



Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 14th September 2017

Committee:
West Mercia Energy Joint Committee

Date: Monday, 25 September 2017

Time: 10.00 am

Venue: Wilfred Owen Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Head of Legal and Democratic Services (Monitoring Officer)

Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	D Harlow P Price (Chairman)
<i>Shropshire Council</i>	N Laurens R Macey
<i>Telford & Wrekin Council</i>	L Carter R Overton
<i>Worcestershire County Council</i>	J Smith A Hardman

Your Committee Officer is:

Emily Marshall Committee Officer
Tel: 01743 257717
Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Apologies for Absence

To receive apologies for absence.

2 Named Substitutes

To receive details of any Member nominated to attend the meeting in place of another Member.

3 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

4 Minutes (Pages 1 - 4)

To receive the minutes of the Joint Committee meeting held on 27th February 2017

Copy attached marked 4.

5 Statement of Accounts 2016/17 and Annual Governance Statement 2016/17 (Pages 5 - 56)

Report of the Treasurer.

Contact: James Walton (01743 258915)

6 Distribution of Surplus (Pages 57 - 60)

Report of the Treasurer.

Contact: James Walton (01743 258915)

7 External Audit - Audit Findings Report 2016/17 (Pages 61 - 88)

Report of the External Auditor.

Contact: Richard Percival/James McLarnon (0121 212 4000)

8 Internal Audit - Annual Report 2016/17 (Pages 89 - 96)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

9 Anti-Slavery and Human Trafficking Policy (Pages 97 - 102)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

10 Exclusion of Press and Public

To consider a resolution under Section 100 (A) of the Local Government Act 1972 that the proceedings in relation to the following items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the provisions of Schedule 12A of the Act.

11 Exempt Minutes (Pages 103 - 106)

To approve the exempt Minutes of the meeting held on 27th February 2017.

Contact: Emily Marshall (01743 257717)

12 Energy Governance, Accountability, Risk and Reporting Policy (Pages 107 - 150)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

13 Update on Business Plan and Trading Performance to Date (Pages 151 - 160)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

14 Minutes of the Flexible Energy Advisory Panel (Pages 161 - 178)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

15 Risk Management Update (Pages 179 - 182)

Exempt report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

16 Date of Next Meeting

To confirm the dates of meetings of the WME Joint Committee for 2018.



Committee and Date

West Mercia Energy Joint
Committee

25th September 2017

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 27 February 2017

**In the Ludlow Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
10.00 - 11.33 am**

Responsible Officer: Emily Marshall

Email: emily.marshall@shropshire.gov.uk Tel: 01743 257717

Present

Councillor Price (Chairman)

Councillors Steve Charmley, Michael Wood, Arnold England, John Smith and Anthony Blagg

1 Election of Chairman

Given the uncertainty arising from the local council elections in May it was agreed that the current Chairman would be re-elected for the ensuing year.

RESOLVED:

That Councillor Phillip Price be elected Chairman of the West Mercia Energy Joint Committee for the ensuing year.

2 Apologies for Absence

Apologies for absence were received from Councillors Lee Carter (Telford and Wrekin) and David Harlow (Herefordshire).

James McLarnon reported apologies from Richard Percival (Grant Thornton) and Sean Pearce reported apologies from Mark Saunders (Worcestershire Council).

3 Appointment of Vice Chairman

RESOLVED:

That the appointment of a Vice-Chairman be confirmed after the elections.

4 Minutes

RESOLVED:

That the Minutes of the West Mercia Energy Joint Committee held on 26th September 2016 be approved as a correct record.

5 Public Questions

There were no public questions or petitions received.

6 **Disclosable Pecuniary Interests**

Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

7 **Supplier Contracts**

In accordance with Standing Orders, Mr N. Evans, Director of West Mercia Energy provided an update on Supplier Contracts.

The Director reported on one item relating to the gas tender, under Standing Order 5.3 post tender negotiations had been entered into with Total Gas & Power to try to clarify certain aspects of their bid and to achieve further cost savings.

RESOLVED:

That the update on supplier contracts by the Director of West Mercia Energy be noted.

8 **External Audit - Audit Plan 2016/17**

Mr James McLarnon (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Plan 2016/17 (copy attached to the signed minutes).

RESOLVED:

That the External Audit Annual Audit Letter 2014/15 be endorsed.

That the Audit Plan 2016/17 be endorsed.

9 **External Audit - Informing the Audit Risk Assessment 2016/17**

Mr James McLarnon (External Auditor – Grant Thornton) presented the Informing the Audit Risk Assessment for the year ended 31 March 2017 for West Mercia Energy Joint Committee (copy attached to the signed minutes).

RESOLVED:

That the External Audit Informing the Audit Risk 2016/17 be noted and the management responses contained within the report are consistent with the understanding of the West Mercia Energy Joint Committee with no further comments to make.

10 **Internal Audit - Performance Reports to February 2017**

C. Pilawski, Head of Audit introduced Internal Audit Performance Report to February 2017 (copy attached to the signed minutes). The Head of Audit confirmed that there were no significant or fundamental recommendations to report.

RESOLVED:

That the performance to date against the 2016/17 Audit Plan be endorsed.

11 Internal Audit - Strategic Plan 2017/18

C. Pilawski, Head of Audit introduced Internal Audit Strategic Plan 2017/18 (copy attached to the signed minutes).

RESOLVED:

That the proposed programme of audits for 2017/18 be endorsed.

12 Internal Audit - Quality Assurance Improvement Programme External Assessment

C. Pilawski, Head of Audit presented her report which provided an update on the Internal Audit Quality Assurance Improvement Programme External Assessment. (copy attached to the signed minutes).

RESOLVED:

That the information set out in the report be noted.

13 Financial Regulations

Mr Nigel Evans (Director – WME) presented the updated Financial Regulations for approval.

RESOLVED:

1. That the updated WME Financial Regulations be approved.
2. That the update to the EGARRP Policy, to ensure consistency with paragraphs 55 – 57 of the updated Financial Regulations (relating to the EGARRP Policy), be approved.

14 Exclusion of Press and Public

RESOLVED:

That under Section 100(A)(A4) of the Local Government Act 1972, the public be excluded during the consideration of the following items of business on the grounds that they might involve the likely disclosure of exempt information as defined in Schedule 12(A) of the Act.

15 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting held on 26th September 2016 be approved as a correct record.

16 Annual Business Plan and Budget 2017/18 Including a Review of 2016/17

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on the West Mercia Energy Annual Business Plan and Budget 2016/17.

RESOLVED:

That the recommendations contained within the exempt report be approved.

17 Minutes of the Flexible Energy Management Panel

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the minutes of the Flexible Energy Management/Advisory Panel meetings that had been held since the last meeting of the Joint Committee.

RESOLVED:

That the recommendation contained within the exempt report be approved.

18 Risk Management Update

The Director presented an exempt report (copy attached to the signed exempt minutes), which provided an update on risk management.

RESOLVED:

That the recommendations contained within the exempt report be approved.

19 Date of Next Meeting

It was noted that the next meeting would take place on Monday, 25th September 2017 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	5
25 th September 2017	<u>Public</u>

Statement of Accounts 2016/17 and Annual Governance Statement 2016/17

Responsible Officer James Walton - Treasurer

e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

- 1.1 The purpose of this report is to present to the Joint Committee the Letter of Representation, the Statement of Accounts 2016/17 and the Annual Governance Statement 2016/17.

2. Recommendations

- 2.1 The Joint Committee is asked;
- a) To note the Letter of Representation to be signed by the Chairman and submitted by the Treasurer.
 - b) To consider the finalised Statement of Accounts 2016/17 to be signed by the Chairman and the Treasurer.
 - c) To consider the Annual Governance Statement 2016/17.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Details of the potential risks affecting the balances and financial health of WME are considered within the Statement of Accounts

4. Financial Implications

- 4.1 This report considers the overall financial position of WME in the form of the Statement of Accounts, the accounts consider the level of assets controlled by WME and the level of balances held.

5. Background

- 5.1 WME external auditors, Grant Thornton have audited the accounts during August.
- 5.2 WME is required to produce a Letter of Representation for the external auditors which provides assurance that the information submitted within the accounts is accurate and that all material information has been disclosed to the auditors. External audit will only sign off the accounts once this letter has been received. See Appendix 1
- 5.3 The Joint Committee is required to approve the annual Statement of Accounts by the 30th September after the findings of the audit are known. The Statement of Accounts are contained in Appendix 2.
- 5.4 The Statement of Accounts is accompanied by WME's Annual Governance Statement 2016/17, which details processes and procedures in place to enable WME to carry out its' functions effectively. See Appendix 3.

6 Publication of Accounts

- 6.1 The annual Statement of Accounts 2016/17 will be published on the WME website following approval by the Joint Committee.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

CIPFA Code of Practice (CODE) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

1 - The Letter of Representation

2 - Statement of Accounts 2016/17

3 - Annual Governance Statement 2016/17

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

25 September 2017

Dear Sirs

West Mercia Energy Financial Statements for the year ended 31 March 2017

This representation letter is provided in connection with the audit of the financial statements of West Mercia Energy for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 ("the Code") which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Joint Committee and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Joint Committee has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Joint Committee has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Joint Committee's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Joint Committee's needs. We believe that no further disclosures relating to the Joint Committee's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Joint Committee from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Joint Committee involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Joint Committee's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Joint Committee's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Annual Governance's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv The disclosures within the Narrative Report fairly reflect our understanding of the Joint Committee's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Joint Committee at its meeting on 25 September 2017.

Signed on behalf of the Joint Committee

.....

James Walton
Section 151 Officer
Shropshire Council
25 September 2017

.....

Clr Philip Price
Chair of the Joint Committee
25 September 2017

WEST MERCIA ENERGY JOINT COMMITTEE
STATEMENT OF ACCOUNTS FOR THE YEAR
ENDING 31ST MARCH 2017

WEST MERCIA ENERGY JOINT COMMITTEE

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WEST MERCIA ENERGY JOINT COMMITTEE

FINANCIAL SUMMARY **FOR THE YEAR 2016/17**

Introduction

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1st April 2016 to 31st March 2017 and shows the organisation's financial position at the year end together with the trading income and expenditure figures that have been produced throughout the period.

