Shropshire Council

WEST MERCIA ENERGY

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

Date: 16th September 2019

Committee:
West Mercia Energy Joint Committee

Date: **Tuesday, 24 September 2019**
Time: **10.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

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

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

Members of West Mercia Energy Joint Committee

Herefordshire Council	L Harvey G Davies
Shropshire Council	P Nutting (Chairman) R Macey
Telford & Wrekin Council	L Carter R Evans
Worcestershire County Council	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 **Minutes** (Pages 1 - 6)

To receive the minutes of the Joint Committee meeting held on 26th February 2019

Copy attached marked 2.

3 **Public Questions**

To receive any question or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00 a.m. on Friday, 20th September 2019.

4 **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.

5 **Supplier Contracts**

The Director of West Mercia Energy will provide a verbal update in line with the West Mercia Energy Standing Orders.

6 **Statement of Accounts 2018/2019 and Annual Governance Statement 2018/2019** (Pages 7 - 62)

Report of the Treasurer.

Contact: James Walton (01743 258915)

7 **External Audit - Audit Findings Report 2018/2019** (Pages 63 - 78)

Report of the External Auditor.

Contact: Richard Percival (0121 212 4000)

8 **Internal Audit - Annual Report 2018/2019** (Pages 79 - 86)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

9 **Distribution of Surplus** (Pages 87 - 90)

Report of the Treasurer.

Contact: James Walton (01743 258915)

10 **Treatment of the WMS Pension Liability** (Pages 91 - 96)

Report of the Treasurer.

Contact: James Walton (01743 258915)

11 **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.

12 **Exempt Minutes** (Pages 97 - 100)

To approve the exempt Minutes of the meeting held on 26th February 2019.

Contact: Emily Marshall (01743 257717)

13 **Minutes of the Flexible Energy Advisory Panel** (Pages 101 - 118)

Exempt report of the Director of West Mercia Energy.

This report presents to the Joint Committee the minutes of the Flexible Energy Advisory Panel meetings which have been approved by the Panel since the last Joint Committee. Business areas discussed at these meetings include a review of the WME energy trading positions, financial results, pricing, portfolio changes, business development activity and supplier contract updates.

Contact: Nigel Evans (0333101 4353)

14 **Risk Management Update** (Pages 119 - 124)

Exempt report of the Director of West Mercia Energy.

The purpose of this report is for the Joint Committee to received details of all medium and high risks in accordance with the WME Risk Management Strategy.

Contact: Nigel Evans (0333101 4353)

15 **Update on Business Plan and Trading Performance to Date 2019/2020** (Pages 125 - 140)

Report of the Director of West Mercia Energy.

The purpose of this report is to present to the Joint Committee an update on the delivery of the WME Annual Business Plan and Budget 2019/20. This will include a review of the financial results, an energy trading update, customer contracts & business development activity and supplier contracts

The report will also include recommendations regarding customer acquisitions and supply contracts.

Contact: Nigel Evans (0333101 4353)

16 **Fixed Price Supply Contract Arrangements** (Pages 141 - 144)

Report of the Director of West Mercia Energy.

The purpose of this report is to present to the Joint Committee options regarding the development of enhanced arrangements for fixed term energy contracts.

Contact: Nigel Evans (0333101 4353)

17 **Date of Next Meeting**

It is proposed that the next meeting of the West Mercia Energy Joint Committee will be held on Tuesday 25th February 2020 at 10.00 a.m. in the Shrewsbury Room, Shirehall.

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Committee and Date
West Mercia Energy Joint Committee
24th September 2019

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 26 February 2019
In the Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
10.00 - 11.35 am

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

Present
Councillor Hardman
Councillors Price, Evans, Robert Macey, Peter Nutting and Smith

1 **Election of Chairman**

RESOLVED:
That Councillor Peter Nutting be elected Chairman for the ensuing year.

2 **Apologies for Absence**

Apologies for absence were received from Councillors Carter and Harlow.

3 **Appointment of Vice-Chairman**

RESOLVED:
That Councillor Philip Price be appointed Vice-Chairman for the ensuing year.

4 **Minutes**

RESOLVED:
That the Minutes of the West Mercia Energy Joint Committee held on 24th September 2018 be approved as a correct record and signed by the Chairman.

5 **Public Questions**

There were no public questions or petitions.

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 two entries, relating to the electricity supply contract and a contract relating to energy third party charges intelligence.

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

8 **External Audit Plan 2018/19**

Mr Richard Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Plan 2018/19 (copy attached to the signed minutes). Mr Percival introduced Mr David Rowley, the new Audit Manager for West Mercia Energy.

Mr Percival outlined the key points in the Plan, highlighting going concern disclosures as a significant risk, the reasons for this were outlined and included heightened risks for trading due to Brexit outcomes and uncertainty.

In response to a question from a Member, Mr Percival outlined how the materiality figure had been calculated.

The Joint Committee noted that the Audit Fee had increased by £500 and accepted the explanation given for this.

RESOLVED:

1. That the draft audit plan for 2018/19 as presented by Grant Thornton be approved.
2. That the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan be approved.

9 **External Audit - Informing the Audit Risk 2018/19**

Mr Dave Rowley (Audit Manager – Grant Thornton) presented the Informing the Audit Risk Assessment 2018/2019 for West Mercia Energy Joint Committee (copy attached to the signed minutes) picking out the key points to bring to the Committee's attention.

Mr Percival wanted to make the Committee aware of one instance of non-compliance relating to an issue with a customer (detailed on page 30 of the report), however the Committee were reassured that this did not present an audit risk.

RESOLVED:
1. That the External Audit Informing the Audit Risk 2018/19 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.

2. That the management responses to the queries raised by Grant Thornton be approved.

10 **Internal Audit Performance Reports to February 2019**

C. Pilawski, Audit Services Manager introduced Internal Audit Performance Report to February 2019 (copy attached to the signed minutes).

The Committee were pleased to note the report and felt fully reassured that the organisation was very well run. The Committee passed on their thanks to all employees of West Mercia Energy and those involved at all levels in the four owning authorities.

RESOLVED:
That the performance to date against the 2018/19 Audit Plan be endorsed.

11 **Internal Audit Strategic Plan 2019/20**

C. Pilawski, Audit Services Manager introduced Internal Audit Strategic Plan 2019/20 (copy attached to the signed minutes).

RESOLVED:
That the proposed programme of audits for 2019/20 be endorsed.

12 **Anti-Slavery and Human Trafficking Statement 2018/19**

The Director of West Mercia Energy presented the Anti-Slavery and Human Trafficking Statement Transparency Statement for 2018/19 (copy attached to the signed minutes) for approval.

RESOLVED:

1. That the draft WME Transparency Statement for 2018/19 be approved.
2. That authority be delegated to the Director to finalise the WME Transparency Statement and publish it in accordance with section 54 of the Modern Slavery Act 2015.

13 **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.

14 **Exempt Minutes**

RESOLVED:

That the Exempt Minutes of the meeting held on 24th September 2018 be approved as a correct record.

15 **Annual Business Plan and Budget 2019/20 including a Review of 2018/19**

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 2019/20 and a review of 2018/19.

RESOLVED:
That the recommendations contained within the exempt report be approved.

16 **Minutes of the Flexible Energy Advisory Panel**

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the exempt 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.

17 **Energy Governance, Accountability, Risk and Reporting Policy**

The Director presented an exempt report (copy attached to the signed exempt minutes), which presented the updated WME Energy Governance, Accountability, Risk and Reporting Policy for approval.

