603	220,220
Other Land and Buildings	5,281	6,040
Infrastructure	981	966
Vehicles, Plant, Furniture and Equipment	142	124
<b>Total Operational Assets</b>	<b>192,007</b>	<b>227,350</b>
<i>Assets under construction</i>	676	1,559
<b>Total Non Operational Assets</b>	<b>676</b>	<b>1,559</b>
<b>Total Assets</b>	<b>192,683</b>	<b>228,909</b>

### 2. Vacant Possession Value

The vacant possession value of dwellings within the HRA as at the 1<sup>st</sup> April 2021 was £559,215,000. 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

	2020/21 £000s	2021/22 £000s
Balance on Major Repairs Reserve as at 1 April	(4,595)	(3,271)
Depreciation and impairment of non-current assets	(2,641)	(2,408)
Capital expenditure on land, houses and other property within the HRA	3,965	5,679
<b>Balance on the Major Repairs Reserve as at 31 March</b>	<b>(3,271)</b>	<b>-</b>

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

	2020/21 £000s	2021/22 £000s
Houses	7,953	11,044
Other Property	174	76
Intangible Assets	-	16
	<b>8,127</b>	<b>11,136</b>

## HOUSING REVENUE ACCOUNT

### 5. Capital Financing

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

	2020/21 £000s	2021/22 £000s
Capital receipts	1,196	1,169
Revenue	2,966	4,288
Major Repairs Reserve	3,965	5,679
	<b>8,127</b>	<b>11,136</b>

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

	2020/21 £000s	2021/22 £000s
Houses and Flats	568	1,571
	<b>568</b>	<b>1,571</b>

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

2020/21				2021/22		
Revaluation	Depreciation	Impairment		Revaluation	Depreciation	Impairment
£000s	£000s	£000s		£000s	£000s	£000s
-	-	-	Land			
(1,120)	2,401	4,255	Dwellings	1,315	2,263	8,197
-	132	(9)	Other Land and Buildings	154	36	63
-	80	-	Infrastructure	-	81	-
-	28	-	Vehicles, Plant, Furniture and Equipment	-	28	-
<b>(1,120)</b>	<b>2,641</b>	<b>4,246</b>		<b>1,469</b>	<b>2,408</b>	<b>8,260</b>

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 2021/22 £35.21m was posted to the Revaluation Reserve (£20.92m 2020/21) in respect of valuation gains and is disclosed in Other Comprehensive Income and Expenditure.

## HOUSING REVENUE ACCOUNT

### 7. Rent Arrears

	31-Mar-21 £000s	31-Mar-22 £000s
Gross rent arrears	575	505
Current tenant arrears (excluding former tenants)	314	278
Provision for doubtful debts	216	182

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

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

	2020/21 £000s	2021/22 £000s
HRA impairment-capital expenditure not adding value	(4,171)	(8,260)
Net valuation changes	(1,550)	1,470
Other movements	(352)	-
Other changes	(59)	-
	<b>(6,132)</b>	<b>(6,790)</b>

### 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.

2020/21 £000s		2021/22 £000s
620	Current Service Cost	1,197
164	Net interest on net defined liability	255
<b>784</b>	Net charge to the HRA Income and Expenditure Statement	<b>1,452</b>
(384)	HRA share of contributions to or from the pensions reserve in the Movement on the HRA Statement	(800)
<b>400</b>		<b>652</b>
400	Employer Contributions	652
<b>400</b>	Actual amounts charged against the HRA balance for pensions	<b>652</b>

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

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

The Item 8 debit was calculated by multiplying the average HRA capital financing requirement by the consolidated rate of interest on the Council's borrowing for the year and amounted to £1.52m (£1.55m 2020/21).

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 £7k (£11k 2020/21).

# 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.

2020/21			2021/22		
Council Tax £000s	Business Rates £000s	Total £000s	Council Tax £000s	Business Rates £000s	Total £000s
<b>Amounts required by statute to be credited to the Collection</b>					
(75,539)		(75,539)	(81,137)		(81,137)
16		16	8		8
(1,158)		(1,158)	(68)		(68)
	(15,276)	(15,276)		(19,319)	(19,319)
	550	550		263	263
<b>(76,681)</b>	<b>(14,726)</b>	<b>(91,407)</b>	<b>(81,197)</b>	<b>(19,056)</b>	<b>(100,253)</b>
<b>Amounts required by statute to be debited to the Collection</b>					
<b>Council tax precepts and demands:</b>					
52,846		52,846	54,601		54,601
7,945		7,945	8,396		8,396
3,101		3,101	3,110		3,110
13,045		13,045	13,128		13,128
(447)		(447)	(1,132)		(1,132)
357		357	302		302
264		264	274		274
	143	143		144	144
	13,709	13,709		14,755	14,755
	2,467	2,467		2,656	2,656
	274	274		295	295
	10,967	10,967		11,804	11,804
	(3,966)	(3,966)		(13,174)	(13,174)
	153	153		90	90
	219	219		5	5
	(185)	(185)		(666)	(666)
<b>77,111</b>	<b>23,781</b>	<b>100,892</b>	<b>78,679</b>	<b>15,909</b>	<b>94,588</b>
430	9,055	9,485	(2,518)	(3,147)	(5,665)
450	3,275	3,725	880	12,330	13,210
880	12,330	13,210	(1,638)	9,183	7,545



## COLLECTION FUND

### 1. Council Tax

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

2020/21		2021/22
£		£
1,351.26	Kent County Council	1,418.76
203.15	Kent Police Commissioner	218.15
79.29	Kent Fire and Rescue Service	80.82
268.38	Folkestone & Hythe District Council (including Special Expenses charged on Folkestone)	273.72
65.17	Town and Parish Councils	67.41
<b>1,967.25</b>		<b>2,058.86</b>

The amount of income generated in 2021/22 by each council tax band was as follows:

Band	Chargeable Dwellings	Band D Equivalent	Income £'000
A	4,141	2,761	(5,684)
B	8,917	6,936	(14,279)
C	11,576	10,289	(21,185)
D	7,226	7,226	(14,877)
E	4,720	5,769	(11,877)
F	2,549	3,682	(7,581)
G	1,782	2,971	(6,116)
H	64	128	(264)
	<b>40,975</b>	<b>39,762</b>	<b>(81,863)</b>
	Contributions from the Ministry of Defence in lieu of council tax		(609)
	In year adjustments		1,335
	<b>Income collectable from council tax payers</b>		<b>(81,137)</b>

The 2021/22 tax base approved by Council was 38,485. This figure was arrived at after allowing for contributions in lieu of council tax and provision for bad debts.