West Mercia Energy Joint Committee is a purchasing consortium established as a Joint Committee under s.101 of the Local Government Act 1972 and comprises of four Member Authorities:

- Herefordshire Council
- Shropshire Council
- Telford & Wrekin Council
- Worcestershire County Council

Each Member Authority appoints a number of their Elected Members to serve on the Joint Committee. The Joint Committee is delegated with the operation and management of the organisation and is responsible for the discharge of the functions of the Member Authorities

Following the sale of the stationery division of West Mercia Supplies Joint Committee in April 2012, the West Mercia Supplies name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. The pension liability was retained fully following the sale of the stationery division. The liability as at 31st March 2017 was £6.811 million, an increase of £1.861 million, from £4.950 million as at 31st March 2016.

In June 2013 the Joint Agreement was updated which involved the change of name of the Joint Committee from West Mercia Supplies Joint Committee to West Mercia Energy Joint Committee, and the change of voting rights. With regards the voting rights each Member Authority now has two votes whereas up to 31st March 2013 Shropshire Council and Worcestershire County Council each had three votes with Herefordshire Council and Telford & Wrekin Council having two votes each.

Professional Advice

Certain professional services are provided for Joint Committee including:

- Financial Advice
The Member Authorities have appointed Shropshire Council as Treasurer.

- Legal Advice
The Member Authorities have appointed Shropshire Council as Secretary.

The Treasurer and the Secretary shall liaise with officers of Member Authorities so that they comply with their responsibilities under s.5 of the Local Government and Housing Act 1989 and s.151 of the Local Government Act 1972.

The Statements

Narrative Report

This provides an effective guide to the most significant matters reported in the accounts, including an explanation of the financial position and details the performance during the financial year.

Statement of Responsibilities and Joint Committee Approval

This section deals with the financial responsibilities of the Joint Committee and the Treasurer to the Joint Committee and confirms the date when the Joint Committee approved the accounts.

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Joint Committee.

Comprehensive Income and Expenditure Account

This account summarises the annual income and expenditure of the trading operations to show the organisation's net surplus for the year.

Balance Sheet

This sets out the financial position of the Joint Committee as at the year end 31st March 2017.

The Cash Flow Statement

This summarises the inflows and outflows of cash arising from the day to day transactions of the organisation.

Narrative report 2016/17

General

For the third consecutive year, commodity prices secured were lower than the previous year and this was the main reason for the reduction of 10% in the total turnover. These positive trading positions enabled us to set the capped sales prices at levels lower than 2015/16.

The net operating surplus of £1.037 million for the year 2016/17 represented a fall in profits from the previous year reflecting the energy market conditions experienced within the financial year. In the previous four financial years energy market prices had fallen within the financial year resulting in improvements in our traded energy positions through the innovative WME buying strategy. Given the challenging market conditions experienced within the year, as detailed below, it is most reassuring that the strategy provided protection from the vast majority of the rises evident in the market.

The net liability position of the Joint Committee is reflective of the pension liability which was retained fully following the sale of the stationery division in 2012. The Joint Committee's retirement benefits liability increased by £1.861 million (from £4.950 million to £6.811 million) during the financial year 2016/17. The main reason for the increase in liability is the loss on financial assumptions over the year offset to some extent by the high investment returns achieved by the assets of the pension fund. Over 2016/17 corporate bond yields fell significantly which resulted in a reduction in the discount rate used in the accounting calculations from 3.6% p.a. at 31st March 2016 to 2.5% p.a. at 31st March 2017. A similar fall in index linked gilt yields caused assumed CPI inflation to increase from 2.0% p.a. to 2.3% p.a. The pension liability is detailed further within note 17 on pages 32-37.

As at 31st March 2017, the net liabilities of the Joint Committee stood at £5.059 million (£2.157 million at 31st March 2016).

The net working capital of the Joint Committee continues to be closely monitored and this has resulted in a strong performance throughout 2016/17.

Market Overview

Gas prices reached historic low levels around February 2016 having been in a long-term downward trend. This was partly due to falls in oil prices and partly due to healthy supply margins caused by a long period of unseasonably warm weather. This helped to mask underlying problems with supply, especially for electricity where generation margins have been reducing in recent years as a result of a loss of generation capacity. These issues came to the fore in April 2016 when several coal fired power stations closed. This loss of coal production increased the reliance on gas fired power stations and consequently the demand for gas, leading to increases in the market price of gas.

After April, the EU referendum began to heavily influence the markets with the uncertainty ensuing from a potential vote to leave the EU having an adverse effect on the markets, along with the direct effects of a weaker pound. These market movements were exacerbated by an announcement from Centrica regarding the Rough storage facility, by far the largest gas storage site in the UK accounting for approximately 70% of storage capacity. Typically, gas is injected

into Rough during the summer with a view to withdrawing it during the periods of peak demand in winter. Centrica announced safety concerns regarding several of the storage wells and suspended further injections until early August. In July, it was announced that storage injections would be suspended until March 2017 at the earliest. Both these announcements had an immediate impact on gas prices for the winter.

The combination of supply concerns and the impact of the vote to leave the EU saw winter gas prices peak at the end of July after which we saw a period of falling prices. As a result of the restrictions on injections into the Rough storage facility there was a surplus of available gas during the summer which resulted in historic low prices for gas on the Day Ahead market. Once again this masked the real concerns regarding availability of supply for both gas and electricity, concerns which reasserted themselves as we approached winter. In their winter outlook report the National Grid highlighted the issues regarding generation margins for the winter months, and the relative importance of imports of electricity from France. In October EDF announced that several nuclear outages effecting their plants in France had been extended amidst safety concerns. As a result of this announcement French electricity prices rose significantly leading to similar increases in UK electricity prices. These supply concerns persisted throughout the winter, with any sustained periods of colder weather resulting in short term price spikes, with markets particularly volatile.

As a result of the above factors, by the end of the financial year we saw year-on-year increases in energy market prices of 33% for gas and 25% for electricity but as referred to above the trading strategy provided protection against the majority of these market rises.

Energy market prices will continue to be the key factor affecting the level of turnover and net result of WME in the future. Due to the market factors detailed above, energy commodity prices for 2017/18 are above 2016/17 levels. Furthermore, the rises in electricity non-commodity costs continues to affect the total billed cost levels. These charges include network charges and governmental levies and now make up some 60% of the total electricity costs.

Further Information

For further information about the Joint Committee's Statement of Accounts, please contact:

J Walton
S151 Officer
Shropshire Council
Shirehall
Abbey Foregate
Shrewsbury
Shropshire
SY2 6ND

Tel 0345 678 9000

STATEMENT OF RESPONSIBILITIES AND JOINT COMMITTEE APPROVAL

Responsibilities of West Mercia Energy Joint Committee

West Mercia Energy Joint Committee 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 organisation, that officer is the Treasurer to the Joint Committee. Day to day financial management is the responsibility of the Director. The Director is also responsible for:
 - i. keeping proper accounting records, which are up to date.
 - ii. taking reasonable steps for the prevention and detection of fraud and other irregularities.
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- to approve the Statement of Accounts.

Responsibilities of the Treasurer to the Joint Committee

The Treasurer to the Joint Committee, with support from the Director, is responsible for the preparation of West Mercia Energy Joint Committee Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to provide a true and fair view of the financial position of the organisation at the accounting date and its income and expenditure for the year ended 31st March 2017.

In preparing this Statement of Accounts the Treasurer to the Joint Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- applied the concept of 'going concern' by assuming that Joint Committee's services will continue to operate for the foreseeable future.

The Treasurer to the Joint Committee has also to:

- ensure proper accounting records are kept, which are up to date;
- take reasonable steps for the prevention and detection of fraud and other irregularities.

APPROVAL OF THE STATEMENT OF ACCOUNTS

Treasurer to the Joint Committee

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the Committee's Statement of Accounts provides a true and fair view of the financial position of the West Mercia Energy Joint Committee at 31st March 2017 and its income and expenditure for the year ended 31st March 2017.

James Walton
Treasurer to the Joint Committee

Joint Committee Approval

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the West Mercia Energy Joint Committee approved the Statement of Accounts for the year ended 31st March 2017.

Cllr Philip Price
Chairman of the
West Mercia Energy Joint Committee

Date:

MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2017

This statement shows the movement in the year on the different reserves held by the Joint Committee. The gain or (loss) for the year shows the true economic cost of the Joint Committee's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 19	Note 20	
	£000	£000	£000	£000
Balance at 31 March 2016	2,766	-4,950	27	-2,157
Total comprehensive income & expenditure	-2,902	-	-	-2,902
Transfer to/from Reserves	1,875	-1,861	-14	0
Increase/(decrease) in year	-1,027	-1,861	-14	-2,902
Balance at 31 March 2017	1,739	-6,811	13	-5,059

Pensions Reserve

The Pensions Reserve represents the difference between the actuarially calculated value of the pension fund assets and the present value of the scheme liabilities.

Joint Committee Capital Adjustment Account

The Joint Committee 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 as if in accordance with statutory provisions.

MOVEMENT IN RESERVES STATEMENT (CONTINUED) AS AT 31 MARCH 2016

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 19	Note 20	
	£000	£000	£000	£000
Balance at 31 March 2015	2,673	-5,361	25	-2,663
Total comprehensive income & expenditure	506	-	-	506
Transfer to/from Reserves	-413	411	2	-
Increase/(decrease) in year	93	411	2	506
Balance at 31 March 2016	2,766	-4,950	27	-2,157

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

This Statement shows the accounting income and cost in the year of providing services in accordance with generally accepted accounting practice.

	Notes	2016-2017 £000	2015-2016 £000
INCOME			
Turnover	6	-56,757	-63,177
Less cost of goods sold		55,513	60,902
Gross profit		-1,244	-2,275
Other trading operation income		-672	-708
Gross Profit		-1,916	-2,983
OPERATING EXPENSES			
Employees	8	683	670
Pension impact (IAS19)	17	-143	-119
Premises		35	37
Supplies & services		67	86
Central departmental & technical support	9,10	73	73
Provision for bad debts		1	-1
Depreciation		15	14
Total Operating Expenses		731	760
		-1,185	-2,223
SURPLUS OF SERVICES			
Financing and investment income and expenditure	7	148	144
NET OPERATING SURPLUS		-1,037	-2,079
Distribution to Member Authorities		2,110	2,039
NET LOSS / (GAIN) FOR THE YEAR		1,073	-40
OTHER COMPREHENSIVE INCOME & EXPENDITURE			
Remeasurements (Liabilities & Assets)	17	1,829	-466
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		2,902	-506



BALANCE SHEET AS AT 31 MARCH 2017

The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Joint Committee. The net assets of the Joint Committee (assets less liabilities) are matched by the reserves held by the Joint Committee.