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 Tuesday, 24th September 2019 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed .... (Chairman)

Date: ....

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WEST MERCIA ENERGY

Committee and Date	Item
West Mercia Energy Joint Committee	6
24th September 2019	Public

Statement of Accounts 2018/19 and Annual Governance Statement 2018/19

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 2018/19 and the Annual Governance Statement 2018/19.

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 2018/19 to be signed by the Chairman and the Treasurer.

c) To consider the Annual Governance Statement 2018/19.

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 July and 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 2018/19, 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 2018/19 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 Joint Committee 28th September 2015 – Local Audit and Accountability Act
Member Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices 1 - The Letter of Representation 2 - Statement of Accounts 2018/19 3 - Annual Governance Statement 2018/19

WEST MERCIA ENERGY

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

24 September 2019

Dear Sirs

West Mercia Energy Joint Committee
Financial Statements for the Year Ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of West Mercia Energy Joint Committee for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards as adopted by the European Union and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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, as set out in the terms of the audit engagement letter, for the preparation of the financial statements in accordance with International Financial Reporting Standards; in particular the financial statements are fairly presented in accordance therewith.

ii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iii Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

iv Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

v All events subsequent to the date of the financial statements and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed.

vi We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, attached to this letter, as they are immaterial to the results of the entity and financial position at the year-end. The financial statements are free of material misstatements, including omissions.

vii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

Information Provided

viii 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 entity from whom you determined it necessary to obtain audit evidence.

ix All transactions have been recorded in the accounting records and are reflected in the financial statements.

x 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.

xi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
- 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.

xii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiii 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.

xiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Joint Committee at its meeting on 24 September 2019.

Yours faithfully

Name…………………………….

Position………………………….

Date…………………………….

Name…………………………….

Position………………………….

Date…………………………….

Signed on behalf of the Joint Committee

Chapter House South | Abbey Lawn | Shrewsbury | SY2 5DE
T: 0333 101 4424 | W: westmerciaenergy.co.uk
E: customerservices@westmerciaenergy.co.uk

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WEST MERCIA ENERGY
JOINT COMMITTEE

STATEMENT OF ACCOUNTS FOR THE YEAR ENDING 31ST MARCH 2019

WEST MERCIA ENERGY JOINT COMMITTEE

CONTENTS

WEST MERCIA ENERGY JOINT COMMITTEE

FINANCIAL SUMMARY
FOR THE YEAR 2018/19

Introduction

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2018 to 31 March 2019 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.

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 Statement
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 31 March 2019.

The Cash Flow Statement
This summarises the inflows and outflows of cash arising from the day to day transactions of the organisation.

Narrative report 2018/19

Organisational Overview

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 two of their Elected Members to serve on the Joint Committee, each with voting rights. 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.

Governance

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 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 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. On the basis of the work undertaken and management responses received the Head of Audit at Shropshire Council was able to deliver a positive year end opinion on West Mercia Energy's internal control environment for 2018/19 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2018/19.

Risks and Opportunities

A WME Risk Management Strategy is approved annually by the Joint Committee and a detailed risk register is maintained. The risk register is kept under constant review and is presented to the Joint Committee on an annual basis. Furthermore, all risks which have been classified as medium or high are reported to the Joint Committee at each meeting. These risks include those associated with operating a flexible trading strategy, performance management of key suppliers and customer retention. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

Performance

The turnover for the year increased by some 6% to £66.3m driven by a combination of rises in commodity prices and non-commodity charges such as industry charges and governmental levies. The net operating surplus of £0.732 million for the year 2018/19 represents a fall in profits from the previous year of £0.075m reflecting the energy market conditions experienced within the financial year as detailed below and an increased cost base. The trading strategy adopted has continued to provide the right balance between a market focused approach and the necessary protection against rising energy prices

Customer retention levels have continued to be high. During the year a new procurement only service option has been developed for customers. This is a positive enhancement to the WME service offering, the benefits of which will commence within 2019/20.

The pension liability was retained fully following the sale of the stationery division in 2012. The liability as at 31st March 2019 was £6.809 million, an increase of £0.762 million, from £6.047 million as at 31st March 2018. The pension liability is detailed further within note 17 on pages 34-39, along with consideration of the impact of the McCloud / Sargeant ruling on pension accounting disclosure. This pension liability continues to dominate the balance sheet of the Joint Committee and consideration is currently being undertaken on the reporting of the pension liability in future.

Overall on 31st March 2019, the net liabilities of the Joint Committee stood at £5.549 million (£4.897 million at 31st March 2018). The net working capital of the Joint Committee continues to be closely monitored and this has resulted in a strong performance throughout 2018/19.

Market Overview 2018/19 and Outlook

From the point we set prices for 2018/19 in March through to September market prices increased significantly (gas by 55% and electricity by 45%) before reducing in late 2018/early 2019 for the reasons outlined below. Pleasingly our trading strategy has operated effectively within the volatile market conditions encountered ensuring that the trading deterioration experienced was covered within our pricing mechanism.

The effects of the cold weather associated with the 'beast from the east' which affected prices at the end of the 2017/18 financial year, continued at the start of 2018/19. With the severe weather affecting Europe as a whole it reduced the availability of imported gas as it was required for European domestic consumption. Without the availability of gas in storage in the UK to supplement supply, prices increased in an attempt to attract additional supplies.

The 'beast from the east' left European gas storage sites relatively empty as gas was withdrawn to meet demand. As a result of this, gas demand remained high throughout the summer months in order to refill the sites at a time when availability of supply reduces due to essential and planned maintenance to the gas fields being undertaken. This in turn pushed gas and electricity prices higher as supply struggled to meet demand.

Another reason for the increase in gas and electricity prices throughout the summer was a dramatic increase in carbon costs. This refers to the European Emissions Trading Scheme carbon permits and represents a tax on the generation of electricity. One permit is required for every tonne of carbon emitted. This is more relevant to coal fired power stations, but also applies to gas generation.

Coinciding with the increase in carbon prices and the increase in demand for gas to refill diminished European storage sites were a number of other factors which pushed gas and electricity prices higher during the summer. These included an increase in coal prices from March which reached multi-year highs in September adding to the cost of UK and European power generation, supply concerns for gas for the coming winter regarding the availability of LNG (Liquified Natural Gas), concerns regarding nuclear availability, increasing oil prices and weakness in the pound in relation to the Euro.

Having peaked in mid-September, carbon prices fell sharply losing 38% of their value by early November. This helps to explain the corresponding fall in gas and electricity prices over the same period. Since early November carbon prices recovered, ending the year close to their September highs with gas and electricity prices initially increasing correspondingly.

From early December, however, the correlation between carbon prices and gas and electricity prices weakened. From this point the main driver for gas and electricity prices was an increase in LNG supply to the UK, and to Europe as a whole. LNG is natural gas cooled down to liquid form for ease and safety of non-pressurized storage or transport, at which point it occupies approximately 1/600th of the volume of natural gas in the gaseous state. It is a more flexible method of transporting gas around the world when compared with fixed pipe-lines. The main destinations for LNG shipments are either Europe or Asia and cargoes are particularly price sensitive. In recent months Asian demand for LNG has been weak due to relatively warm weather, which has led to a fall in Asian LNG prices resulting in Europe representing a more lucrative destination for shipments with the UK benefitting from a record number of cargoes in December.

As a result of the increase in LNG cargoes, and combined with relatively mild weather through autumn and early winter, gas supplies comfortably coped with demand leading to falls in gas prices towards the end of 2018 and early 2019, with electricity prices following.