### 2. Income Collectable from Business Rate Payers

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

## COLLECTION FUND

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<b>2020/21</b>		<b>2021/22</b>
<b>£000s</b>		<b>£000s</b>
77,358	Non domestic rateable value as at 31 March	72,969
49.9p	Non-domestic rate multiplier	49.9p
<b>(38,602)</b>	<b>NNDR income before allowances and other</b>	<b>(36,412)</b>
23,326	Allowances, reduced assessments and other adjustments, including small business rate relief supplement & Covid reliefs	17,093
<b>(15,276)</b>	<b>Income collectable from business rate payers</b>	<b>(19,319)</b>

The non-domestic rate multiplier for 2021/22 was 49.9p for qualifying properties of less than £51,000 rateable value and 51.2p for all others (2020/21 49.9p and 51.2p respectively).

# Group Accounts



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

	Note	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable reserves	Unusable Reserves	Total Authority Reserves	Council Share of subsidiary	Total Group reserves
		£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>2021/22**</b>											
Balance at 31 March 2021		(27,395)	(12,037)	(8,436)	(3,271)	(5,195)	(56,334)	(138,128)	(194,462)	(371)	(194,833)
<b>Movement in reserves during 2021/22</b>											
Total Comprehensive Income and Expenditure		(3,805)	2,654	-	-	-	(1,151)	(49,598)	(50,749)	115	(50,634)
Adjustments between accounting basis and funding basis under regulations	5	4,173	(545)	(633)	3,271	(2,728)	3,538	(3,538)	-	-	-
<b>Increase or Decrease in 2021/22</b>		<b>368</b>	<b>2,109</b>	<b>(633)</b>	<b>3,271</b>	<b>(2,728)</b>	<b>2,387</b>	<b>(53,136)</b>	<b>(50,749)</b>	<b>115</b>	<b>(50,634)</b>
<b>Balance at 31st March 2022 carried forward</b>		<b>(27,027)</b>	<b>(9,928)</b>	<b>(9,069)</b>	<b>-</b>	<b>(7,923)</b>	<b>(53,947)</b>	<b>(191,264)</b>	<b>(245,211)</b>	<b>(256)</b>	<b>(245,467)</b>
<b>2020/21</b>											
Balance at 31 March 2020		(23,991)	(12,475)	(8,131)	(4,595)	(4,352)	(53,544)	(128,008)	(181,552)	(163)	(181,715)
<b>Movement in reserves during 2020/21</b>											
Total Comprehensive Income and Expenditure*		(3,896)	8,221	-	-	-	4,325	(17,235)	(12,910)	(208)	(13,118)
Adjustments between accounting basis and funding basis under regulations	5	492	(7,783)	(305)	1,324	(843)	(7,115)	7,115	-	-	-
<b>Increase or Decrease in 2020/21</b>		<b>(3,404)</b>	<b>438</b>	<b>(305)</b>	<b>1,324</b>	<b>(843)</b>	<b>(2,790)</b>	<b>(10,120)</b>	<b>(12,910)</b>	<b>(208)</b>	<b>(13,118)</b>
<b>Balance at 31st March 2021 carried forward</b>		<b>(27,395)</b>	<b>(12,037)</b>	<b>(8,436)</b>	<b>(3,271)</b>	<b>(5,195)</b>	<b>(56,334)</b>	<b>(138,128)</b>	<b>(194,462)</b>	<b>(371)</b>	<b>(194,833)</b>

\*2020/21 comparatives restated following post-audit results for Oportunitas accounts

\*\*2021/22 includes group results for Otterpool Park Development Company Ltd

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

Restated 2020/21*			2021/22**			
Gross Expenditure	Income	Net Expenditure		Gross Expenditure	Income	Net Expenditure
£000s	£000s	£000s		£000s	£000s	£000s
<b>Continuing Operations</b>						
1,198	(121)	1,077	Leadership Support	1,271	(306)	965
2,922	(354)	2,568	Governance & Law	3,265	(386)	2,879
900	(213)	687	Human Resources	845	(128)	717
44,490	(37,768)	6,722	Finance Customer & Support	37,253	(31,643)	5,610
851	(17)	834	Strategic Development	591	(721)	(130)
1,784	(935)	849	Economic Development	1,838	(675)	1,163
1,621	(1,337)	284	Planning	1,697	(1,288)	409
9,035	(5,234)	3,801	Estates & Operations	9,936	(6,278)	3,658
4,235	(4,085)	150	Housing	5,584	(6,004)	(420)
8,709	(2,700)	6,009	Customer Case Regulatory & Communities	9,060	(3,111)	5,949
31	-	31	Transition & Transformation	8	-	8
23,323	(16,517)	6,806	Local Authority Housing (HRA)	20,384	(18,729)	1,655
<b>99,099</b>	<b>(69,281)</b>	<b>29,818</b>	<b>(Surplus)/Deficit on Continuing</b>	<b>91,732</b>	<b>(69,269)</b>	<b>22,463</b>
<b>Operations</b>						
3,381	(852)	2,529	Other operating expenditure (Note 9)	3,297	(837)	2,460
4,779	(7,889)	(3,110)	Financing and investment income and expenditure (Note 10)	5,444	(5,237)	207
6,717	(31,494)	(24,777)	Taxation and non-specific grant income (Note 11)	6,728	(32,157)	(25,429)
<b>113,976</b>	<b>(109,516)</b>	<b>4,460</b>	<b>(Surplus) or Deficit on Provision of</b>	<b>107,201</b>	<b>(107,500)</b>	<b>(299)</b>
<b>Services</b>						
-	-	(22,251)	(Surplus) or deficit on revaluation of non-current assets (Note 30)	-	-	(41,622)
-	-	4,673	Re-measurement of net defined liability (Note 29)	-	-	(8,713)
-	-	(17,578)	<b>Other Comprehensive Income and</b>	-	-	<b>(50,335)</b>
<b>Expenditure</b>						
-	-	(13,118)	<b>TOTAL Comprehensive Income and</b>	-	-	<b>(50,634)</b>
<b>Expenditure</b>						

\*2020/21 comparatives restated following post-audit results for Oportunitas accounts

\*\*2021/22 includes group results for Otterpool Park Development Company Ltd

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

<b>Restated 2020/21* £000s</b>		<b>Note 2021/22** £000s</b>
	<b>Non current assets</b>	
185,603	Council dwellings	220,220
60,794	Property, plant and equipment	73,266
2,998	Heritage Assets	2,998
91,857	Investment property	2 100,295
179	Intangible assets	206
14,803	Long term investments	3 13,516
3,666	Long term debtors	4 3,560
<b>359,901</b>	<b>Long term assets</b>	<b>414,060</b>
359	Inventories	2,102
4,132	Short term debtors	5 15,416
4,132	Cash and cash equivalents	6 14,791
<b>21,933</b>	<b>Current assets</b>	<b>32,309</b>
(6,902)	Short term borrowing	(40,602)
(27,503)	Short term creditors	(25,246)
(1,447)	Grants receipts in advance - capital	(3,089)
(2,277)	Current Provisions	(2,011)
<b>(38,128)</b>	<b>Current liabilities</b>	<b>(70,948)</b>
(72,155)	Long term borrowing	(57,155)
(76,591)	Other long term liabilities	(72,548)
(126)	Non-current provisions	(251)
<b>(148,872)</b>	<b>Long term liabilities</b>	<b>(129,954)</b>
<b>194,833</b>	<b>Net assets</b>	<b>245,467</b>
(56,705)	Usable reserves	(54,203)
(138,128)	Unusable reserves	(191,264)
<b>(194,833)</b>	<b>Total Reserves</b>	<b>(245,467)</b>