31 March 2016		31 March 2017	Notes
£000		£000	
27	Plant & equipment	13	11
27	Long term assets	13	
9,151	Short term debtors	8,979	14
4,950	Cash and cash equivalents	3,674	15
14,101	Current assets	12,653	
-11,335	Short term creditors	-10,914	16
-11,335	Current liabilities	-10,914	
2,766	Net current assets	1,739	
-4,950	Other long term liabilities	-6,811	17
-4,950	Long term liabilities	-6,811	
-2,157	Net liabilities	-5,059	
	<u>Financed by:</u>		
2,766	General fund	1,739	
-4,950	Pensions reserve	-6,811	
27	Joint Committee capital adjustment account	13	
-2,157	Total reserves	-5,059	18

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

The Cash Flow Statement shows the changes in cash and cash equivalents of the Joint Committee during the reporting period. The statement shows how the Joint Committee generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Joint Committee's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Joint Committee.

2015-2016	2016-2017	
£000	£000	£000 Notes
Operating activities		
<u>Cash outflows</u>		
678 Cash paid to and on behalf of employees	669	
195 Other operating costs	176	
63,184 Cost of goods sold	55,948	
64,057		56,793
<u>Cash inflows</u>		
-64,740 Turnover	-56,929	
-708 Other trading operation income	-672	
-65,448		-57,601
-1,391 Net cash inflow from operating activities		-808 21.1
-14 Investing activities		-26 21.2
2,039 Financing activities		2,110 21.3
634 Net decrease/(increase) in cash and cash equivalents		1,276 21.4
5,584 Cash and cash equivalents at 1st April		4,950
4,950 Cash and cash equivalents at 31st March		3,674 21.4

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 General Principles

This Statement of Accounts for 2016/17 summarises the Joint Committee's transactions for the 2016/17 financial year and its position at 31 March 2017. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2016/176 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, as far as it is practicable and applicable to the Joint Committee, supported by International Financial Reporting Standards (IFRS). The nature of the Joint Committee as a purchasing consortium means that full compliance is not always possible for example the Comprehensive Income and Expenditure Account layout shows the income first and then all the expenditure grouped by type of expense. This differs from Local Authority Accounting, but this layout does allow a reader to interpret the statement in relation to the industry the Joint Committee operates in. The Joint Committee has prepared an annual Statement of Accounts in line with the Accounts and Audit (England) Regulations 2015.

1.2 Concepts

The Statement of Accounts have been prepared in accordance with all prevailing concepts of accrual and going concern together with relevance, reliability and comparability. The going concern concept assumes that the organisation will continue in operational existence for the foreseeable future. The management of WME are of this view as the Joint Agreement is in place to 31st March 2020 and both supplier and customer contracts are in place beyond 31st March 2018.

1.3 Legislation

Where specific legislative requirements regarding accounting treatment conflict with the Joint Committee's own accounting policies, legislative requirements shall apply.

1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information about the effect of transactions, other events and conditions on the Organisations' financial position or financial performance.

Where a change is made it is made retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparable amounts for the prior period.

1.5 Accruals of Expenditure and Income

Revenue and capital transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

Sums owed to the Joint Committee as at 31st March are included as debtors. Sums still owed by the Joint Committee at 31st March are included as creditors.

1.6 Plant and Equipment and Motor Vehicles

Under s102 of the local Government Act 1972, a Joint Committee does not have sufficient corporate status to acquire assets. However, given that the Joint Committee both accrues the economic benefits from and assumes liabilities for its Building assets, the “substance over form” policy justifies the inclusion of the assets in the Organisation’s accounts.

Plant and equipment and motor vehicles are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, or for administrative purposes, and are expected to be used during more than one period.

Recognition

The cost of an item of plant and equipment and motor vehicles is recognised (and hence capitalised) as an asset on the Balance Sheet if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the organisation;
- the cost of the item can be measured reliably; and
- has a value in excess of £500.

Costs that meet the recognition principle include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as ‘repairs and maintenance’, are not capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and is charged to revenue, when it is incurred.

Initial Measurement

Expenditure on the acquisition, creation and enhancement of plant and equipment, with a value in excess of £500, that qualifies for recognition is capitalised on an accruals basis in the accounts. To be capitalised, the expenditure must be for assets yielding benefits to the Joint Committee for a period of greater than one year.

Measurement After Recognition

Plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Plant and equipment are classified into the groupings required by the Local Authority Code and are included in the Balance Sheet net of depreciation.

Derecognition

The carrying amount of an item of plant and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount an additional entry is required; the balance of the Revaluation Reserve in respect of asset derecognised is written off to the Joint Committee Capital Adjustment Account and reported in the Movement in Reserves Statement.

Depreciation

Depreciation is provided on tangible fixed assets calculated by using the straight-line method where appropriate.

Depreciation and amortisation are charged over the finite useful life of each asset, based on their value, these lives, and methods of valuation, being as follows:

Asset and Method of Valuation	Depreciation/Amortisation Period
Computer Equipment (Historical Cost)	3 years
Office Equipment (Historical Cost)	3 years
Fixtures & Fittings (Historical Cost)	3 years
Motor Vehicles (Historical Cost)	3 years

Where the carrying amount of an item of plant and equipment is decreased as a result of a revaluation, ie a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment), the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (ie up to its historical cost) and thereafter charged to the Net Surplus or Deficit for the Year.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset as a whole and they have substantially different economic lives, they should be recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1st April 2010.

Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- a significant decline (ie more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the organisation to undertake a significant reorganisation; or
- a significant adverse change in the statutory or other regulatory environment in which the organisation operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter charged to the Net Surplus or Deficit for the Year.

1.7 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 are readily convertible to known amounts of cash with insignificant risk of change in value. The Joint Committee holds no cash equivalents.

1.8 Debtors and Creditors

The revenue accounts of the Joint Committee are maintained on an accruals basis in accordance with the Code. That is, sums due to or from the Joint Committee during the year are included whether or not the cash has actually been received or paid in the year.

1.9 Reserves

The Code of Practice makes provision for usable and unusable reserves. Unusable reserves are statutory reserves that are not applicable to Joint Committees.

General Fund Balance

The Balance Sheet includes a sum for the General Fund Balance. This shows the total unused accumulated net surplus for the Joint Committee carried forward to 2017/18.

Pensions Reserve

The Pensions Reserve represents the difference between the actuarially calculated value of the pension fund assets and the present value of the scheme liabilities.

Joint Committee Capital Adjustment Account

This represents the difference between the costs of fixed assets consumed and the financing set aside to pay for them.

1.10 Employee Benefits

The accounting policy relating to the treatment of benefits payable during employment and post-employment benefits is consistent with IAS 19 Employee Benefits.

Benefits Payable During Employment

Where the accumulating short-term absences (eg annual leave and flexi time earned by employees but not taken at 31st March) are not material, these are not accrued for in the accounts.

Post-Employment Benefits

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme.

The liabilities of the Pension Fund attributable to the Joint Committee are included in the Balance Sheet on an actuarial basis using the project unit method - ie 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 projected warnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (based on the indicative rate of return on high quality corporate bonds of appropriate duration).

The assets of Shropshire County Pension Fund attributable to the Joint Committee are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
 - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service expenditure
 - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on Services in the Comprehensive Income and Expenditure Statement
 - net interest on the net defined benefit liability (asset), ie net interest expense for West Mercia Energy Joint Committee – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined

benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Shropshire County 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, the General Fund Balance is to be charged with the amount payable by the Joint Committee to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative 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.

1.11 Interest

Interest receivable from investments is recognised in the financial statements during the period in which it became due to the Joint Committee.

Interest payable to Member Authorities is recognised in the financial statements during the period in which it became due by Joint Committee.

1.12 Foreign Currency

Foreign currency transactions are converted to sterling at the exchange rate applicable on the date of the transaction. There were no foreign currency transactions during the year.

1.13 Events After the Balance Sheet Date

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

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

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

There were no such events after the Balance Sheet date which need to be considered.

1.14 Provisions

Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate line in the Comprehensive Income and Expenditure Statement in the year that the Joint Committee becomes aware of the obligation, and measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation. When payments are made they are charged to the provision carried in the Balance Sheet.

The bad debt provision is made up of a general provision for all debts over 12 months old plus any specific debts which are less than 12 months old.

1.15 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.16 Distribution of Surplus to Member Authorities

The Joint Agreement requires the Joint Committee to determine the level of accumulated surplus that shall be retained for various reserve purposes. In practice the Joint Committee typically takes its decision in October. The decision is taken in the light of known accumulated surplus, a view at that point of the amount to be retained for contingency, future investment or other reserve purposes, including a consideration of performance, risks and development proposals at that time. The distribution made to Member Authorities is then charged to the Comprehensive Income and Expenditure Statement in the year that it is agreed by the Joint Committee.

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

Amendment to the reporting of pension fund scheme transaction costs

Amendment to the reporting of investment concentration

It is anticipated that the introduction of these standards will not have a material impact on the financial statements.

3. Critical judgements in applying accounting policies

We've generally complied with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), but where the Code doesn't apply, or is not relevant to the nature of the business, we've made critical judgements on the presentation.

In applying the accounting policies set out in Note 1, the Joint Committee has had to consider certain judgements about complex transactions or those involving uncertainty about future events.

There are no critical judgements made in the Statement of Accounts.