With regards Brexit it is of course very difficult to forecast the outcome but an increased risk premium for UK energy prices and an overall higher volatility environment may be expected. The extent to which these factors influence the market will be mainly dependent on the degree to which market access and energy interconnectivity is maintained between the UK and the EU in a post-Brexit scenario.

Energy market prices will continue to be the key factor affecting the level of turnover and net result of WME in the future. A slightly more prudent trading approach has been adopted within 2019 due to the increased market volatility experienced and the ongoing uncertainty associated with Brexit.

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 31 March 2019.

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 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

James Walton
Head of Finance Governance and Assurance of Shropshire Council
Treasurer to West Mercia Energy 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 31 March 2019.

Cllr Peter Nutting
Chairman of the
West Mercia Energy Joint Committee

Date:

MOVEMENT IN RESERVES STATEMENT
AS AT 31 MARCH 2019

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 2018	**1,473**	**-6,372**	**2**	**-4,897**
Total comprehensive income & expenditure	-652	-	-	**-652**
Transfer to/from Reserves	600	-599	-1	**-**
Increase/decrease in year	-52	-599	-1	-652
Balance at 31 March 2019	**1,421**	**-6,971**	**1**	**-5,549**

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 2018

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 19	Note 20	
	£000	£000	£000	£000
Balance at 31 March 2017	**1,739**	**-6,811**	**13**	**-5,059**
Total comprehensive income & expenditure	162	-	-	**162**
Transfer to/from Reserves	-428	439	-11	**-**
Increase/decrease in year	-266	439	-11	162
Balance at 31 March 2018	**1,473**	**-6,372**	**2**	**-4,897**

WEST MERCIA ENERGY

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

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

	Notes	2018/19	2017/18
		£000	**£000**
INCOME			
Turnover	**6**	-66,277	-62,369
Less cost of goods sold		65,169	61,218
Gross profit		-1,108	-1,151
Other trading operation income		-647	-650
Gross Profit		**-1,755**	**-1,801**
OPERATING EXPENSES			
Employees	**8**	761	741
Pension impact (IAS19)	**17**	-99	-102
Premises		35	36
Supplies & services		113	77
Central departmental & technical support		84	87
Provision for bad debts		2	2
Depreciation		2	12
Total Operating Expenses		**898**	**853**
SURPLUS OF SERVICES		**-857**	**-948**
Financing and investment income and expenditure	**7**	125	141
NET OPERATING SURPLUS		**-732**	**-807**
Distribution to Member Authorities		843	1,139
NET LOSS FOR THE YEAR		**111**	**332**
OTHER COMPREHENSIVE INCOME & EXPENDITURE			
Remeasurements (Liabilities & Assets)	**17**	541	-494
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		**652**	**-162**

BALANCE SHEET
AS AT 31 MARCH 2019

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 2018 £000		31 March 2019 £000	
2	Plant & equipment	1	11
2	**Long term assets**	**1**	
11,457	Short term debtors	10,509	14
2,655	Cash and cash equivalents	5,801	15
14,112	**Current assets**	**16,310**	
-12,964	Short term creditors	-15,051	16
-12,964	**Current liabilities**	**-15,051**	
1,148	**Net current assets**	**1,259**	
-6,047	Other long term liabilities	-6,809	17
-6,047	**Long term liabilities**	**-6,809**	
-4,897	**Net liabilities**	**-5,549**	
	Financed by:		
1,473	General fund	1,421	
-6,372	Pensions reserve	-6,971	
2	Joint committee capital adjustment account	1	
-4,897	**Total reserves**	**-5,549**	18

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

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.

2017/18		2018/19		
£000		**£000**	**£000**	**Notes**
	Operating activities			
	Cash outflows			
1,066	Cash paid to and on behalf of employees	601		
202	Other operating costs	234		
59,168	Cost of goods sold	63,079		
60,436			63,914	
	Cash inflows			
-59,891	Turnover	-67,225		
-650	Other trading operation income	-647		
-60,541			-67,872	
-105	**Net cash inflow from operating activities**		-3,958	**21.1**
-15	**Investing activities**		-31	**21.2**
1,139	**Financing activities**		843	**21.3**
1,019	**Net decrease (increase) in cash and cash equivalents**		**-3,146**	**21.4**
3,674	Cash and cash equivalents at 1st April		2,655	
2,655	**Cash and cash equivalents at 31st March**		**5,801**	**21.4**

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 General Principles

This Statement of Accounts for 2018/19 summarises the Joint Committee's transactions for the 2018/19 financial year and its position at 31 March 2019. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 Statement 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 due to the Joint Agreement that is in place and both supplier and customer contracts are in place beyond 31st March 2020.

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 in accordance with proper accounting practices. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

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

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

Revenue and capital transactions are accounted for on an accruals basis and where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the obligations in the contract or transfer of economic benefits.

1.9 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at;

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Joint Committee's business model is to hold investments to collect contractual cash flows ie payments of interest and principal. Most of the Joint Committee's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest ie where the cash flows do not take the form of a basic debt instrument.

Financial Assets Measured at Fair Value through Profit and Loss
These are financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost.

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Joint Committee becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:
Instruments with quoted market prices – the market price
Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:
Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model
The Joint Committee recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Joint Committee.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses

1.10 <u>Financial Liabilities</u>

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

1.11 Reserves

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 2019/20.

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.

1.12 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 – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected warnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.4% (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.

1.13 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.

1.14 <u>Foreign Currency</u>

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.

1.15 <u>Events After the Balance Sheet Date</u>

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

Subsequent to the Balance Sheet date, the Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protection were given to scheme members. The legal ruling around age discrimination had implications for other pension funds including the West Mercia Energy Joint Committee’s Pension Scheme. It is anticipated that this would increase the pension fund liability by approximately £26,000. The impact of this is considered as an adjusting event after the reporting period however it is not material therefore the financial statements for 2018/19 have not been amended to reflect this.

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

1.16 <u>Provisions</u>

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.

Expected credit loss is accounted for as a general provision for all debts over 12 months old plus any specific debts which are less than 12 months old.

1.17 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.

1.18 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 2019/20 Code:

Amendments to IAS 40 Investment Property: Transfers of Investment Property

Annual improvements to IFRS Standards 2014 – 2016 cycle

IFRIC 22 Foreign Currency transaction and Advance Consideration

IFRIC 23 Uncertainty of Income Tax treatments

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

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. In instances where code is not relevant, we would make a critical judgement.

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.

IFRS 15 has been considered and there is not considered to be a significant impact on the Accounts.

There are no other 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.

	2018/19				
	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	955	67	1,022		1,022
Services/Support services	-244	-46	-290	601	311
Net cost of Services	711	21	732	601	1,333
Other Income and Expenditure			-541		-541
Distribution of Surplus to Member Authorities			-843		-843
Surplus or (Deficit)			-652	601	-51
Opening General Fund					1,473
Capital Purchases funded from General Fund					-1
Less Deficit on General Fund					-51
Closing General Fund					**1,421**

2017/18	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	1,084	-32	1,052		1,052
Services/Support services	-179	-66	-245	-427	-672
Net cost of Services	905	-98	807	-427	380
Other Income and Expenditure			494		494
Distribution of Surplus to Member Authorities			-1,139		-1,139
Surplus or (Deficit)			162	-427	-265
Opening General Fund					1,739
Capital Purchases funded from General Fund					-1
Less Deficit on General Fund					-265
Closing General Fund					**1,473**

4a. Note to the expenditure and funding analysis

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

	2018/19			
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Net Cost of Services	2	599		601
Other income and expenditure from the Expenditure and Funding Analysis		-541		-541
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	1	58	-	59

	2017/18			
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Net Cost of Services	12	-439		-427
Other income and expenditure from the Expenditure and Funding Analysis		494		494
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	11	55	-	66

4b. Analysis of income and expenditure by nature

Income received on a segmental basis is analysed below:

	2018/19 Income from Services	2017/18 Income from Services
	£000	£000
Energy Sales	65,949	62,027
Other Income	328	342
Total income analysed on a segmental basis	66,277	62,369

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 2019 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 £337,000. However the assumptions interact in complex ways. During 2018/19 the actuaries advised that the net pensions liability had increased by £599,000.