\*2020/21 comparatives restated following post-audit results for Oportunitas accounts

\*\*2021/22 includes group results for Otterpool Park Development Company Ltd

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

<b>Restated 2020/21*</b>	<b>2021/22**</b>
<b>£000s</b>	<b>£000s</b>
(4,460) Net surplus or (deficit) on the provision of services	299
20,272 Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	7,793
(5,965) Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(10,514)
<b>9,847 Net cash flow from operating activities</b>	<b>(2,423)</b>
<b>(9,958) Net cash flow from investing activities (Group Note 7)</b>	<b>(12,832)</b>
<b>(6,533) Net cash flow from financing activities</b>	<b>25,914</b>
<b>(6,644) Net increase or decrease in cash and cash equivalents</b>	<b>10,659</b>
10,776 Cash and cash equivalents at the beginning of the reporting period	4,132
<b>4,132 Cash and cash equivalents at the end of the reporting period</b>	<b>14,791</b>

\*2020/21 comparatives restated following post-audit results for Oportunitas accounts

\*\*2021/22 includes group results for Otterpool Park Development Company Ltd

## **Explanation of Group Financial Statements**

### **Group MiRS**

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

### **Group CIES**

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

### **Group Balance Sheet**

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

### **Group Cash Flow Statement**

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



## **Notes to the Group Financial Statements**

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

### **Note 1 – Accounting Policies**

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

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

### **Note 2 – Investment Properties**

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

	<b>Restated 2020/21*</b>	<b>2021/22</b>
	<b>£000s</b>	<b>£000s</b>
<b>Cost or Valuation</b>		
At 1 April	80,773	91,858
Additions – acquisitions	8,147	4,726
Disposals	-	-
Reclassification to Capital Debtor	(805)	-
Transfers to PPE	-	-
Net gain from fair value adjustments	3,758	3,822
Impairment	(15)	(111)
At 31 March	<u><b>91,858</b></u>	<u><b>100,295</b></u>

\*2020/21 comparatives restated following post-audit results for Oportunitas accounts

### **Fair Value Hierarchy for Investment Properties**

Details of the authority's Investment Properties and information about the fair value hierarchy as at 31<sup>st</sup> March 2022 are as follows:

## GROUP ACCOUNTS

2021/22 Recurring fair value measurements using:	Other significant observable inputs (Level 2)	Fair value at 31-Mar-22
	£000s	£000s
Residential Units	17,976	17,976
Agricultural Land	63,543	63,543
Commercial Units	18,776	18,776
<b>Total Investment Properties</b>	<b>100,295</b>	<b>100,295</b>

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

#### Significant observable inputs – Level 2

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

### Note 3 – Long Term Investments

Long Term Investments	2020/21	2021/22
	£000s	£000s
Bond, equity & property funds	15,204	16,105
Changes in FV of equity investments in companies	(401)	(2,589)
	<b>14,803</b>	<b>13,516</b>

### Note 4 – Long Term Debtors

Long Term Debtors	2020/21*	2021/22
	£000s	£000s
Soft Loans	(89)	(46)
Other Loans	2,019	1,797
Expected Credit Loss (Loans to Companies)	944	927
Capital Prepayment (Otterpool Land Options)	673	773
Lease Receivables	119	109
	<b>3,666</b>	<b>3,560</b>

\*Prior year comparatives restated to show Expected Credit Loss

## GROUP ACCOUNTS

### Note 5 – Short Term Debtors

Short Term Debtors	2020/21*	2021/22
	£000s	£000s
Trade Receivables	4,029	6,206
Receivables from Related Parties	9,259	5,735
Prepayments	1,371	802
Other Receiveables	4,670	4,151
	<u>19,329</u>	<u>16,894</u>
<b>Impairment of debt</b>		
Trade Receivables	(938)	(993)
Other Receiveables	(949)	(485)
<b>Total</b>	<u>(1,887)</u>	<u>(1,478)</u>
<b>Balance as at 31 March</b>	<u>17,442</u>	<u>15,416</u>

\*Prior year comparatives restated

### Note 6 – Cash and Cash Equivalents

Cash and Cash Equivalents	2020/21	2021/22
	£000s	£000s
Bank Accounts	512	(344)
Money Market Funds	3,620	15,135
<b>Total</b>	<u>4,132</u>	<u>14,791</u>

### Note 7 – Cash Flow Statement – Investing Activities

2020/21		2021/22
£000s		£000s
(20,435)	Purchase of property, plant & equipment, investment property and intangible assets	(24,037)
	- Purchase of short-term and long-term investments	-
(740)	Other payments for investing activities	(1,687)
2,134	Proceeds from the sale of property, plant & equipment, investment property and intangible assets	1,803
3,505	Proceeds from investments	-
5,578	Other receipts from investing activities	11,089
<u>(9,958)</u>	<b>Net cash flows from investing activities</b>	<u>(12,832)</u>

**GROUP ACCOUNTS**

**Note 8 – Restatement of Accounts – Working Papers**

Note to restated Consolidated Income and Expenditure Statement 2020/21

<b>Continuing Operations</b>	<b>Reported 2020/21</b>	<b>Post Audit Change in Opportunitas Accounts</b>	<b>Restated 2020/21</b>
Leadership Support	1,077	-	1,077
Governance & Law	2,568	-	2,568
Human Resources	687	-	687
Finance, Strategy & Corporate Services	6,716	6	6,722
Strategic Development	834	-	834
Economic Development	849	-	849
Planning	284	-	284
Estates & Operations	3,801	-	3,801
Housing	150	-	150
Customer, Case, Regulation & Communities	6,009	-	6,009
Transition & Transformation	31	-	31
Local Authority Housing (HRA)	6,806	-	6,806
<b>(Surplus)/Deficit on Continuing Operations</b>	<b>29,812</b>	<b>6</b>	<b>29,818</b>
Other Operating Expenditure (Note 10)	2,529	-	2,529
Financing and Investment Income and Expenditure (Note 11)	(3,098)	(12)	(3,110)
Taxation and Non-specific Grant Income (Note 12)	(24,766)	(11)	(24,777)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>4,477</b>	<b>(17)</b>	<b>4,460</b>
(Surplus) or deficit on revaluation of property, plant and equipment assets (Note 29)	(22,251)	-	(22,251)
Re-measurement of net defined liability (Note 27)	4,673	-	4,673
<b>Other Comprehensive Income and Expenditure</b>	<b>(17,578)</b>	<b>-</b>	<b>(17,578)</b>
<b>TOTAL Comprehensive Income and Expenditure</b>	<b>(13,101)</b>	<b>(17)</b>	<b>(13,118)</b>