4. Expenditure and funding analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2016/17

	As Reported to Management £'000	Adjustment to arrive at the net amount chargeable to the General Fund £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure Chargeable to the General Fund Balance £'000
Energy	1,105	45	1,150	1,876	3,026
Services/Support services	-53	-60	-113		-113
Net cost of Services	1,052	-15	1,037	1,876	2,913
Other Income and Expenditure			-1,829		-1,829
Distribution of Surplus to Member Authorities			-2,110		-2,110
Surplus or (Deficit)			-2,902	1,876	-1,026
Opening General Fund					2,766
Capital Purchases funded from General Fund					-1
Less Deficit on General Fund					-1,026
Closing General Fund					1,739



2015/16

	As Reported to Management £'000	Adjustment to arrive at the net amount chargeable to the General Fund £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure Chargeable to the General Fund Balance £'000
Energy	2,168	32	2,200	-397	1,803
Services/Support services	-68	-53	-121		-121
Net cost of Services	2,100	-21	2,079	-397	1,682
Other Income and Expenditure			466		466
Distribution of Surplus to Member Authorities			-2,039		-2,039
Surplus or (Deficit)			506	-397	109
Opening General Fund					2,673
Capital Purchases funded from General Fund					-16
Plus Surplus on General Fund					109
Closing General Fund					2,766

4a. Note to the expenditure and funding analysis

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

2016/17

	Adjustments for Capital Purposes £000	Net change for the Pensions Adjustments £000	Other Differences £000	Total Adjustments £000
Net Cost of Services	15	1,861		1,876
Other income and expenditure from the Expenditure and Funding Analysis		-1,829		-1,829
Capital Purchases funded from General Fund	-1			-1
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	14	32	0	46

2015/16

	Adjustments for Capital Purposes £000	Net change for the Pensions Adjustments £000	Other Differences £000	Total Adjustments £000
Net Cost of Services	14	-411		-397
Other income and expenditure from the Expenditure and Funding Analysis		466		466
Capital Purchases funded from General Fund	-16			-16
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	-2	55	0	53

4b. Analysis of income and expenditure by nature

Income received on a segmental basis is analysed below:

	2016/17	2015/16
	Income from Services £000	Income from Services £000
Energy Sales	56,420	62,394
Other Income	337	783
Total income analysed on a segmental basis	56,757	63,177

An analysis of Expenditure is shown on the face of the Comprehensive Income and Expenditure Statement

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures based on assumptions made by the Joint Committee. Estimates are made taking into account historical experience, current trends and other relevant factors. There is, however, a risk that actual results could be materially different from the assumptions and estimates.

The items in the Joint Committee's Balance Sheet at 31 March 2017 for which there is a risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a one year increase in life expectancy would result in an increase in the pension liability of £326,000. However the assumptions interact in complex ways. During 2016/17 the actuaries advised that the net pensions liability had increased by £1,861,000.

6. Turnover

Turnover is the VAT exclusive total of invoiced sales for energy.

7. Financing and Investment Income and Expenditure

Interest and Investment Income

The Joint Committee's daily bank balances are invested with Shropshire Council balances. Interest is debited or credited to the Joint Committee on the basis of the level of daily bank balances invested.

	2016/17	2015/16
	£000	£000
Pensions interest cost and expected return on pensions	175	174
Interest receivable and similar income	-27	-30
Total	148	144

8. Staff Remuneration

In 2016/17 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2016/17	2015/16
£ 65,000 to £ 69,999	1	1

Remuneration for these purposes includes all sums paid to an employee by way of salary, expenses, profit related pay and the money value of any other benefits received other than cash.

There are no staff members receiving remuneration between £50,000 and £64,999 so the staff remuneration table above has been adjusted accordingly.

Disclosure of Remuneration for Senior Employees

2016/17

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	62,443	6,973	5,761	75,177
	62,443	6,973	5,761	75,177

2015/16

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	61,824	6,207	5,647	73,678
	61,824	6,207	5,647	73,678

There are no compulsory redundancies or staff members receiving exit packages in 2015/16 or 2016/17.

9. Audit Costs

During 2016/17 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2016/17 £000	2015/16 £000
Fees payable to External Auditors with regard to external audit services	13	13

10. Related Party Transactions

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

Members and Officers

Members of the Joint Committee have direct control over the Joint Committee's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Organisation's management team. All members and senior officers have been written to, advising them of their obligations and asking for any declarations of related party transactions to be disclosed.

The Joint Committee Members are also members of other local organisations (for example county councils). No other personal or prejudicial interest in the material transactions of the Joint Committee has been disclosed by any of the Joint Committee Members or by any of the senior management. The Joint Committee is owned by four Member Authorities. Membership entitles the authorities to a share of any surplus generated by the Joint Committee. For clarity, the turnover with each Member Authority was:

	2016/17	2015/16
	£000	£000
Herefordshire Council	1,523	1,936
Shropshire Council	3,344	3,622
Telford & Wrekin Council	3,380	3,649
Worcestershire County Council	5,263	5,418

Included within Central Departmental Costs are the following amounts for services provided by Shropshire Council during the year:

	2016/17	2015/16
	£000	£000
Human Resources Support Services	2	2
Payroll Services	1	1
Treasury Services	4	4
Committee Services	6	6
Financial Advice	12	12
Internal Audit	10	10
ICT support	8	5
Legal Services	8	8
Procurement	6	6

Included within Central Departmental Costs are the following amounts for services provided by Telford & Wrekin Council during the year:

	2016/17 £000	2015/16 £000
ICT support	2	4

11. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2016/17 £000	Plant, Equipment and Motor Vehicles 2015/16 £000
Cost / Valuation		
As at 1 April	73	60
Additions	1	16
Disposals	-	(3)
As at 31 March	74	73
Accumulated Depreciation		
As at 1 April	46	35
Charge	15	14
Relating to disposals	-	(3)
As at 31 March	61	46
Net Book Value		
As at 31 March 2017	13	27
As at 31 March 2016	27	25

All plant and equipment are valued at cost depreciated over their anticipated useful life, commencing in the year of acquisition.

12. Contractual Commitments

West Mercia Energy has a lease agreement on the business premises, at a value not material to the accounts.

There were no capital commitments for the year ended 31st March 2017.

13. Financial Instruments

Categories of Financial Instruments

The Joint Committee has the following categories of financial instruments carried in the Balance Sheet. These categories are all classified as having insignificant risk.

	Long term		Current	
	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000
Debtors:				
Financial assets carried at contract amounts	-	-	8,979	9,151
Total included in Debtors	-	-	8,979	9,151
Creditors:				
Financial liabilities carried at contract amount	-	-	10,851	11,250
Total included in Creditors	-	-	10,851	11,250

Income, Expense, Gains and Losses

	2016/17					2015/16				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	-	-	-	-	-	-	-	-	-	-
Total expense in Surplus or Deficit on the Provision of Services	-	-	-	-	-	-	-	-	-	-
Interest income	-	27	-	-	27	-	30	-	-	30
Total income in Surplus or Deficit on the Provision of Services	-	27	-	-	27	-	30	-	-	30
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
Net gain for the year	-	27	-	-	27	-	30	-	-	30

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- No early repayment or impairment is recognised;
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount;
- The fair value of Creditors is taken to be the invoiced or billed amount.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Nature and Extent of Risks Arising from Financial Instruments

The organisation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Joint Committee.
- Liquidity risk – the possibility that the Joint Committee might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial losses might arise from changes in such measures as interest rates.

Credit Risk

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made managed by Shropshire Council and are made with banks which satisfy criteria as outlined in Shropshire Council's creditworthiness policy.

Customer debt is managed in accordance with the Joint Committee Credit Management Policy. The level of debt written off each financial year is negligible with the net position of write offs over the last three financial years being less 0.01% of turnover.

Liquidity Risk

In order to support seasonal trade variations, the Joint Committee has a treasury arrangement with Shropshire Council that provides ready access to liquid funds for short-term borrowing at market interest rates.

Market Risk

The Joint Committee is exposed to interest rate risk in terms of its exposure to rate movements on its bank deposits and short-term borrowings. The impact on the Income and Expenditure Account for rate changes on interest receivable and payable on such transactions is nominal in relation to the Joint Committee's turnover.

14. Short Term Debtors

	31 March 2017 £000	31 March 2016 £000
Member Authorities	1,862	1,928
Other Local Authorities	7,035	7,089
Bodies external to general government	82	134
	8,979	9,151

The amounts due from “Member Authorities” referred to in the above table also include the amounts due from related parties, as follows:

	31 March 2017 £000	31 March 2016 £000
Herefordshire Council	415	451
Shropshire Council	443	419
Telford & Wrekin Council	436	468
Worcestershire County Council	568	590
	1,862	1,928

15. Cash and Cash Equivalents

	Opening Balance 1st April 2016 £000	Movement During the Year £000	Closing Balance 31st March 2017 £000
Bank current accounts	4,950	(1,276)	3,674

16. Short Term Creditors

	31 March 2017 £000	31 March 2016 £000
Member Authorities	396	454
Other Local Authorities	1,324	2,260
Bodies external to general government	9,194	8,621
	10,914	11,335

17. IAS 19 Employee Benefits

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme. This means that retirement benefits are determined independently of the investments of the fund and the Joint Committee has an obligation to make contributions where assets are insufficient to meet employee benefits. The Joint Committee and its employees pay contributions into the fund which is calculated at a level intended to balance pension liabilities with investment assets. The Joint Committee recognises the cost of retirement benefits in the cost of employees when they are earned rather than when the benefits are paid as pensions.

The principal risks to the Joint Committee of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

The following transactions have been made in the Comprehensive Income and Expenditure Account and the Movement in Reserves Statement during 2016/17.