6. Turnover and other income

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

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 because of the level of daily bank balances invested.

	2018/19	2017/18
	£000	**£000**
Pensions interest cost and expected return on pensions	157	157
Interest receivable and similar income	-32	-16
Total	**125**	**141**

8. Staff Remuneration

In 2018/19 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2018/19	2017/18
£ 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

2018/19

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	64,328	4,132	7,394	75,854
	64,328	**4,132**	**7,394**	**75,854**

2017/18

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	63,067	4,422	7,289	74,778
	63,067	**4,422**	**7,289**	**74,778**

There are no compulsory redundancies or staff members receiving exit packages in 2018/19 or 2017/18.

9. Audit Costs

During 2018/19 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2018/19 £000	2017/18 £000
Fees payable to External Auditors with regard to external audit services	14	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). The wife of one of the members of the Joint Committee owns a small number of shares in WME's current energy supplier but this member does not have any control or influence over the awarding of energy contracts. 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:

	2018/19	2017/18
	£000	£000
Herefordshire Council	1,711	1,639
Shropshire Council	3,467	3,368
Telford & Wrekin Council	3,205	3,470
Worcestershire County Council	5,727	5,364

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

	2018/19	2017/18
	£000	£000
Human Resources Support Services	1	4
Payroll Services	1	1
Treasury Services	4	4
Committee Services	6	6
Financial Advice	13	12
Internal Audit	11	9
ICT support	9	11
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:

	2018/19	2017/18
	£000	£000
ICT support	10	12

11. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2018/19 £000	Plant, Equipment and Motor Vehicles 2017/18 £000
Cost / Valuation		
As at 1 April	75	74
Additions	1	1
As at 31 March	76	75
Accumulated Depreciation		
As at 1 April	73	61
Charge	2	12
As at 31 March	75	73
Net Book Value		
As at 31 March 2019	**1**	**2**
As at 31 March 2018	2	13

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 2019.

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.

Financial Assets

	Long Term				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31-3-19	31-3-18	31-3-19	31-3-18	31-3-19	31-3-18	31-3-19	31-3-18	31-3-19	31-3-18
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through profit or loss										
Long term Equity Instruments	-	-	-	-	-	-	-	-	-	-
									-	-
Amortised Cost									-	-
Debtors	-	-	-	-	-	-	10,509	11,457	10,509	11,457
Cash & Cash Equivalents	-	-	-	-	-	-	5,801	2,655	5,801	2,655
Total Financial Assets	-	-	-	-	-	-	16,310	14,112	16,310	14,112
Non- Financial Assets	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	16,310	14,112	16,310	14,112

Financial Liabilities

	Long Term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-3-19 £'000	31-3-18 £'000	31-3-19 £'000	31-3-18 £'000	31-3-19 £'000	31-3-18 £'000	31-3-19 £'000	31-3-18 £'000	31-3-19 £'000	31-3-18 £'000
Amortised Cost										
Principal	-	-	-	-	-	-	15,007	12,936	15,007	12,936
Loans Accrued interest	-	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
Total Financial Liabilities							15,007	12,936	15,007	12,936
Non- Financial Liabilities	-	-	-	-	-	-	44	28	44	28
Total	-	-	-	-	-	-	15,051	12,964	15,051	12,964

Income, Expense, Gains and Losses

	2018/19					2017/18				
	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	-	32	-	-	32	-	16	-	-	16
Total income in Surplus or Deficit on the Provision of Services	-	32	-	-	32	-	16	-	-	16
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
Net gain for the year	-	32	-	-	32	-	16	-	-	16

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.

The Joint committee generally allows its customers 28 days credit. Of the £10.509m outstanding from Customers £0.838m is past its due date for payment. The amount past due date is analysed by age as follows:

	2018/19 £'000	2017/18 £'000
Less than 3 months overdue	862	418
3 to 6 months overdue	-3	-23
6 months to 1 year overdue	-9	-16
More than 1 year overdue	-12	31
Total income	838	410

Older credit balances represent credit notes or payments on account which arise in the normal course of business and may be offset by outstanding debt in the less than 3 months overdue category.

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 Statement 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 2019 £000	31 March 2018 £000
Member Authorities	1,467	1,977
Other Local Authorities	9,023	9,005
Bodies external to general government	19	475
	10,509	**11,457**

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

	31 March 2019 £000	31 March 2018 £000
Herefordshire Council	214	217
Shropshire Council	369	756
Telford & Wrekin Council	324	422
Worcestershire County Council	560	582
	1,467	**1,977**

15. Cash and Cash Equivalents

	Opening Balance 1st April 2018	Movement During the Year	Closing Balance 31st March 2019
	£000	£000	£000
Bank current accounts	**2,655**	**3,146**	**5,801**

16. Short Term Creditors

	31 March 2019 £000	31 March 2018 £000
Member Authorities	394	408
Other Local Authorities	1,245	1,602
Bodies external to general government	13,412	10,954
	15,051	**12,964**

17. Defined Benefits Pension Scheme

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.

Impact of McCloud / Sargeant ruling on pension accounts disclosure.

Claims have been made in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015 and in December 2018 the Court of Appeal (McCloud / Sargeant) ruled that the ‘transitional protection’ offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. The Government sought permission to appeal this decision, but this was refused.

The Court will subsequently require steps to be taken to compensate employees who were transferred to the new schemes potentially including Firefighters Pension Scheme Members and the ruling will have implications for the Local Government Pension Scheme of which WME Joint Committee is a member. It is anticipated that this would increase the pension fund liability of WME by approximately £26,000. The impact of this is considered as an adjusting event after the reporting period however it is not material therefore the financial statements for 2018/19 have not been amended to reflect this.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2018/19.

Comprehensive Income & Expenditure Statement	2018/19 £000	2017/18 £000
Operating Expense (Employees):		
• Current Service Cost	127	134
• Administration Expenses	3	2
• Employers Contributions	-229	-238
Pension Impact (IAS19)	-99	-102
Financing and Investment Income and Expenditure:		
• Net Interest Cost	157	157
Total Post-employment benefits contained within Net Operating Surplus	**58**	**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)	-308	78
Actuarial (gains) and losses arising on changes in Financial assumptions	849	-572
Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure	**541**	**-494**
Net charge to Comprehensive Income & Expenditure Statement	**599**	**-439**

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.