## GROUP ACCOUNTS

### Note to restated Balance Sheet 2020/21

	Reported 2020/21	Post Audit Change in Opportunitas Accounts	Restated 2020/21
<b>Non current assets</b>			
Council dwellings	185,603	-	185,603
Property, plant and equipment	60,794	-	60,794
Heritage Assets	2,998	-	2,998
Investment property	89,356	2,502	91,858
Intangible assets	179	-	179
Long term investments	14,803	-	14,803
Long term debtors	3,666	-	3,666
<b>Long term assets</b>	<b>357,399</b>	<b>2,502</b>	<b>359,901</b>
Inventories	359	-	359
Short term debtors	19,938	(2,496)	17,442
Cash and cash equivalents	4,132	-	4,132
<b>Current assets</b>	<b>24,429</b>	<b>(2,496)</b>	<b>21,933</b>
Short term borrowing	(6,902)	-	(6,902)
Short term creditors	(27,503)	-	(27,503)
Grants receipts in advance - capital	(1,447)	-	(1,447)
Current Provisions	(2,277)	-	(2,277)
<b>Current liabilities</b>	<b>(38,129)</b>	<b>-</b>	<b>(38,129)</b>
Long term borrowing	(72,155)	-	(72,155)
Other long term liabilities	(76,591)	-	(76,591)
Non-current provisions	(137)	11	(126)
<b>Long term liabilities</b>	<b>(148,883)</b>	<b>11</b>	<b>(148,872)</b>
<b>Net assets</b>	<b>194,816</b>	<b>17</b>	<b>194,833</b>
Usable reserves	(56,688)	(17)	(56,705)
Unusable reserves	(138,128)	-	(138,128)
<b>Total Reserves</b>	<b>(194,816)</b>	<b>(17)</b>	<b>(194,833)</b>

**GROUP ACCOUNTS**

**Note to restated Cash Flow Statement 2020/21**

	Reported 2020/21	Post Audit Change in Opportunities Accounts	Restated 2020/21
Net surplus or (deficit) on the provision of services	(4,477)	17	(4,460)
Adjustments to net surplus or (deficit) on the provision of services for non-cash movements	17,787	2,485	20,272
Adjustments for items included in the net surplus or (deficit) on the provision of services that are investing and financing activities	(5,965)	-	(5,965)
<b>Net cash flow from operating activities</b>	<b>7,345</b>	<b>2,502</b>	<b>9,847</b>
<b>Net cash flow from investing activities</b>	<b>(7,456)</b>	<b>(2,502)</b>	<b>(9,958)</b>
<b>Net cash flow from financing activities</b>	<b>(6,533)</b>	<b>-</b>	<b>(6,533)</b>
<b>Net increase or decrease in cash and cash equivalents</b>	<b>(6,644)</b>	<b>-</b>	<b>(6,644)</b>
Cash and cash equivalents at the beginning of the reporting period	10,776	-	10,776
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>4,132</b>	<b>-</b>	<b>4,132</b>

**INDEPENDENT AUDITOR'S REPORT**

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

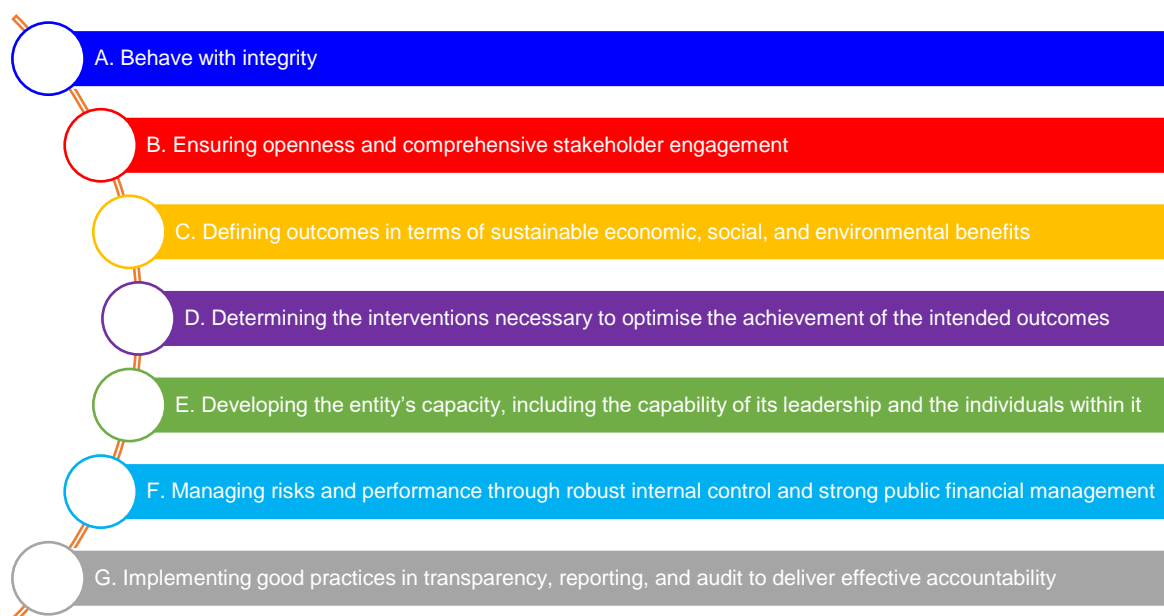
# Annual Governance Statement 2020/21

## 1. SCOPE OF RESPONSIBILITY

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

## 2. THE PRINCIPLES OF GOOD GOVERNANCE

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





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

- 3.1 The governance framework comprises the systems and processes, culture and values, by which the Council is directed and controlled. It also comprises the activities through which the Council accounts to, engages with and leads the community. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:
- Identify and prioritise risks to the achievement of the Council’s aims and objectives.
  - Evaluate the likelihood and impact of those risks.
  - Manage those risks efficiently, effectively and economically.
- 3.3 The information provided in the governance framework includes matters to the year ending 31 March 2022, and up to the date of approval of the annual report and statement of accounts.

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

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

## ANNUAL GOVERNANCE STATEMENT

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

Following a full council motion work was undertaken during 2019/20 to review and strengthen the governance structure of the Council. This work, which remains ongoing, made in-year improvements in the functioning of the Overview & Scrutiny Committee. During the year assistance from external specialist expertise was given from Bevan Brittan, the Local Government Association and from the Centre for Governance and Scrutiny. Best practice elsewhere was considered and in October 2021, the following changes were introduced to provide more robust scrutiny and greater Member involvement earlier in strategy and policy development, and in decision making by:

## ANNUAL GOVERNANCE STATEMENT

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

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

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

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

the leadership of the Conservative party. The political composition of executive has continued to remain the same during the 2021/22 year.