	2016/17 £000	2015/16 £000
Comprehensive Income & Expenditure Account		
Operating Expense (Employees):		
• Current Service Cost	72	80
• Administration Expenses	2	2
• Employers Contributions	-217	-201
Pension Impact (IAS19)	-143	-119
Financing and Investment Income and Expenditure:		
• Net Interest Cost	175	174
Total Post-employment benefits contained within Net Operating Surplus	32	55
Other Comprehensive Income & Expenditure:		
Remeasurement of the net defined benefit liability comprising;		
Return on plan assets (excluding the amount included in the net interest expense)	-1,424	301
Actuarial (gains) and losses arising on changes in Financial assumptions	3,253	-767
Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure	1,829	-466
Net charge to Comprehensive Income & Expenditure Account	1,861	-411



	2016/17	2015/16
	£000	£000

Movement in Reserves Statement:

Reversal of net charges made for retirement benefits in accordance with IAS19

	-249	-256
--	------	------

Actual Amount Charged against the General Fund Balance for Pensions in the Year:

- Employers contributions payable to the Scheme

	217	201
--	-----	-----

Remeasurement of the net defined liabilities

	-1,829	466
--	--------	-----

Movement on Pensions Reserve

	-1,861	411
--	---------------	------------

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Joint Committee's obligation in respect of its' defined benefit plans is as follows;

	2016/17	2015/16
	£000	£000
Present Value of the defined benefit obligation	16,720	13,397
Fair Value of plan assets	-9,909	-8,447
Net liability arising from defined benefit obligation	6,811	4,950



Reconciliation of the Movements in the Fair Value of the Scheme (Plan) Assets:

	2016/17	2015/16
	£000	£000
Opening fair value of scheme assets	-8,447	-8,572
Interest income	-299	-281
Remeasurement gain		
The return on Plan assets	-1,424	301
Employer contributions	-217	-201
Contributions by scheme participants	-26	-28
Benefits paid	502	332
Administration Expenses	2	2
At 31 March	-9,909	-8,447

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation):

	Funded	Liabilities
	2016/17	2015/16
	£000	£000
At 1 April	13,397	13,933
Current Service Cost	72	80
Interest cost	474	455
Contributions by scheme participants	26	28
Remeasurement (Liabilities)		
• Experience (gain)/loss	26	-
• Actuarial (gains)/losses on financial assumptions	3,460	-767
• (Gain)/Loss on demographic assumptions	-233	-
Benefits paid	-502	-332
At 31 March	16,720	13,397

Pension Scheme Assets

	Fair value of Scheme Assets	
	2016/17	2015/16
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	<u>222</u>	<u>145</u>
Cash Total	222	145
Equity Instruments		
• UK Quoted	819	634
• Global quoted	<u>4,598</u>	<u>3,680</u>
Equity Instruments Total	5,417	4,314
Bonds		
• UK Government indexed	-	938
• Overseas –Global Fixed Income	599	-
• Other Class 1 – Grade Credit	-	616
• Other Class 2 – Absolute return bonds	<u>1,468</u>	<u>619</u>
Bonds Total	2,067	2,173
Property		
• Property Funds	<u>441</u>	<u>452</u>
Property Total	441	452
Private Equity	<u>436</u>	<u>370</u>
Private Equity Total	436	370
Other Investment Funds		
• Infrastructure	238	125
• Hedge Funds	681	868
• BMO – LDI manager	<u>407</u>	<u>-</u>
Other Total	1,326	993
Total assets	9,909	8,447

All scheme assets have quoted prices in active markets

Basis for Estimating Assets and Liabilities

The liabilities of the scheme have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions including mortality rates and salary levels.

The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Limited who are independent actuaries.

The significant assumptions used by the actuary have been:

	2016/17	2015/16
Mortality assumptions:		
Longevity at 65 for current pensioners (years):		
Men	23.0	23.9
Women	26.2	26.4
Longevity at 65 for future pensioners (years):		
Men	25.2	26.2
Women	28.5	29.2
Rate of CPI Inflation	2.3%	2.0%
Rate of Increase in Salaries	3.8%	3.5%
Rate of Increase in Pensions	2.3%	2.0%
Rate for Discounting Scheme Liabilities	2.5%	3.6%

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 interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme*

	Increase in Assumption £000	Decrease in assumption £000
Longevity (increase or decrease in 1 year)	17,046	16,394
Rate of inflation (increase or decrease by 0.1%)	17,003	16,437
Rate of increase in salaries (increase or decrease by 0.1%)	16,733	16,707
Rate of increase in pensions (increase or decrease by 0.1%)	17,003	16,437
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	16,442	16,998

*The current Defined Benefit Obligation as at 31st March 2017 is £16.720 million

Techniques Employed to Manage Risk

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Impact on the Joint Committee's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Joint Committee has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

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

The Joint Committee anticipates paying £209,000 expected contributions to the scheme in 2017/2018

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2016/17 (19 years 2015/2016).

18. Reserves

An analysis of the reserves is shown below:

	Opening Balance 1 st April 2016 £000	Contributions		Closing Balance 31 st March 2017 £000
		To £000	From £000	
General fund	2,766	1,875	-2,902	1,739
Pensions reserve	-4,950	217	-2,078	-6,811
Joint Committee capital adjustment account	27	1	-15	13
Total reserves	-2,157	2,093	-4,995	-5,059

Comparative Analysis in 2015/16

	Opening Balance 1 st April 2014 £000	Contributions		Closing Balance 31 st March 2015 £000
		To £000	From £000	
General fund	2,673	506	-413	2,766
Pensions reserve	-5,361	667	-256	-4,950
Joint Committee capital adjustment account	25	16	-14	27
Total reserves	-2,663	1,189	-683	-2,157

19. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits as if in accordance with statutory provisions. The Joint Committee accounts for post employment benefits in the Comprehensive Income & Expenditure Statement as the benefits 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. Statutory arrangements, however, require benefits earned to be financed as the Joint Committee makes employer's contributions to pension funds or pays any pension for which it is directly responsible. The balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources available to meet them. The statutory arrangements will ensure that funding is available by the time the benefits come to be paid.

	2016/17	2015/16
	£000	£000
Opening Balance at 1 April	-4,950	-5,361
Remeasurement (Liabilities & Assets)	-1,829	466
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	-249	-256
Employer's pensions contributions & direct payments to pensioners payable in the year	217	201
Closing Balance at 31 March	-6,811	-4,950

20. Joint Committee Capital Adjustment Account

The Joint Committee 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 as if 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 Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Joint Committee as finance for the costs of acquisition, construction and enhancement.

	31 March	31 March
	2017	2016
	£000	£000
Opening balance at 1 April	27	25
Fixed assets purchased from revenue resources	1	16
Depreciation of fixed assets	-15	-14
Closing Balance at 31 March	13	27

21. Note to the Cashflow Statement

2015-2016		2016-2017	
£000		£000	
2,079	Net Operating Surplus on Comprehensive I&E Account	1,037	
	Adjust net surplus on the provision of services for non cash movements		
14	Depreciation	15	
55	IAS 19 Movements on Pension Reserve	32	
1,563	(Increase) / decrease in debtors	172	
-2,290	Increase / (decrease) in creditors	-421	
	Adjust for items included in the net surplus on the provision of services		
-30	Interest and investment income	-27	
1,391	Net cash inflow from operating activities	808	

21.2 Cash Flow Statement – Investing Activities

	31-Mar 2017	31-Mar 2016
Interest and investment income	-27	-30
Purchase of plant and equipment	<u>1</u>	<u>16</u>
TOTAL	<u>-26</u>	<u>-14</u>

21.3 Cash Flow Statement – Financing Activities

	31 March 2017 £000	31 March 2016 £000
Distribution to Member Authorities	<u>2,110</u>	<u>2,039</u>
TOTAL	<u>2,110</u>	<u>2,039</u>

21.4 Movement in Cash and Cash Equivalents

	Balance 31/03/16 £000	Balance 31/03/17 £000	Movement In Year £000
Cash in hand	4,950	3,674	(1,276)

22. Purchase of Non-current Assets

Non-current assets to the value of £1,000 relating to office equipment were financed from the General Fund Balance in 2016/17 (£16,000 2015/16).

As the purchase of assets is a charge to the General Fund Balance, the expenditure did not constitute a cash outflow from the Income and Expenditure Account.

WEST MERCIA ENERGY JOINT COMMITTEE

ANNUAL GOVERNANCE STATEMENT 2016/17

Scope of Responsibility

West Mercia Energy Joint Committee (Joint Committee) 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 Joint Committee 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

In discharging this overall responsibility, the Joint Committee is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the organisation's functions and which includes arrangements for the management of risk.

The Joint Committee has an interlocking set of documents, protocols and procedures that provide assurance in corporate governance matters which are consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework and guidance notes (2016), and CIPFA, The Role of the Chief Financial Officer in Local Government (2015) and meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture values, by which the Joint Committee is directed and controlled and reviews how its activities contribute to the strategic objectives of the Member Authorities. It enables the Joint Committee to monitor the achievement of its own strategic objectives and to consider whether those objectives have led to the delivery of the intended outcomes as set out in the Business Plan.

The system of internal control is designed to manage risk to a reasonable level and is not intended to eliminate all risk of failure to achieve policies, aims and objectives completely. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is designed to identify and prioritise the risks to the achievement of the Joint Committee policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

It is kept under continual review and changes are made to accommodate a changing risk profile when and where necessary. The Joint Committee seeks to maintain sound systems to protect against risks and mitigate their impact upon the organisation. The systems are constantly being reviewed and updated. Risks in this policy relate to the whole organisation and not just trading risks which inevitably form the largest sector of risk.

The Governance Framework

The business is operated under the authority of a Joint Committee formed under the Local Government Act 1972, the Member Authorities being Shropshire Council, Herefordshire Council, Worcestershire County Council and Telford & Wrekin Council. A Joint Agreement between those Member Authorities determines the governance arrangements.

The Joint Committee is the elected Member body responsible for the discharge of the functions of the Member Authorities. The Joint Agreement determines a number of strategic policies that shall be maintained and provides Financial Regulations for the business. It operates under a system of Standing Orders, an annual business plan (including budget) and strategic policies. Many of the strategic policies are modelled on those adopted by Shropshire Council. All delegation and authority levels relating to the business are outlined in the West Mercia Energy Scheme of Delegation.

Shropshire Council acts as the Lead Authority and employs staff and holds property employed on behalf of the Member Authorities. A Secretary and a Treasurer to the Joint Committee are appointed from the Officers of the Member Authorities. A Director, appointed by the Joint Committee, operates and manages the business on a day to day basis.

From June 2013 in order to reflect the size of the organisation and simplify the governance arrangements appropriate to risk, the duties of the Audit Committee transferred to the Joint Committee. These duties include review of the financial and performance reporting of the organisation, the adequacy of the internal control, governance and risk management framework and considering any issues arising from the auditing of the organisation either by Internal or External Audit.

Objectives, targets and performance measures are set in an Annual Business Plan which reflects the outcome of external and customer consultation, analysis of current and future needs and consideration of current performance.

Members, officers and staff behaviours are governed by Codes of Conduct, which include a requirement for declarations of interest to be completed by Members and senior officers annually. Registers of interests of Members are maintained by their own councils.