Movement in Reserves Statement:	2018/19 £000	2017/18 £000
Reversal of net charges made for retirement benefits in accordance with IAS19	-287	-293
Actual Amount Charged against the General Fund Balance for Pensions in the Year:		
• Employers contributions payable to the Scheme	229	238
Remeasurement of the net defined liabilities	-541	494
Movement on Pension's Reserve	**-599**	**439**

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;

	2018/19 £000	2017/18 £000
Present Value of the defined benefit obligation	17,304	16,305
Fair Value of plan assets	-10,333	-9,933
Net liability arising from defined benefit obligation	**6,971**	**6,372**

Early Payment of 3 years LGPS deficit lump sum in April 2017

Every three years the pension scheme undertakes a valuation process which establishes each employer's deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. West Mercia Energy) pays the Pension Fund a rate of "interest" for allowing payment over a longer period to compensate the Fund for investment opportunities which it has foregone. At the time of calculating the deficit lump sum amounts (as part of the 2016 valuation) West Mercia Energy had a total deficit repayment value of £2.562m, with an agreed 16 year deficit recovery period. Paying in advance of this schedule enables a gross saving to be taken due to the avoidance of these "interest" payments.

Reconciliation of Pension Reserve to Pension Liabilities

	2018/19 £000	2017/18 £000
Pension Reserve	6,971	6,372
Advance payment of employer contributions	-162	-325
Pension Liabilities	**6,809**	**6,047**

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

	2018/19 £000	2017/18 £000
Opening fair value of scheme assets	-9,933	-9,909
Interest income	-262	-256
Remeasurement gain		
The return on Plan assets	-308	78
Employer contributions	-229	-238
Contributions by scheme participants	-28	-28
Benefits paid	424	418
Administration Expenses	3	2
At 31 March	**-10,333**	**-9,933**

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

	Funded 2018/19 £000	Liabilities 2017/18 £000
At 1 April	16,305	16,720
Current Service Cost	127	134
Interest cost	419	413
Contributions by scheme participants	28	28
Remeasurement (Liabilities)		
• Actuarial (gains)/losses on financial assumptions	849	-572
Benefits paid	-424	-418
Lump sum deficit repayment	-162	-325
At 31 March	**17,142**	**15,980**

Pension Scheme Assets

	Fair value of Scheme Assets 2018/19 £000	2017/18 £000
Cash & Cash Equivalents		
• Cash Accounts	659	199
Cash Total	**659**	**199**
Equity Instruments		
• UK Quoted	696	751
• Global quoted	4,534	4,506
Equity Instruments Total	**5,230**	**5,257**
Bonds		
• Overseas –Global Fixed Income	770	752
• Other Class 2 – Absolute return bonds	889	1,544
Bonds Total	**1,659**	**2,296**
Property		
• Property Funds	551	491
Property Total	**551**	**491**
Private Equity	533	417
Private Equity Total	**533**	**417**
Other Investment Funds		
• Infrastructure	392	255
• Hedge Funds	692	673
• BMO – LDI manager	378	345
• Property debt	66	-
• Insurance Linked Securities	173	-
Other Total	**1,701**	**1,273**
Total assets	**10,333**	**9,933**

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:

Mortality assumptions:	2018/19	2017/18
Longevity at 65 for current pensioners (years):		
Men	23.2	23.1
Women	26.4	26.3
Longevity at 65 for future pensioners (years):		
Men	25.4	25.3
Women	28.7	28.6
Rate of CPI Inflation	2.2%	2.1%
Rate of Increase in Salaries	3.7%	3.6%
Rate of Increase in Pensions	2.3%	2.2%
Rate for Discounting Scheme Liabilities	2.4%	2.6%

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)	17,641	16,967
Rate of inflation (increase or decrease by 0.1%)	17,597	17,011
Rate of increase in salaries (increase or decrease by 0.1%)	17,308	17,300
Rate of increase in pensions (increase or decrease by 0.1%)	17,597	17,011
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	17,016	17,592

*The current Defined Benefit Obligation as at 31st March 2019 is £17,304 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 commenced 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 to pay £226,000 expected contributions to the scheme in 2019/2020

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2018/2019 (17 years 2017/2018).

18. Reserves

An analysis of the reserves is shown below:

	Opening Balance 1st April 2018 £000	Contributions To £000	Contributions From £000	Closing Balance 31st March 2019 £000
General Fund	1,473	600	-652	1,421
Pensions reserve	-6,372	374	-973	-6,971
Joint Committee capital adjustment account	2	1	-2	1
Total reserves	**-4,897**	**975**	**-1,627**	**-5,549**

Comparative Analysis in 2017/18

	Opening Balance 1st April 2017 £000	Contributions To £000	Contributions From £000	Closing Balance 31st March 2018 £000
General Fund	1,739	162	-428	1,473
Pensions reserve	-6,811	988	-549	-6,372
Joint Committee capital adjustment account	13	1	-12	2
Total reserves	**-5,059**	**1,151**	**-989**	**-4,897**

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.

	2018/19 £000	2017/18 £000
Opening Balance at 1 April	-6,372	-6,811
Remeasurement (Liabilities & Assets)	-541	494
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	-287	-293
Employer's pensions contributions & direct payments to pensioners payable in the year	229	238
Closing Balance at 31 March	**-6,971**	**-6,372**

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 2019 £000	31 March 2018 £000
Opening balance at 1 April	2	13
Fixed assets purchased from revenue resources	1	1
Depreciation of fixed assets	-2	-12
Closing Balance at 31 March	**1**	**2**

21. Note to the Cash Flow Statement

21.1 Reconciliation of Income and Expenditure Statement to Net Cashflow

2017/18 £000		2018/19 £000
807	**Net Operating Surplus on Comprehensive I&E Statement**	732
	Adjust net surplus on the provision of services for non cash movements	
12	Depreciation	2
-270	Movements on Pension	221
-2,478	(Increase) / decrease in debtors	948
2,050	Increase / (decrease) in creditors	2,087
	Adjust for items included in the net surplus on the provision of services	
-16	Interest and investment income	-32
105	**Net cash inflow from operating activities**	**3,958**

21.2 Cash Flow Statement – Investing Activities

	31 March 2019 £000	31 March 2018 £000
Interest and investment income	-32	-16
Purchase of plant and equipment	1	1
TOTAL	**-31**	**-15**

21.3 Cash Flow Statement – Financing Activities

	31 March 2019 £000	31 March 2018 £000
Distribution to Member Authorities	843	1,139
TOTAL	**843**	**1,139**

21.4 Movement in Cash and Cash Equivalents

	Balance 31/03/18 £000	Balance 31/03/19 £000	Movement In Year £000
Cash in hand	2,655	5,801	3,146

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 2018/19 (£1,000 2017/18).

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 Statement.

WEST MERCIA ENERGY

Chapter House South
Abbey Lawn
Abbey Foregate
Shrewsbury
Shropshire
SY2 5DE

0333 101 4424

customerservices@westmerciaenergy.co.uk

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WEST MERCIA ENERGY JOINT COMMITTEE

ANNUAL GOVERNANCE STATEMENT 2018/19

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 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

2018/19 Audit programme
Seven audits were performed during the year, which were all issued with good assurance. There were seven recommendations from the audits, none of which were fundamental.

Based on 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 can deliver a positive year end opinion on West Mercia Energy's internal control environment for 2018/19.

Significant Governance Issues

No significant governance issues were highlighted during 2018/19.

Key Risks

Management review the risk profile of the business on a continual basis and reports highlighting all risks rated medium and high are presented to the Joint Committee at each meeting. There were no high risks identified in respect of 2018/19.

Whilst there are no high risks the Joint Committee has expressed concern over the treatment of the historic pension deficit relating to the former West Mercia Supplies within the accounts of West Mercia Energy. The Treasurer is continuing to review options for the removal of this matter with the owning authorities and the position will continue to be kept under review during the course of the next financial year.