## Strategic Planning
















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

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

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

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

## Creating Tomorrow Together: Corporate Plan 2021-30

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



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

3.6 In order to support the delivery of the corporate plan priorities illustrated above, work has been undertaken during the year with directors, chief officers and their service leads to develop a Corporate Action Plan that documents a series of high level actions under each of the four corporate service ambitions that the Council will work towards achieving during the three year period to 2024. A draft of the Corporate Action Plan was presented to the Overview & Scrutiny Committee for consideration

## ANNUAL GOVERNANCE STATEMENT

in September 2021 before being approved at Cabinet in October 2021 (Report ref: C/21/40).

- 3.6 Elected Members of the council are ultimately responsible for the delivery of the council's corporate objectives. The council has strong communication channels between Members and officers. Meetings are regularly held between officers and Cabinet Members to discuss specific issues relating to their individual portfolios and the progression towards defined corporate objectives.
- 3.7 Effective communication, both within departments and across the council is continually supported through the wider management team, consisting of the Chief Executive, Directors, Chief Officers and Service Managers to help ensure consistent delivery of corporate priorities and messages.
- 3.8 On an annual basis, managers are required to develop, and keep under review, a departmental service plan setting out 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.

During the 2021/22 year the council has also undertaken a number of unexpected activities, such as awarding an Energy Tax Rebate and responding to the support for Ukraine etc., and these additional activities have been undertaken by the council's existing teams with relevant reports being provided to Members so that appropriate governance controls are in place with Member oversight.

### Transparency

- 3.9 In 2015, the Government introduced the Local Government Transparency Code. The Code is designed to ensure data is made more readily available by local authorities to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.
- 3.10 Folkestone and Hythe District Council as a public funded organisation is fully committed to principles of openness and accountability and has clearly articulated this as a Guiding Principle in its Corporate Plan. In line with the Transparency Code, the Council continues to publish on its website a series of data sets and information including;
- Senior Staff Salaries
  - Organisational Structure Chart
  - Payment to suppliers (over the value £250)
  - Purchase Orders (£5,000 and over)

## ANNUAL GOVERNANCE STATEMENT

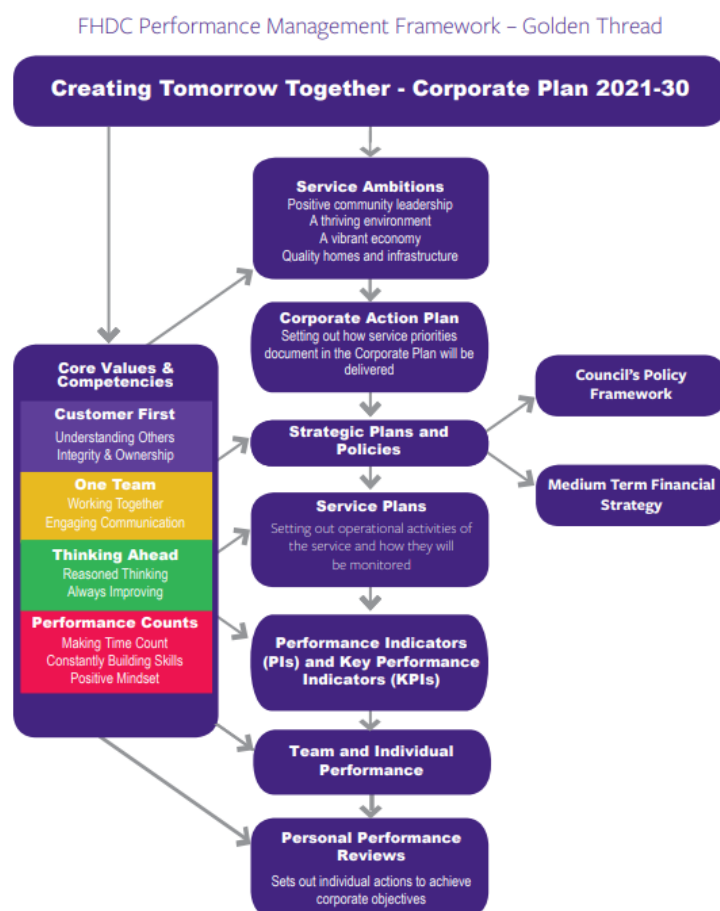
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- Pay Multiples - The ratio between the earnings of the highest paid employee and the median earnings figure of our employees.
- Grants to Voluntary, Community and Social Enterprise Organisations
- Parking Accounts
- Local Authority Land Assets
- Fraud - Information relating to the work we do countering fraud
- Trade Union Facility Time

### Performance Management

- 3.11 The Council has an established Performance Management Framework (PMF) in place to keep the Council on track and focused on delivery of its key priorities, by providing elected members, managers and staff with the information and tools they need to deliver high-quality and high-performing services which help to achieve good outcomes for residents.
- 3.12 The Performance Management Framework demonstrates how the Council's corporate vision and objectives are cascaded down through the organisation in what is known as the 'Golden Thread' (See diagram 1). The objectives defined 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. This matter is kept under review and a revised version of framework was considered by the Overview & Scrutiny Committee in June 2021 and approved by Cabinet in July 2021 (Report ref: C/21/25).