Key decisions are made by the Joint Committee based on written reports which may include assessments of legal and financial implications, consideration of risks and how these will be managed. Other day to day decisions are made by officers, which were referred to the Director as appropriate.

Risk Management procedures are formalised within the Risk Management Strategy, which is reviewed on an annual basis. The Business Continuity Plan is reviewed on an annual basis.

Review of Effectiveness

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the officers within the organisation who have responsibility for the development and maintenance of the internal control environment.

Internal Audit

2016/17 Audit programme

Seven audits were performed during the year. Six audits were issued with good assurance and one with reasonable. There were a total of 15 recommendations from these seven audits. There were no fundamental recommendations from any of the audits conducted in 2016/17.

On the basis of the work undertaken and management responses received; the organisation’s governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on West Mercia Energy’s internal control environment for 2016/17.

Significant Governance Issues

The Annual Governance Statement for 2015/16 indicated that the Member Authorities had agreed to a review of the key governance documents of WME. This review was conducted during 2016/17 and an updated Joint Agreement was approved by the Member Authorities. Furthermore during 2016/17 the Joint Committee approved updated Financial Regulations, Standing Orders and Scheme of Delegation. No new significant governance issues have been highlighted during 2016/17.

Certification

To the best of our knowledge, the governance arrangements as defined above have been operating effectively during the year. Steps will be taken over the coming year to resolve the governance arrangements as highlighted above. Any improvements implemented shall be monitored as part of the next annual review.

Treasurer:
(James Walton)

Chairman of the
West Mercia Energy Joint Committee:
(Cllr Philip Price)

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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	6
25 th September 2017	Public

Distribution of Surplus

Responsible Officer James Walton - Treasurer
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

- 1.1 The purpose of this report is to recommend the level of distribution of surplus held at 31 March 2017 to the Member Authorities.

2. Recommendations

- 2.1 It is recommended that the Joint Committee;
- a) Approve the retention of accumulated surplus of £ 0.600 million
 - b) Approve the distribution of accumulated surplus of £1.139 million, in accordance with the provisions of the Joint Agreement.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 There is a risk to the Member Authorities and the business of WME if a distribution is made to the Member Authorities without retaining sufficient funds for the proper operation of the business, to maintain a contingency fund and general reserves or provide for future investment. This risk is mitigated as the amount recommended for retention has been calculated taking into account future capital commitments and energy trading reserves (Capital at Risk for gas and electricity).
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 The effect of the amount recommended for distribution as surplus on WME's General Fund is detailed below;

Table 1: General Fund balance

	(£'000)
General Fund Balances as at 1 April 2017	1,739
Recommended Surplus distribution	<u>1,139</u>
General Fund balance after distribution	600

5 Background

- 5.1 Following on from the completion of the Statement of Accounts 2016/17 and the External Auditor's finalised Annual Governance Report 2016/17, it is appropriate to consider distribution to the Member Authorities of the surplus held at the year end as described in the Joint Agreement;

Paragraph 7.3.

- a) The Joint Committee shall determine the level of accumulated surplus that shall be retained for contingency, for future investment or for other reserve purposes, having considered the recommendations of the Treasurer and Director and
- b) The whole or any part of any remaining accumulated surplus balance (not otherwise retained for contingency, future investment or reserve purposes) shall be distributed to the Member Authorities in the manner described in clause 8 hereto.'

- 5.2 Paragraph 8.6 provides

The balance of the accumulated surplus identified for distribution shall be divided and distributed to each Member Authority as follows:

- a) Each Member Authority shall receive a percentage share of the accumulated surplus identified for distribution arising from the transactions with the Member Authorities calculated in accordance with the percentage of the gross profit generated by the receiving Member Authority's transactions with WME during the financial year prior to the date of distribution and
- b) Each Member Authority shall receive 25% of the accumulated surplus identified for distribution generated by transactions with non-Member Authority customers during the financial year prior to the date of distribution.

6 Retention of Surplus

6.1 The following amounts are recommended by the Treasurer and Director for retention;

Table 2: Retention 2017

	£'000's
Capital at Risk (gas and electricity)	500
General	<u>100</u>
	600

7 Distribution of Surplus

7.1 The accumulated surplus at 31 March 2017 was £ 1.739 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £1.139 million is available for distribution to the Member Authorities.

7.2 If the amount for the distribution of surplus is agreed the amounts to be distributed to each Member Authority are:

Table 3: Owners element of distribution

	£
Worcestershire	344,941
Shropshire	281,692
Herefordshire	230,054
Telford & Wrekin	281,976

7.3 If approved it is proposed to pay these amounts in October 2017.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Statement of Accounts 2016/17

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

None

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<u>Committee and Date</u>
West Mercia Energy Joint Committee
25 th September 2017

<u>Item</u>
7
<u>Public</u>

EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2016/17

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 Grant Thornton, the Joint Committee's external auditors, have completed their audit work regarding the financial statements of the Joint Committee for the year ended 31st March 2017 and this report enables them to present their audit findings to the Joint Committee.

2. Recommendations

- 2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the contents of the audit findings report presented by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Grant Thornton's audit work was conducted in accordance with the International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 At the Joint Committee of 28 September 2015, it was highlighted that from 1st April 2015 implementation of the Local Audit and Accountability Act 2014 meant that joint committees are no longer required to have their accounts separately prepared and audited. At this Joint Committee it was agreed to continue with an annual external audit in order to provide the Joint Committee with the necessary continued assurance regarding stewardship of funds.
- 5.2 Grant Thornton presented their audit plan for 2016/17 to the February Joint Committee which was considered and endorsed.
- 5.3 Grant Thornton conducted an interim audit visit in March and their main audit work within August in line with the audit plan. The key messages from the attached audit findings report are:
- No adjustments were identified affecting the Joint Committee's reported financial position.
 - There are no significant issues to bring to the attention of the Joint Committee as those charged with governance.
 - Anticipate an unqualified opinion of the WME financial statements.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Joint Committee 27th February 2017 – External Audit, Audit Plan 2015/16

Joint Committee 28th September 2015 – Local Audit and Accountability Act

Member

Councillor P Price of Herefordshire Council (chair of the Joint Committee)

Appendices

Appendix 1 - Grant Thornton, The Audit Findings for West Mercia Energy Year Ended 31 March 2017

The Audit Findings for West Mercia Energy

Year ended 31 March 2017

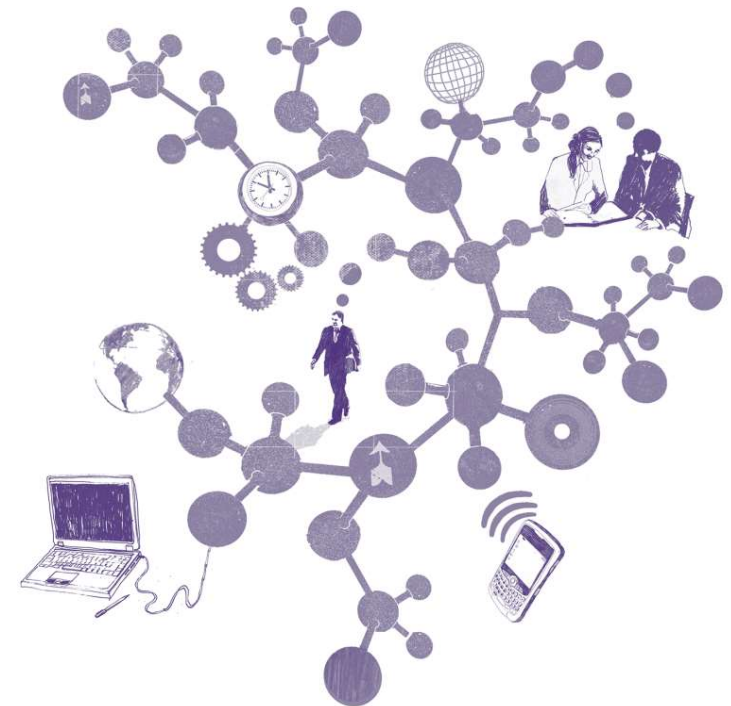
25 September 2017

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3. Fees, non-audit services and independence	18
4. Communication of audit matters	20

Appendices

Draft audit opinion

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West Mercia Energy
Chapter House South
Abbey Foregate
Shrewsbury
SY2 5DE

25 September 2017

Dear Members of the Joint Committee

Audit Findings for West Mercia Energy for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of West Mercia Energy, the Joint Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely,

Richard Percival

Engagement lead

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Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of West Mercia Energy ('the Joint Committee') and the preparation of the Joint Committee's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260,

From the 1 April 2015 the implementation of the Local Audit and Accountability Act 2014 ('the Act') means that joint committees are no longer required to have their accounts separately prepared and audited. West Mercia Energy has decided to continue to prepare accounts and have them audited. It has adopted the CIPFA Code of Practice on Local Authority Accounting as the appropriate accounting framework. We have audited the 2016/17 accounts against this framework and in accordance with the applicable Code of Audit Practice.

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Joint Committee's financial statements give a true and fair view of the financial position of the Joint Committee and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 27 February 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Joint Committee's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded a net operating surplus of £1.037 million; the audited financial statements are unchanged.

There are no significant issues we wish to raise to the attention of Joint Committee as those charged with governance. Further details of our audit findings are set out in section two of this report. We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Other financial statement responsibilities

As well as an opinion on the financial statements, we give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Narrative Report and Annual Governance Statement (AGS) is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Joint Committee's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities

The Joint Committee's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Joint Committee.

Findings

Our work has identified one control weaknesses concerning journal entries which we wish to highlight for your attention. Further details are provided within section two of this report.

Acknowledgement

Matters arising from the financial statements have been discussed with the Director and Finance Manager.

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

Grant Thornton UK LLP

September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

At the audit planning stage, we determined overall materiality to be £1,264k (being 2% of gross revenue in the prior year). We have considered whether this level remained appropriate during the course of the audit and have updated this to take in to account 2016/17 draft financial statements figures with a revised materiality of £1,135k (being 2% of gross revenue).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £57k.

We identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of senior employees' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k It should be noted however, errors identified by testing will be assessed individually with due regard given to the concept of materiality to both West Mercia Energy and its related parties
Disclosure of related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 71	<p>1. The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed and tested revenue recognition policies • substantively tested material revenue streams • completed revenue cut-off testing to ensure income has been recorded in the correct financial period 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
	<p>2. Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • carried out detailed testing of large and unusual journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our detailed testing of journal entries has not identified any significant issues. We have however raised a point in relation to the control environment for the attention of those charged with governance.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of the pension fund net liability</p> <p>The Joint Committee's pension fund assets and liabilities as reflected in the balance sheet represent a significant material estimate in the financial statements</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed the control environment in place and assurance provided by the pension fund auditor • assessed the competence, expertise and objectivity of the actuary Mercer • reviewed the assumptions applied in the calculation of the defined benefit liability and considered their reasonableness • carried out consistency checks of disclosures made in the financial statements to actuarial reports 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Turnover – Utility Revenue	Existence/Occurrence (Contract accounting not consistent with terms)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility revenue transactions including agreement to supporting evidence and receipt of income 	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Gross. (Costs not accounted for property)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment 	Our audit work has not identified any significant issues in relation to the risk identified.
Cost of Goods Sold – Utility Expenditure	Valuation – Net. (Activity variation adjustments to expenditures not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • carried out substantive testing of an attribute sample of utility expenditure including agreement to supporting evidence and remittance of payment 	Our audit work has not identified any significant issues in relation to the risk identified.

Matters discussed with management

	Matter	Commentary
1.	<p>Reserves</p> <p>The CIPFA Code of Practice stipulates that an authority classify reserves balances between those which are usable i.e. those reserves that an authority may use to provide services, subject to the need to maintain a prudent level of reserves and unusable reserves.</p> <p>The second category are those than an authority is unable to use to provide services and are required for statutory purposes.</p>	<p>We discussed with management the application of the concept of usable and unusable reserves to the Joint Committee accounts. Unusable reserves are only applicable to bodies within the scope of the Capital Financing Regulations and are therefore not applicable to the Joint Committee.</p> <p>Following our discussion the accounts were amended to remove reference to usable reserves and the distinction between usable and unusable reserves does not apply to the Joint Commttee.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Joint Committee's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue and capital transactions are accounted for on an accruals basis meaning revenue income is recorded when the debt has been established rather than when money has been received. 	<p>We have concluded that:</p> <ul style="list-style-type: none"> The revenue recognition policy is appropriate under the relevant accounting framework The policy has been applied consistent with the prior period and we have identified no issues from substantive testing performed The accounting policy is adequately disclosed in the financial statements 	●
Judgements and estimates Page 75	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Accruals Valuation of pension fund net liability 	<p>We have concluded that:</p> <ul style="list-style-type: none"> Accounting policies for key estimates and judgements are appropriate under the relevant accounting framework The extent of judgement involved is limited and therefore reduces the risk of management override of controls The potential financial statement impact of different assumptions in the valuation of the pension fund deficit would not be material Estimates and judgements made by management have been benchmarked against industry practice and are deemed to be reasonable 	●
Going concern	<p>The Director has a reasonable expectation that the services provided by the Joint Committee will continue for the foreseeable future. Members concur with this view. For this reason, the Joint Committee continues to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Joint Committee's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	●
Other accounting policies		<p>We have reviewed the Joint Committee's policies against the requirements of the CIPFA Code of Practice. The Joint Committee's accounting policies are appropriate and consistent with previous years.</p>	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Joint Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Joint Committee.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send a confirmation request to NatWest. This permission was granted and the requests were sent and returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas: <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Joint Committee acquired in the course of performing our audit, or otherwise misleading. It should be noted that we requested management enhance the Narrative Report however this was not due to material omissions or inconsistencies and therefore we will not report on this matter.

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Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Utility Revenue, Utility Expenditure and Journals as set out above.

The matters that we identified during the course of our audit are set out in the table below.

	Assessment	Issue and risk	Recommendations
1. Page 77	●	Our review of the journals control environment has identified that the Director of the Joint Committee has the ability to post journal entries. We would not expect senior financial reporting personnel to have this level of access as it increases the risk of management override of controls.	<p>We acknowledge that there are compensating controls in place to ensure all journals posted by the Director are reviewed and counter authorised by the Treasurer and that in practice no such postings have occurred in 2016/17</p> <p>However, we bring to the attention of those charged with governance this weakness in the control environment and recommend that journals access levels are reviewed to ensure only the appropriate individuals have the authority to prepare and post journal entries</p> <p>Management Response</p> <p>In the absence of the Finance Manager, the Director would be required to process journals to allow the production of management accounts. All such transactions will continue to be authorised by the Treasurer of the Joint Committee. Every six months the Finance Manager will extract from the finance system a report detailing the journals posted over the six month period. This report will include reference to the person posting the journal and will be issued directly by the Finance Manager to the Treasurer</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. As a result of our audit procedures performed, we have not identified any misstatements.

Unadjusted misstatements

As a result of our audit procedures performed, we have not identified any unadjusted misstatements.

Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Reference	Impact on the financial statements
1 Disclosure	N/A	Reserves	The distinction between usable and unusable reserves has been removed from the accounts and reserves per the balance sheet split out in to individual funds
2 Disclosure	N/A	Accounting Policies	In relation to the above, accounting policy 1.9 has been updated to state that unusable reserves are statutory reserves that are not applicable to the Joint Committee
3 Disclosure	N/A	Critical Judgments in applying Accounting Policies	Narrative has been enhanced to clarify that the Joint Committee comply with the CIPFA Code of Practice where practicable however where this does not apply judgments are made on the presentation of the accounts
Disclosure	N/A	Audit Costs	The term 'statutory' has been removed from the title of this note to reflect the fact that the Joint Committee is no longer required to undertake an external audit under statute

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We confirm below our final fees charged for the audit.

Fees

	Final fee £
Joint Committee audit	13,000
Total audit fees (excluding VAT)	13,000

We can confirm that no non-audit or audited related services have been undertaken for the Joint Committee.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Joint Committee's key risks when reaching our conclusions under the Code.

It is the responsibility of the Joint Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Joint Committee is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices
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Appendix A: Audit opinion

We anticipate we will provide the Joint Committee with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MERCIA ENERGY JOINT COMMITTEE

We have audited the financial statements of West Mercia Energy Joint Committee (the "Joint Committee") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Joint Committee as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Joint Committee under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Signature – to be added

Engagement lead name – to be added
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Building
20 Colmore Circus
Birmingham
B2 6AT

Date – to be added

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Committee and Date
West Mercia Energy Joint Committee
25 th September 2017

Item
8
Public

WEST MERCIA ENERGY INTERNAL AUDIT ANNUAL REPORT 2016/17

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk Telephone: 01743 257739

1. Summary

- 1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2017. It reports on progress against the annual audit plan. It also provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes taking into account the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.
- 1.2 Final performance has been good with 100% of the revised plan being delivered.
- 1.3 Six good and one reasonable assurances were made in 2016/17. A total of 15 recommendations have been made in the seven audit reports issued in the year. No fundamental recommendations have been made during 2016/17. In addition to the audit work undertaken Shropshire Council Internal Audit also delivered an advisory piece of work in respect of IT connectivity within the agreed planned days. No assurance level was attached to the advisory work undertaken.
- 1.4 ***On the basis of the work undertaken and management responses received; the organisation's governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on West Mercia Energy's internal control environment for 2016/17.***

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) Performance against the Audit Plan for the year ended 31 March 2017.
- b) That the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2016/17.
- c) The Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2016/17 on the basis of the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Company's financial, governance and risk management systems and procedures and is closely aligned to the Company's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the governance, risk management and internal control systems, by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3 There are no direct environmental, equalities or climate change consequences of this proposal.
- 3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

- 4.1 The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Company.

5. Background

- 5.1 This report is the culmination of the work of the Internal Audit team during 2016/17 and seeks to:

- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
 - Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and
 - Inform the review of an effective Internal Audit by providing performance data against the plan.
 - Confirm to the Joint Committee that the Audit service has been delivered free from interference throughout the year.
- 5.2 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to make arrangements for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”.
- 5.3 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This annual report provides information to support that assessment and that an effective Internal Audit is established for West Mercia Energy, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2017, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service against the PSIAS. West Mercia Energy can take assurance from this report.
- 5.4 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision for any unforeseen work demands that may arise and any special investigations, are delivered in addition to the planned work in agreement with the Director.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2016/17

- 5.5 It is the responsibility of West Mercia Energy to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. The annual internal audit opinion will conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This opinion plays a key part in informing West Mercia Energy’s Annual Governance

Statement.

5.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the organisation’s internal control systems. No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls on the basis of the work undertaken. In assessing the level of assurance to be given, I have taken into account:

- The work undertaken on the fundamental financial systems. Whilst revealing a small number of areas of weakness and identifying areas for improvement, there are no significant material weaknesses that could result in a material misstatement in the Company’s accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.
- From other audit work undertaken during the year, there have been no major financial weaknesses or issues identified; the Company’s financial systems, internal control environment and risk management procedures are sound and working effectively.

5.7 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

5.8 ***On the basis of the work undertaken and management responses received; the organisation’s governance, risk management and internal control processes are sound and working effectively and the Head of Audit is able to deliver a positive year end opinion on West Mercia Energy’s internal control environment for 2016/17.***

Key Assurances provided during 2016/17

5.9 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key control.

Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the organisation to high risks that should have been managed.
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Audit assurance opinions delivered in 2016/17

Audit	Good	Reasonable	Limited	Unsatisfactory
Corporate Governance	✓			
Risk Management	✓			
Creditors	✓			
Finance	✓			
Debtors	✓			
Payroll	✓			
General IT Controls Follow Up and High Level Contract Review		✓		
Total for year				
➤ numbers	6	1	0	0
➤ percentage	86%	14%	0%	0%

- 5.10 Six good and one reasonable assurances were issued during the financial year. Positive responses to recommendations have been received by management and will be followed up next year to determine whether satisfactory improvements have been made. In addition to the audit work completed Internal Audit also delivered one piece of advisory work in respect of IT connectivity, no assurance was provided in respect of this advice.
- 5.11 The Internal Audit team has achieved 100% of the plan which is in line with its target.
- 5.12 Audit recommendations are also an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue.
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material loss.