The impact of Brexit on market conditions has been kept under review by the Director during the financial year and with the deadline extension to 31st October 2019 the position will continue to be monitored during the new financial year, with appropriate updates presented to the Joint Committee and changes to implemented to the internal control processes as appropriate.

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 Peter Nutting)

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Committee and Date	Item
West Mercia Energy Joint Committee 24th September 2019	7 Public

EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2018/19

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 2019 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 2018/19 to the February Joint Committee which was considered and endorsed.

5.3 Grant Thornton conducted an interim audit visit in January and their main audit work within July and 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 26th February 2019 – External Audit, Audit Plan 2018/19 Joint Committee 28th September 2015 – Local Audit and Accountability Act
Member Councillor P Nutting of Shropshire Council (chair of the Joint Committee)
Appendices Grant Thornton, The Audit Findings for West Mercia Energy Year Ended 31 March 2019

Audit Findings

Year ending 31 March 2019

West Mercia Energy

24 September 2019

Contents

Your key Grant Thornton team members are:

Richard Percival
Associate Director
T: 0121 232 5434
E: richard.d.dercival@gt.uk.com

Dave Rowley
Manager
T: 0121 232 5225
E:david.m.rowley@uk.gt.com

Allison Thomas
Executive
T: 0121 232 5278
E: allison.a.thomas@uk.gt.com

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Headlines

This table summarises the key issues arising from the audit of West Mercia Energy ('the Joint Committee') and the preparation of the Joint Committee's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements

Under the International Standards of Auditing (UK) (ISAs), we report whether, in our opinion:

- the Joint Committee's financial statements give a true and fair view of the Joint Committee's financial position and Joint Committee's expenditure and income for the year, and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We also report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site during July. Our findings are summarised on pages 4 to 10. We have not identified any adjustments to the financial statements that impact on the Statement of Comprehensive Income and Expenditure. We anticipate issuing an unqualified audit opinion following the Joint Committee meeting on 24 September 2019, and receipt of management representation letter

We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Joint Committee's business and is risk based, and in particular included:

- An evaluation of the Joint Committee's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion following the Joint Committee meeting on 24 September 2019.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality has been adjusted on receipt of the 2018/19 draft accounts. We detail in the table below our assessment of materiality for West Mercia Energy.

	Joint Committee Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,325k	2% of turnover • User expectation, prior year measures, entity concept of materiality, risk
Performance materiality	993k	75% of headline materiality • Experience of misstatement, business activities, accounting systems, people, controls, fraud risks
Trivial matters	66k	5% of headline materiality in line with ISAs
Materiality for specific transactions, balances or disclosures	50k	Remuneration disclosures • Materiality has been reduced due to sensitive nature and public interest in these disclosures

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have undertaken the following process in order to determine the applicability of the going concern assumption:

- Produced a detailed business plan for the 2019/20 period
- Obtained joint agreements between owning authorities
- Produced long term cash flow forecasts

Auditor commentary

- Management have concluded that Joint Committee are a going concern and as such, the financial statements have been prepared on this basis.

Work performed

- Consideration of factors and events which may be indicative of a going concern issue or cast significant doubt over an entity’s ability to continue as a going concern
- Review of management’s supporting documents as stated above to understand whether assumptions used are reasonable
- Inquiries of key management personnel

Auditor commentary

- There are no factors that we are aware of which we consider would cast significant doubt over West Mercia Energy’s ability to continue as a going concern
- Management assumptions in relation to cash flow, which is the key driver in ensuring solvency, appear reasonable
- The assessment provided extends to 12 months following the date of anticipated audit sign off accordingly.

Concluding comments

Auditor commentary

- Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable
- The CIPFA Code negates the requirement to disclose the basis of preparation as this is assumed in public sector entities. No disclosure of material uncertainty relating to going concern is necessary
- Therefore, there will be no impact on our audit opinion related to going concern

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For West Mercia Energy, we have concluded that the greatest risk of material misstatement relates to the occurrence of utility income	**Auditor commentary** We have undertaken the following work in relation to this risk: – reviewed and tested revenue recognition policies; – evaluated design and tested operating effectiveness of controls around revenue recognition; and – analytical review and substantive testing of income transactions. As a result of audit procedures performed, we have not identified any issues in relation to improper revenue recognition
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: – evaluated design effectiveness of management controls over journals; – analysed the journals listing and determined the criteria for selecting high risk, unusual journals; – tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; and – gained an understanding of the accounting estimates and critical judgments applied made by management and considered their reasonableness with regard to corroborative evidence. As a result of audit procedures performed, we have not identified any issues in relation to management override of controls.

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Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
3 **Valuation of pension fund net liability** The Joint Committee's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	**Auditor commentary** We have undertaken the following work in relation to this risk: – updated our understanding of the processes and controls in place to ensure that the pension fund net liability is not materially misstated and evaluated the design of associated controls; – evaluated the instructions issued by management of the information provided to the actuary to estimate the net pension liability; – assessed the competence, capabilities and objectivity of the actuary; – assessed the accuracy and completeness of the information provided to the actuary to estimate the net pension liability; – tested the consistency of the pension fund assets and liabilities and disclosures in the financial statements with the actuarial report; – undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; – obtained assurances from the auditor of Shropshire County Pension Fund as to the control surrounding the validity and accuracy of membership data, contributions data and the benefits data sent to the actuary by the pension fund, and the assets valuation in the pension fund financial statements; and – Considered the impact of the McCloud judgment (which took place following the issuance of our audit plan) on the net pension liability (this work is outlined in detail at the following slide). As a result of audit procedures performed, we have not identified any issues in relation to the valuation of the pension fund net liability. We considered the impact of the McCloud ruling on age discrimination in the Local Government Pension Scheme and concluded that it had a trivial impact for the Joint Committee.
Brexit impact on going concern disclosures WME is dependent on being able to trade on favourable terms within the existing energy market. There are heightened risks for trading due to Brexit outcomes uncertainties. We therefore identified the adequacy of disclosures relating to going concern in the financial statements as a significant risk at the planning stage.	**Auditor commentary** Our key concern (when issuing our Plan in February) was related to the 31 March 2019 Brexit deadline. However, subsequent to the issuance of our plan, an extension to the UK's departure from the European Union was agreed until 31 October 2019. This is after the date of the September Joint Committee and more than 6 months following the Joint Committee's financial year end. As such, our view is that, following this decision, going concern disclosures in relation to Brexit were no longer a significant risk for the 2018/19 financial statements and our audit strategy was updated to reflect this. Work performed in relation to the going concern disclosures are documented at page 7 of this report.