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



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

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

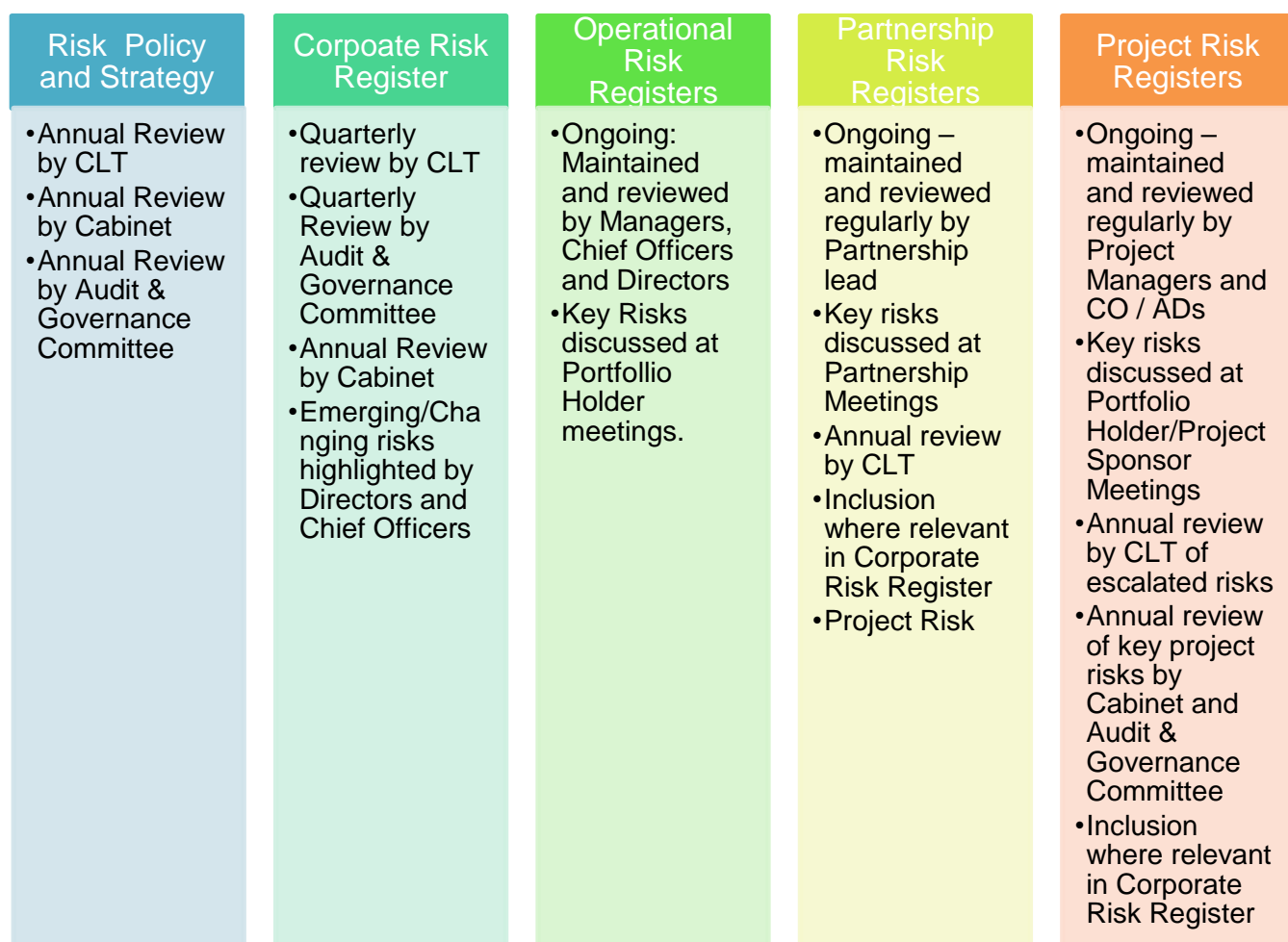
In September 2021, the Council successfully retained its Customer Service Excellence (CSE) accreditation. The accreditation is a Government standard developed to offer a practical tool for driving customer-focused change within organisations. The independent assessor was so impressed by the Council’s ongoing commitment to customer service he awarded a further 2 compliance plusses as part of his latest inspection bringing the overall number awarded to 17.

## **Risk**

- 3.15 The Council's Risk Management Strategy (Adopted by Cabinet in March 2022, report ref: C/21/95) is reviewed on annual basis to reflect any changes in the council's assessment of risk management matters. The strategy sets out the approach that has been adopted for identifying, evaluating, managing and recording risks to which the council is exposed.
- 3.16 In preparing the Council's Corporate Risk Register a detailed review of the risks is undertaken by Directors and Chief Officers, with consideration given to the emergence of potential new risks alongside those previously identified as part of the business planning process. This is a dynamic process with progress made against any required action in relation to the risks being reported to the council's Corporate Leadership Team on a regular basis for review and action.
- 3.17 The Audit and Governance Committee are responsible for considering the effectiveness of the authority's risk management arrangements, and to seek assurance that action is being taken to mitigate those risks identified. The Corporate Risk Register is presented regularly to the Audit and Governance Committee. In addition the committee reviews the council's Risk Policy and Strategy and Corporate Risk Register annually, ahead of these documents being presented to Cabinet for adoption. The latest edition of the Risk Policy and Strategy and Corporate Risk Register was considered by the Audit & Governance Committee on 16th March 2022 and then approved by Cabinet on 23rd March 2022 (Report ref: C/21/95).
- 3.18 Diagram 2 below provides an overview of the updated governance and reporting arrangements in place for both the Risk Management Policy and Strategy and the Corporate Risk Register to ensure risk remains at the forefront of the Council's operations:



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



## Finance

- 3.19 Section 151 of the Local Government Act 1972 requires a council to ensure that one of their officers has responsibility for the proper administration of its financial affairs. During 2021/22 this responsibility was held by the Director of Corporate Services. Directors, Chief Officers and Service Managers are responsible for the financial management of their service areas within the council, which includes accurate forecasting and the effective monitoring of financial performance against budget considered throughout the year.
- 3.20 The council’s financial management arrangements conform to the governance requirements of CIPFA’s Statement on the Role of the Chief Financial Officer in Local Government as set out in ‘Delivering Good Governance in Local Government’.
- 3.21 The Medium Term Financial Strategy (MTFS) is the Council’s key financial planning document which puts the financial perspective on the council’s Corporate Plan priorities. The MTFS was updated and approved by Council in October 2021 and expresses the aims and objectives of various plans and strategies in financial terms over a four year period ending 31st March 2026. The MTFS is a key element of sound

## ANNUAL GOVERNANCE STATEMENT

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corporate governance and financial management which is reviewed and agreed by Members on a regular basis.

- 3.22 In addition, the Finance & Performance Subcommittee recommended to Cabinet the adoption of the Treasury Management Strategy for the 2021/22 financial year at its meeting on 12th January 2021; Cabinet endorsed this at its subsequent meeting (report ref: C/20/64). A mid-year Treasury Management monitoring report was then presented to the Finance & Performance Sub Committee at its meeting on 18th January 2022 which provided an update on the council's treasury management activities that had taken place during the year against the agreed strategy and an update on the treasury management indicators.
- 3.23 Full Council consider annually the Investment Strategy and Capital Strategy by 31 March for the financial year ahead. These strategies consider the Council's service and commercial investments and capital expenditure, financing & treasury management, as well as Prudential Indicators. Full Council adopted the relevant strategies for 2021/22 on 24 February 2021 (report references: C/20/72 & C/20/74).
- 3.24 Regular budget monitoring took place in 2021/22 in order to manage the council's net revenue budget. Regular meetings were held between officers and the Cabinet Portfolio Holders to discuss any specific budget issues and budget monitoring reports were presented to the Finance & Performance Sub Committee and Cabinet on a quarterly basis. It was appropriate to continue to have an additional focus on the council's revenue budget monitoring during 2021/22 due to the unprecedented impacts of the pandemic on council finances.
- 3.25 The level of reserve balances is reviewed annually in line with the budget setting process and is reported to Finance & Performance Sub Committee and Cabinet as part of the quarterly budget monitoring reports. The level of reserves currently held has been endorsed and reported by the S151 Officer as adequate and in line with the council's Reserves Policy.
- 3.26 During the very latter stages of the 2021/22 year the senior team was made aware of issues within the Housing service area regarding contract management and potential breaches of the Contract Standing Orders. Both a disciplinary investigation and Internal Audit review were commissioned to identify the extent of the non-compliance and make recommendations for improvement of the control environment. These are now well progressed and anticipated to be concluded by the Autumn. Further to those issues arising further matters relating to financial transactions within the Operations service area were identified and are also subject to ongoing disciplinary and audit reviews. The Section 151 Officer has also commissioned an Internal Audit wider in scope exploring contract management across the Council to gain assurance that the issues identified are not prevalent. All bar one of these irregularities was identified through the Council's own assurance and control procedures undertaken by its staff or EKAP. At the time of preparing this Statement, all of these matters are the subject of thorough investigation by EKAP and the necessary appropriate reports will be made to the Audit and Governance Committee, and appropriate reference will be made in the 2022/23 Annual Governance Statement.