- 5.13 Recommendations are rated in relation to the audit area rather than the organisation's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental

recommendation may not affect the overall control environment. Similarly, a number of significant recommendations in a small number of areas would not result in a limited opinion if the majority of areas examined were sound. There were no significant or fundamental recommendations issued to West Mercia Energy in 2016/17. Any fundamental recommendations resulting from a control weakness in West Mercia Energy's control environment would be reported in detail to the Joint Committee.

- 5.14 A total of 15 recommendations have been made in the seven audit reports issued in the year; these are broken down by audit area in the table below.

Audit opinion and recommendations made on 2016/17 audits

Audit	Level of Assurance Given	Number of Recommendations made				Total
		BP	RA	S	F	
Corporate Governance	Good		1			1
Risk Management	Good		1			1
Creditors	Good		1			1
Finance	Good		1			1
Debtors	Good		4			4
Payroll	Good	1	2			3
General IT Controls Follow Up & High Level Contract Review	Reasonable		4			4
Total for year						
➤ numbers		1	14	0	0	15
➤ percentage		6.7%	93.3%	0%	0%	100%

- 5.15 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. With the exception of annual audits where recommendations are revisited as a matter of course; remaining recommendations are followed up annually by obtaining an update from management on progress made and performing sample testing. No recommendations have been rejected in the year by management.

Audit Performance

- 5.16 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Joint Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

- 5.17 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is seen as a

fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

- 5.18 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

- 5.19 A customer feedback survey form is sent out with all audits completed. These provide key responses on the quality of audit service in relation to a number of areas, including:
- Pre auditing arrangements;
 - Post audit briefings;
 - Audit coverage/scope of the audit;
 - Timeliness of production of report;
 - Accuracy and clarity of the report;
 - Practicality of recommendations;
 - Professionalism of approach;
 - Communication skills and
 - Timeliness of audit to your business.
- 5.20 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2016/17
Pre-audit arrangements	100%
Post-audit briefing	100%
Audit coverage/scope of the audit	100%
Timeliness of production of report	100%
Accuracy and clarity of report	100%
Practicality of recommendations	100%
Professionalism of approach	100%
Communication skills	100%
Timeliness of audit to your business	100%
Number of forms returned	7

- 5.21 Overall the results are pleasing, showing services delivered consistently at a high level. The information is used both to improve techniques overall within the team

and at annual performance appraisals to identify future development focus relating to individual skills or competences.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

- Proposed 2016/17 Internal Audit Programme - Audit Committee on 29th February 2016.
- Public Sector Internal Audit Standards.
- Accounts and Audit Regulations 2015.

Member

Councillor P Price of Herefordshire Council (Chair of the Joint Committee)

Appendices

None



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
25 th September 2017	Public

ANTI-SLAVERY AND HUMAN TRAFFICKING POLICY

Responsible Officer Nigel Evans

e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

- 1.1 This report is to present to the Joint Committee the Anti-Slavery and Human Trafficking Policy for WME for approval.

2. Recommendations

- 2.1 The Joint Committee are asked to approve the WME Anti-Slavery and Human Trafficking Policy.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

- 4.1 There are no direct financial implications arising from this report.

5. Background

- 5.1 The Modern Slavery Act 2015 is aimed at combating crimes of slavery and human trafficking and recognises that businesses have a role to play in tackling these crimes. Section 54 of the Act requires any commercial organisation with a turnover of over £36m p.a. to publish an annual statement for each financial year to detail what steps the organisation has taken to ensure that human trafficking is not taking place in any of its supply chains or its business (this does not mean the organisation must guarantee the entire supply chain is slavery free); or make a declaration that no such steps have been taken. The aim is to ensure that businesses are transparent about what they are doing to tackle modern slavery and human trafficking.
- 5.2 Public bodies have been checking their supplier's compliance with the Act via their procurement processes and as a result, over recent months WME, as a supplier have received requests from several customers for a copy of our Anti-Slavery and Trafficking Statement as part of their procurement checks. Whilst it was initially ambiguous as to whether the Act included Local Government entities as "commercial organisations" required to publish the Section 54 statement, subsequent Home Office Guidance and proposed additional legislation (not yet in force) have sought to clarify that the intention is for public bodies to be caught by Section 54, and, in any event, it is considered good practice for Local Government entities to comply with the requirement.
- 5.3 The Act does not mandate what a slavery and human trafficking statement must contain, or require that it take any particular form. As guidance only, the Act sets out the following information that may be included in a slavery and human trafficking statement. That is, information about:
- The organisation's structure, its business and its supply chains.
 - Its policies in relation to modern slavery.
 - Its due diligence processes in relation to slavery and human trafficking in its business and supply chains.
 - The parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk.
 - Its effectiveness in ensuring slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate.
 - The training about slavery and human trafficking available to its staff.
- Any statement will, of course need to be tailored to the specifics of the business and the risk profiles of its supply chains.
- 5.4 A Section 54 Statement must be published at the end of the relevant financial year and specify the steps taken within the previous financial year to ensure that no slavery or human trafficking is taking place in any part of its business or in its supply chains. Organisations are encouraged to do this within 6 months of the end of the relevant financial year. At the end of the current financial year, WME will document in a Section 54 Statement for the financial year 2017/2018, the steps that it has taken, such as the adoption of the Policy recommended in this report. This Statement will be brought to the Joint Committee for approval prior to publication on WME's website.

- 5.5 To assist in demonstrating to our Customers WME’s commitment to improving our practices to combat the risk of slavery and human trafficking in our business and our supply chains, the Anti-Slavery and Human Trafficking Policy will be published on our website. The policy is designed to assist WME in complying with the Act and to address issues of slavery and human trafficking in its business and supply chains and embed processes and guidance for employees into the business. WME can therefore demonstrate a proactive approach to the matter in the conduct of its business, independently of the Member Authorities individual approaches.
- 5.6 WME will continue to review its policies, procedures and approach to supply chain transparency and modern slavery, including the ongoing review of procurement procedures relevant to modern slavery, and develop, if not already in place, appropriate procedures taking into account any risks areas within the business and supply chains. WME is already taking steps to identify our supplier’s compliance with the Modern Slavery Act 2015 (as it applies to them) and obtain their Section 54 Statements in order to provide reassurance to those Customers who are carrying out due diligence on their own supply chains, and this will be supplemented in due course by the publication of WME’s own Section 54 Statement for the current financial year.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

None

Member

Councillor P Price of Herefordshire Council (chair of the Joint Committee)

Appendices

Appendix 1 - WME Anti-Slavery and Human Trafficking Policy

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Anti-Slavery and Human Trafficking Policy

POLICY STATEMENT

Modern slavery is a crime and a violation of fundamental human rights. It takes various forms, such as slavery, servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain.

West Mercia Energy have a zero-tolerance approach to modern slavery and are committed to acting ethically and with integrity in all our business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or in any of our supply chains.

We are also committed to ensuring there is transparency in our own business and in our approach to tackling modern slavery throughout our supply chains, consistent with our disclosure obligations under the Modern Slavery Act 2015.

We expect the same high standards from all of our contractors, suppliers and other business partners, and as part of our contracting processes we will include specific prohibitions against the use of forced, compulsory or trafficked labour, or anyone held in slavery or servitude, whether adults or children, and we expect that our suppliers will hold their own suppliers to the same high standards.

This policy applies to all persons working for us, including employees at all levels, directors, officers, agency workers, seconded workers, volunteers and interns. We will undertake appropriate checks of persons working on our behalf in any capacity, including contractors, external consultants, third-party representatives and business partners to ensure their compliance with the Modern Slavery Act 2015 and supporting policies (where appropriate).

This policy does not form part of any employee's contract of employment and we may amend it at any time.

RESPONSIBILITY FOR THE POLICY

- The Director has overall responsibility for ensuring this policy complies with our legal and ethical obligations, and that all those under our control comply with it.
- Senior Management have primary and day-to-day responsibility for implementing this policy, monitoring its use and effectiveness, dealing with any queries about it, auditing internal control systems and procedures to ensure they are effective in countering modern slavery, and for ensuring those reporting to them understand and comply with this policy and are given adequate information on it and the issue of modern slavery in supply chains.
- Members of staff are invited to comment on this policy and suggest ways in which it might be improved. Comments, suggestions and queries are encouraged and should be addressed to the Director.

COMPLIANCE WITH THE POLICY

- All employees must read, understand and comply with this policy.
- The prevention, detection and reporting of modern slavery in any part of our business or supply chains is the responsibility of all those working for us or under our control. Employees are required to avoid any activity that might lead to, or suggest, a breach of this policy.

- Employees must notify their line manager or call the confidential whistle blowing helpline 01743 252627 as soon as possible if they believe or suspect that a conflict with this policy has occurred, or may occur in the future.
- Employees are encouraged to raise concerns about any issue or suspicion of modern slavery in any parts of our business or supply chains of any supplier tier at the earliest possible stage.
- Employees should note that where appropriate, and with the welfare and safety of local workers as a priority, we will give support and guidance to our suppliers to help them address coercive, abusive and exploitative work practices in their own business and supply chains.
- If an employee is unsure about whether a particular act, the treatment of workers more generally, or their working conditions within any tier of our supply chains constitutes any of the various forms of modern slavery, raise it with your line manager or through the whistle blowing helpline.
- West Mercia Energy aims to encourage openness and will support anyone who raises genuine concerns in good faith under this policy, even if they turn out to be mistaken. We are committed to ensuring no one suffers any detrimental treatment as a result of reporting in good faith their suspicion that modern slavery of whatever form is or may be taking place in any part of our own business or in any of our supply chains. Detrimental treatment includes dismissal, disciplinary action, threats or other unfavourable treatment connected with raising a concern. If an employee believes that they have suffered any such treatment, they should report this via the Grievance Procedure.

COMMUNICATION AND AWARENESS OF THIS POLICY

Communication of this policy, and on the risk our business faces from modern slavery in its supply chains, will form part of the induction process for all individuals who work for West Mercia Energy, and regular updates to maintain and raise awareness will be provided as necessary.

West Mercia Energy's zero-tolerance approach to modern slavery must be communicated to all suppliers, contractors and business partners at the outset of the business relationship with them and reinforced as appropriate thereafter.

BREACHES OF THIS POLICY

Any employee who breaches this policy will face disciplinary action, which could result in dismissal for misconduct or gross misconduct.

West Mercia Energy may terminate our relationship with other individuals and organisations working on our behalf if they breach this policy.

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of the Local Government Act 1972.

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