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Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £6.809m	The Joint Committee's net pension liability at 31 March 2019 is £6.809m (PY £6.372m) comprising the Shropshire County Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Joint Committee uses Mercer to provide actuarial valuations of the Joint Committee's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £599k net actuarial loss during 2018/19, arising from changes in financial assumptions.	See below	

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Audit Comments

We have

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% – 2.5%	
Pension increase rate	2.5%	2.5% - 2.4%	
Salary growth	2.9%	Employer specific	
Life expectancy – Males currently aged 45 / 65	24.1 / 22.1	23.7 – 24.4 / 21.5 – 22.8	
Life expectancy – Females currently aged 45 / 65	26.4 / 24.4	25 – 26.6 / 23.2 – 24.8	

Reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Authority's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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.	• The policy is appropriate under the relevant accounting framework, IFRS. • Extent of judgement involved is low, and the range of possible outcomes and potential financial statement impact of different accounting policy choices would be minimal • Disclosure of the accounting policy in the notes to the financial statements is adequate • Accounting policy is reasonable when compared to peers and industry practice	Green
Judgements and estimates	• Key estimates and judgements include: – Accruals – Valuation of pension fund net liability	• The accounting policies for areas of key estimate and judgement are adequately disclosed and appropriate under the relevant accounting framework, IFRS. • Testing performed in relation to accruals has not identified any issues, we consider management procedures for calculation liabilities to be appropriate • The extent of management judgment involved in the calculation of the net defined benefit obligation associated with the LGPS is minimal. Reliance is placed on actuarial experts of which we have corroborated and found to be reasonable	Green
Other critical policies		• 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.	Green

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Assessment

- Marginal accounting policy which could potentially be open to challenge by 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Joint Committee. We have not been made aware of any incidents of material fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Joint Committee, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to entities with which the Joint Committee holds cash. This permission was granted and the requests were sent and information obtained as required.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

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Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

No non-audit services have been provided to the Joint Committee.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted/ unadjusted misstatements
As a result of audit procedures undertaken, we have not identified any misstatements for adjustment.

Misclassification and disclosure changes
As a result of audit procedures, we have not identified any misclassification and disclosure changes requiring adjustment.

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed and Final fee
Joint Committee audit	£13,500
Total audit fees (excluding VAT)	**£13,500**

grantthornton.co.uk

Committee and Date	Item
West Mercia Energy Joint Committee June 2019, circulated virtually 24th September 2019	8

WEST MERCIA ENERGY
INTERNAL AUDIT ANNUAL REPORT 2018/19

Responsible Officer Ceri Pilawski
e-mail: ceri.pilawski@shropshire.gov.uk@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 2019. It reports on progress against the annual audit plan and provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering 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 plan being delivered.

1.3 Seven good assurances were made in 2018/19. A total of seven recommendations have been made in the seven audit reports issued in the year. No fundamental or significant recommendations have been made during 2018/19.

1.4 ***Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a positive year end opinion on West Mercia Energy's internal control environment for 2018/19.***

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 2019.

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 2018/19.

c) The Head of Audit's positive year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2018/19 based on 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. 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 2018/19 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 plan 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 2019, 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 their 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 2018/19

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. 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 Company'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 based on the work undertaken. In assessing the level of assurance to be given, I have considered:

- ➢ 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 ***Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a positive year end opinion on West Mercia Energy's internal control environment for 2018/19.***

Key Assurances provided during 2018/19

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.

Audit assurance opinions delivered in 2018/19

Audit	Good	Reasonable	Limited	Unsatisfactory
Corporate Governance	✓			
Risk Management and Business Continuity	✓			
Creditors	✓			
Finance	✓			
Debtors	✓			
Payroll	✓			
Procurement	✓			
Total for year ➢ **numbers**	**7**	**0**	**0**	**0**
➢ **percentage**	**100%**	**0**	**0**	**0**

5.10 Seven good assurance levels were issued during the financial year. There are no unsatisfactory or limited opinions to report and no significant issues have been identified by the Audits undertaken. Positive responses to recommendations have been received by management and will be followed up next year to determine whether satisfactory improvements have been made. IT audit resources were used to provide support and advice on the completion of an IT control matrix required to support a tender submission and to challenge the approach taken in changes to IT systems in place of a pure audit review, this was considered added value by all parties.

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 few significant recommendations in a small number of areas would not result in a limited opinion if most of the areas examined were sound. There were no fundamental recommendations issued to West Mercia Energy in 2018/19. 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 seven 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 2018/19 audits

Audit	Level of Assurance Given	Number of Recommendations made				
		BP	**RA**	**S**	**F**	**Total**
Corporate Governance	Good		1			1
Risk Management and Business Continuity	Good					0
Creditors	Good		1			1
Finance	Good					0
Debtors	Good	2				2
Payroll	Good	1	1			2
Procurement	Good		1			1
Total for year ➢ **numbers**		**3**	**4**	**0**	**0**	**7**
➢ **percentage**		**43%**	**57%**	**0%**	**0%**	**100%**

5.15 It is management's responsibility to ensure that accepted audit recommendations are implemented within an agreed timescale. Except for 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 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 the following areas:

- 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	2018/19 (%)
Pre-audit arrangements	93
Post-audit briefing	82
Audit coverage/scope of the audit	75
Timeliness of production of report	89
Accuracy and clarity of report	89
Practicality of recommendations	83
Professionalism of approach	96
Communication skills	100
Timeliness of audit to your business	96
Number of forms returned	7

5.21 In all cases customers considered audit to be a positive support. Overall the results are pleasing, showing services delivered consistently at a high level. All areas where the Council have fallen below 100% have been discussed with management. 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 2018/19 Internal Audit Programme - Audit Committee on 26th February 2018. • Internal Audit Performance Reports to February 2019 – Audit Committee on 26th February 2019 • Public Sector Internal Audit Standards. • Accounts and Audit Regulations 2015.
Member Councilor Peter Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices: None

WEST MERCIA ENERGY

Committee and Date	Item
West Mercia Energy Joint Committee 24th September 2019	9 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 2019 to the Member Authorities.

2. Recommendations

2.1 It is recommended that the Joint Committee;

a) Approve the retention of accumulated surplus of £0.717 million

b) Approve the distribution of accumulated surplus of £0.704 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 2019	1,421
Recommended Surplus distribution	704
General Fund balance after distribution	717

5 Background

5.1 Following on from the completion of the Statement of Accounts 2018/19 and the External Auditor's finalised Annual Governance Report 2018/19, 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 2019

		£'000's
Capital at Risk (gas and electricity)		617
General	100	
		717

7 Distribution of Surplus

7.1 The accumulated surplus at 31 March 2019 was £ 1.421 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £0.704 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	206,459
Shropshire	172,242
Herefordshire	149,735
Telford & Wrekin	175,844

7.3 If approved it is proposed to pay these amounts in October 2019.

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

Statement of Accounts 2018/19

Member
Councillor P Nutting of Shropshire Council (Chair of the Joint Committee)

Appendices
None

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Committee and Date	Item
West Mercia Energy Joint Committee	10
24th September 2019	Public

Treatment of WMS Pension Liability

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

1. Summary

1.1. At the point of sale of the West Mercia Supplies stationery division (WMS) in 2012, the existing pension deficit relating to the former WMS staff was retained within the continuing West Mercia Energy business. For the reasons outlined in this report, it is proposed to transfer this pension deficit directly to Shropshire Council, Telford & Wrekin Council, Herefordshire Council and Worcestershire County Council ("the Owning Authorities"), thus removing the financial responsibility for the pension deficit liability from the West Mercia Energy Joint Committee.

2. Recommendations

It is recommended that the Joint Committee:

2.1 agrees a proposal to the four WME Owning Authorities of Shropshire Council, Telford & Wrekin Council, Herefordshire Council and Worcestershire County Council for them to take direct responsibility for the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME with effect from 1st April 2020; and

2.2 agrees, subject to the formal decisions to be taken by the four WME Owning Authorities in recommendation 2.1, to remove the pension deficit liability relating to former WMS employees (including Compensatory Added Years Benefits) and WME from the WME Balance Sheet from 1 April 2020.