## **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 improving service delivery, the ongoing requirements to address the demand for and scale of services, and any associated income opportunities. This approach to service design ensures consideration is given to partnership working with other public bodies and local agencies, including identification of shared service opportunities where appropriate.
- 3.28 The Partnership Policy sets out the Council's vision and scope for partnership working; providing clarity of the types of partnership the Council is involved with and guidance to assist in making decisions regarding setting up or joining partnerships. All partnerships entered into by the Council over the value of £5,000 are recorded within the Grants & Partnerships Register and published on the Council's website for public transparency. The Partnership Policy is currently undergoing review and will be presented for member consideration in late 2022.

## **Internal and External Audit**

### **Internal Audit**

- 3.29 The internal audit function for the Council is performed by the East Kent Audit Partnership (EKAP), which provides internal audit services to the councils of Canterbury, Dover, Folkestone and Thanet. As a result of this collaborative approach the partnership is able to provide a mechanism for promulgating best practice to the East Kent authorities that use its services. The East Kent Audit Partnership Internal Audit Team reports to the S151 Officer, the Director – Corporate Services. They operate under a Charter, which defines their relationship with officers, and the Audit and Governance Committee. Through their audit assurance work, internal audit provides an opinion on the effectiveness of the systems of internal control. As part of the annual review of governance arrangements and in particular the system of internal control, the Council undertakes an annual review of the effectiveness of the system of internal audit.
- 3.30 Internal Audit has responsibility to:
- Report on the level of assurance in respect of the Council's internal control systems; and
  - Provide an overall independent annual Opinion from the Head of the Audit Partnership highlighting areas of concern. This is compiled from the Internal Audit work programme and a review of the Council's risk management and Corporate Governance arrangements.
- 3.31 The overall opinion of the System of Internal Controls in operation throughout 2021-22 based on the work of the East Kent Audit Partnership is presented in their annual report to the Governance and Audit Committee in July 2022:
- The internal auditors are independent to the management of the Council and have direct access to the Chair of the Governance and Audit if required. They provide a regular update to the Committee at each of the quarterly meetings and may attend any special meetings that may be convened during the year.

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- As at 31 March 2022 the Internal Auditors completed 342.42 days of review equating to 97.83% of planned completion.
- The EKAP undertakes a regular schedule of follow up audits to ensure that management have implemented the action plans arising from each audit. Members can see full details within the Internal Audit Annual Report 2021-22.
- In March 2020 EKAP considered the Public Sector Internal Audit Standards (PSIAS) Checklist for compliance. The results of this self-assessment showed that internal audit is currently working towards full compliance and has agreed an action plan to achieve this. The lack of an External Quality Assessment (EQA) against the PSIAS is hereby disclosed as non-conformance in this Annual Governance Statement. The four S151 Officers acting as the EKAP Client Officer Group continue to be content to rely on the self-assessment process for the PSIAS and not commission an EQA.
- As part of EKAP's quality monitoring arrangements Members should be aware that following the completion of each audit, a satisfaction questionnaire is completed by the managers of the service that has been audited enabling the officers involved to comment on the conduct and outcome of the audit. This information is used, in part, to inform the self-assessment and continuous improvement.

### External Audit

- 3.32 The external audit work of the Council is undertaken by Grant Thornton UK LLP. The main duties are governed by section 15 of the Local Government Finance Act 1982, and the Local Audit and Accountability Act 2015 section 4.
- 3.33 Each year the Council receives a report from its external auditor on the quality of its financial and management administrative arrangements. This is considered both by Cabinet and the Audit and Governance Committee.
- 3.34 The 2020/21 draft Audit Findings Report has been issued, however the audit is yet to conclude due to a national issue regarding infrastructure assets, which advice from CiPFA is awaited. Grant Thornton have indicated that they expect to give an unqualified opinion on the Council's financial statements. 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

- 3.35 The Council is firmly opposed to any form of fraud and corruption and will take prompt and decisive action to deal equally with perpetrators from inside and outside the Council. To ensure the highest standards of conduct are upheld, the Council has an established Anti-Fraud and Anti-Corruption Framework in place that is designed to:
- encourage fraud deterrence and prevention;

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

The Anti-Fraud & Anti-Corruption Framework is formed of five documents, including the Anti-Fraud & Anti-Corruption Strategy, the Fraud Response Plan, the Whistle Blowing Protocol, the Anti-Money Laundering Policy and the Anti Bribery Policy. This framework has now been reviewed and updated by the S151 Officer and Monitoring Officer.

- 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.
- 3.37 The Chief Finance Officer (Section 151 Officer) is responsible for the proper administration of the authority's financial affairs. Under Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer is required to report to the full Council, Cabinet and the external auditor if the Council or one of its officers:
- has made, or about to make, a decision which involves incurring unlawful expenditure;
  - has taken, or about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority; and
  - is about to make an unlawful entry in the authority's accounts.
- 3.38 The Assistant Director for Governance & Law is the 'Monitoring Officer' for the Council. Under 5(2) of the Local Government and Housing Act 1989, the Monitoring Officer is required to report to Cabinet and Council where it appears to him/her that the Cabinet or Council and/or officers appointed by them:
- has made or is about to make a decision which contravenes any enactment, or rule of law; and
  - has made or is about to make a decision that would give rise to maladministration or injustice as referred to in Part III of the Local Government Act 1974.