REPORT

3. Risk Assessment and Opportunities Appraisal

1.1. WME Risk Register has identified a potential risk in bidding for future contracts while carrying the liability for former WMS employees on its balance sheet as potential customers will consider the financial position (through the accounts) of WME in assessing their bid. In order to facilitate WME in bidding for future contracts, the aim is to put it in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) within the Shropshire County Pension Fund. To achieve this, the overall aim of the proposal to the Owning Authorities is that the liabilities relating to former WMS employees will be separated from the WME business and instead more clearly allocate the liability to the Owning Authorities. In practice this proposed change would make very little difference to the Owning Authorities which are currently responsible for a 25% share of the net liabilities of WME including the WMS pension liability.

1.2. To achieve implementation by April 2020, it is necessary for all four Owning Authorities to approve the proposal set out in a report to their respective Cabinets. Failure of any Owning Authority to meet the necessary timescales or approvals will result in the proposal not progressing.

1.3. There is still a technical (albeit unlikely) risk that the retained WME pension liability could, under unfavourable market and/or actuarial assumptions and circumstances still deliver a negative balance sheet position for WME in the future.

1.4. There are no direct environmental, climate change, privacy, equality and diversity and Public Health implications from this report.

4. Proposal

4.1. The proposal would result in the removal of the WMS Pension liability from WME's Balance Sheet by transferring the responsibility for the liability to the four Owning Authorities.

4.2. It is understood that the four Owning Authorities are considering options which include the deficit being managed through the establishment of a new WMS Pension Liability Joint Committee, whilst retaining the assets and liabilities within the Shropshire County Pension Fund. To achieve this separation of liability from the existing WME Joint Committee, the Owning Authorities would need to create a new Joint Committee whose sole remit will be to act as the 'employer' within the Shropshire County Pension Fund and manage the allocated pension liability. This resulting new 'employer' would manage the WMS pension assets and liabilities within Shropshire County Pension

Fund and enable all four Owning Authorities to take joint responsibility via a Joint Committee structure.

4.3. The Owning Authorities will need to agree appropriate governance arrangements for a new WMS Pension Liability Joint Committee, however it is anticipated that it would be based, as far as possible, on the existing WME Joint Agreement but with a single purpose remit to be responsible for the WMS Pension Liability, and historic WMS Compensatory Added Years Benefits.

4.4. The deficit contributions of the Owning Authorities would be subject to the same triennial valuations and treatment whether they are the responsibility of and accounted for within the WME Joint Committee or separately by the Owning Authorities under a new WMS Pension Liability Joint Committee therefore the risks associated with retaining a pension liability for WMS remain with the Owning Authorities and are not influenced in any way by the removal of responsibility for the deficit from the WME Joint Committee and resulting change in accounting treatment.

4.5. As the liability is proposed to sit with each Owning Authority to be funded by them, rather than being funded directly by WME from its income, the WME profits distribution would be proportionately higher as a result of the pension deficit contribution no longer being accounted for through this mechanism.

4.6. If the proposal is accepted, the pension liability arising from employees within WME (the WME Pension Liability) would continue to be shown within WME Accounts, with the expected accounting (IAS19/FRS102) calculations and (should this be necessary in the future) a deficit recovery plan drawn up and subject to the existing scrutiny and consideration by the business and the WME Joint Committee. The expectation is that these calculations would be significantly less impactful on the Balance Sheet, although the risk remains that an impact could be seen nonetheless.

4.7. Over and above the funded pension liabilities, WME is responsible for some historic WMS Compensatory Added Years Benefits. The recommendation is that these should be split equally between the four constituent authorities.

4.8. It is proposed to introduce the proposal from 1 April 2020. In doing so, the arrangements would be based upon the latest triennial actuarial valuation (as at 31 March 2019, and implemented across all employers from 1 April 2020) improving the quality of the information used at the strike date, and also removing the need for further actuary costs, as these will be absorbed within the existing workload. The 1 April 2020 date also removes the practical difficulties of eradicating any existing or proposed pre-payment arrangements made by WME.

5. Financial Implications

5.1. Worcestershire County Council, Herefordshire, Shropshire and Telford & Wrekin Councils have for many years been constituent members of a Joint Committee undertaking procurement activity. This business was originally called West Mercia Supplies, but following the sale of the stationery supplies business it has been renamed West Mercia Energy (WME).

5.2. At the point of sale of the WMS division (April 2012) the business had a pension fund deficit as identified in the actuarial valuation of the Shropshire County Pension Fund. The deficit related, in the main, to WMS employees whose employment was transferring as part of the sale. To deal with this position, the Owning Authorities had the following options:

a. Transfer the WMS pension deficit to the buyers of the WMS business.
b. Use the capital receipt from the sale, plus other Owning Authority funds (if necessary) to clear the WMS pension deficit retained by the Owning Authorities.
c. Allocate liability for the WMS pension deficit to the continuing WME business and continue to make deficit recovery payments from any WME profits delivered.

5.3. During the sale process it was identified that option (a) was unviable. Furthermore, the Owning Authorities concluded that they did not wish to forego a capital receipt from the sale of WMS as represented by option (b) which would also have necessitated a revenue payment from Owning Authorities to make up the shortfall between the value of the capital receipt and the larger pension deficit. As a result, the WMS pension fund deficit was retained by the Owning Authorities and the liability to meet that deficit was allocated to the continuing WME business. A deficit recovery plan was agreed with Shropshire County Pension Fund (SCPF) and revised every three years in line with the actuarial valuation. The latest valuation is being conducted at the time of writing, as at 31 March 2019, with contribution changes for all employers within the fund from 1 April 2020. In the 2019/20 Financial Year, the budget for WME deficit recovery payment is £161,726, plus £31,713 for Compensatory Added Years benefits (CAYs).

5.4. While the direct financial implications of this arrangement within the WME Profit and Loss Account currently are affordable, the impact on the company balance sheet is significant. The pension liability is in excess of £6m which is not offset to any great extent by the Company's fixed assets (minimal) or working balance (generally in the order of £1m). This results in WME producing a negative balance sheet each year, with net liabilities of around £5m each year.

5.5. WME Risk Register has identified a potential risk in bidding for future contracts while carrying the WMS Pension Liability on its Balance Sheet. In order to facilitate WME in bidding for future contracts, the aim is to put it in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to WMS employees) under the Shropshire County Pension Fund. To achieve this, the overall aim of any proposal is that the WMS liabilities will be separated from WME.

5.6. While an arrangement to deliver this proposal will have a positive financial implication for WME (removing the WMS pension deficit from the balance sheet and removing the WMS pension deficit payments from the Profit and Loss Account), there will be a reciprocal negative financial implication for the Owning Authorities. The Owning Authorities will be required to cover the cost of 25% of the WMS pension deficit payment annually. The Owning Authorities will, however, benefit from marginally increased distributions from WME as a result of the pension deficit payments for WMS no longer being charged to the WME Profit and Loss Account.

6. Background

6.1. It is a decision for each Owning Authority, rather than the Joint Committee, to agree that the Owning Authorities take direct responsibility for their share of liability of the current WMS pension deficit so that it can be removed as a liability from the WME business.

6.2. The aim of the proposal identified in this report is to put WME in a position where, at least initially, it is not carrying a pension deficit (and certainly not relating to former WMS employees) under the Shropshire County Pension Fund. To achieve this, the overall aim of any proposal is that the liabilities relating to former WMS employees will be separated from the WME business and instead more clearly allocate the liability to the Owning Authorities.

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 Nutting of Shropshire Council (Chair of the Joint Committee)
Appendices None

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Agenda Item 15

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