## **4. REVIEW OF EFFECTIVENESS**

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

## **5. HOUSING SERVICE**

- 5.1 In August 2021 the Regulator of Social Housing removed the regulatory notice for health and safety non-compliance, stating that our performance 'satisfactorily addressed the areas of non-compliance which led to the publication of the notice in September 2019'. The Housing Service has attained and reported full compliance on the six key areas of; fire, water, electrical safety, asbestos and lifts. We continue to monitor an extensive set of KPIs, reported monthly to the Housing Leadership Team. Data is scrutinised quarterly by the Corporate Leadership Team (CLT) and the Strategic Tenants Advisory Panel (STAP) and published on the Council's website.

The Housing Service is embedding an internal governance process focused on continuous service improvement. The team is responding to new legislation, i.e. the Charter for Social Housing Residents (White paper), by introducing a Tenant Engagement Strategy which included setting up Strategic Tenant Advisory Panel as the senior level tenant-led scrutiny panel that contributes to the way the council monitors and delivers service improvement. In response to changes in the Regulator of Social Housing consumer standards, we are using the new Tenant Satisfaction Measures to undertake an extensive STAR (Survey of Tenants and Residents) satisfaction survey in May. The council is also now improving benchmarking capabilities through HouseMark (industry leaders for the housing sector) to ensure the provision of a good, cost-effective and financially viable service. This will include new measures for building health and safety in the coming year.

## **6. OTTERPOOL PARK LLP**

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

- The Members' (or Owners') Agreement approved on 27 May 2020;
- A single overarching Strategic Land Agreement;
- Related agreements including the Phased Delivery Strategy governing the transfer of land from the Council to the LLP (or other parties) pursuant to the Strategic Land Agreement;
- Legal instruments in relation to loans / members' equity;
- Loan agreements in relation to funds provided to the LLP by the Council as debt; and

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- The Business Plan agreed with the Council (it is a requirement of the Members' (or Owners') Agreement that every 5 years, the LLP submits its proposed business plan to the Council for approval).

- 6.2 Regular meetings (at least quarterly) between the Council and the LLP Board are held and provide opportunity for dialogue and assessment of progress against the approved Business Plan, including detailed consideration of financial matters and project risks. Attendees at these meetings are the nominated representatives, which include elected Members and the statutory officers of the Council as agreed by Cabinet (see Minute 6 of Cabinet meeting 27 May 2020 report ref C/20/02).
- 6.3 Cabinet considered the first Business Plan of the LLP on 20 January 2021. The Business Plan included a draft vision document which set out the aspirations of the LLP for the development and which captures the essence of the scheme. The vision document drew on a range of Council documents, primarily the Charter for Otterpool Park (report ref C/17/49). In November 2019, Full Council determined to "To make available an additional one hundred million pounds to be drawn down over a period of up to five years to enable the Otterpool Park project to proceed.", (report ref A/19/17).
- 6.4 The first annual update on the Business Plan was considered during the year by the Overview and Scrutiny Committee in December 2021 before being considered at Cabinet in January 2022 (Report ref C/21/70). The report sets out a number of updates to sections of the business plan including Section 4: Legal and Governance summarised below:

*Actions in 2021 have included amendments to the scheme of delegations and the approval of a staff handbook containing the human resources policies of the LLP. A Strategic Land Agreement and the method of procuring the on-site wastewater treatment works also secured Board approval. The Cabinet of the Council resolved that the Council should enter into the Strategic Land Agreement with the LLP and the Agreement will be completed shortly.*

*Supported by the new Head of Finance, the Board will continue to keep track of the LLP's financial performance and it will also consider Phase Delivery Strategies.*

*Proposals for long-term governance and stewardship of community assets will be prepared for Board and Council approval in the New Year.*

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

## 7. CONCLUSION

- 7.1 In line with the council's responsibilities for its internal control and overall governance environment (paragraph 1.1), the conclusion to the annual review process for the year ended 31 March 2022 and up to the date of approval of the Statement of Accounts is



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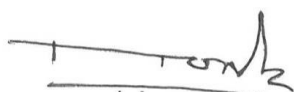
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that the arrangements in place are considered to be fit for purpose and in accordance with the council's governance framework, with no significant areas of the framework requiring attention.

However, during the very latter stages of the 2021/22 year, the senior team was made aware of potential breaches of the council's Financial Procedure Rules and Contract Standing Orders. These matters were highlighted, largely, through regular routine checks made by the procurement and finance teams. At the time of preparing this Statement, these matters are the subject of thorough investigation by EKAP and the necessary appropriate reports will be made to the Audit and Governance Committee, and appropriate reference will be made in the 2022/23 Annual Governance Statement.

- 7.2 Set out in Appendix 1 is the current action plan outlining the steps the Council proposes to take over the coming year to further enhance our governance arrangements. This action plan will be kept under review through the year and updated as appropriate.
- 7.3 The findings of the annual review of the governance framework will be reported to Members of the Audit and Governance Committee on 28th July 2022.

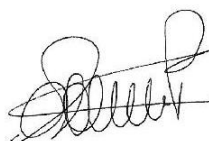
Signed



Cllr David Monk  
Leader of the Council

Date: 28 July 2022

Signed



Dr Susan Priest

Head of Paid Service

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### Appendix 1 - Action plan for improvement following review of effectiveness of governance arrangements 2022/23

	Action	Who	Date
1	<p><b>Annual Review of Corporate Governance</b> At the end of the year, the Council will produce its statement on governance, which includes end of year assurance statements by Directors, Assistant Directors/Chief Officers and internal audit's opinion report.</p>	Monitoring Officer	May 2023
2	<p><b>Governance Arrangements</b> To keep under review the Council's governance arrangements, making any necessary improvements in response to the reported potential breaches that are investigated throughout the year.</p>	Monitoring Officer	March 2023
3	<p><b>Data Retention Policy and General Data Protection Regulation</b> To keep under review, the Data retention policy and the new General Data Protection Policy ensuring Officers and Members of the council are aware of their responsibilities.</p>	Monitoring Officer	March 2023
4	<p><b>Review of the Overview &amp; Scrutiny Committee function</b> To keep under review the governance and working arrangements of the committee.</p>	Monitoring Officer	Ongoing
5	<p><b>Financial Management Code</b> Raise awareness in the organisation of the CIPFA Statement of Principles of Good Financial Management.</p>	Chief Financial Services Officer & Monitoring Officer	December 2022
7	<p><b>Otterpool Park Governance Arrangements</b> Periodically review the assurance framework and governance arrangements between FHDC and Otterpool Park LLP to ensure they reflect the needs of the Council.</p>	S151/ Monitoring Officer	Autumn 2022
8	<p><b>Development of the new Programme Management Office Function:</b> To implement and develop a programme management office approach across all of the Council's major projects to provide standardised reporting, consistency and governance oversight across all projects.</p>	<b>Programme Management Lead Specialist</b>	March 2023
9.	<p><b>Review of the Partnership Policy</b> To review and update the Council's Partnership Policy to ensure it's reflective of current working practices.</p>	<b>Performance &amp; Improvement Specialist</b>	October 2023

## **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

