



Committee and Date

West Mercia Energy Joint
Committee

29th September 2020

Item

9

Public

Distribution of Surplus

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1. Summary

1.1 The purpose of this report is to recommend the level of distribution of surplus held on 31 March 2020 to the Member Authorities.

2. Recommendations

2.1 It is recommended that the Joint Committee;

- a) Approve the retention of accumulated surplus of £0.633 million
- b) Approve the distribution of accumulated surplus of £1.111 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 2020 | 1,744 |
| Recommended Surplus distribution | <u>1,111</u> |
| General Fund balance after distribution | 633 |

5 Background

- 5.1 Following on from the completion of the Statement of Accounts 2019/20 and the External Auditor's finalised Audit Findings Report 2019/20, 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 2020

| | £'000's |
|---------------------------------------|------------|
| Capital at Risk (gas and electricity) | 533 |
| General | <u>100</u> |
| | 633 |

7 Distribution of Surplus

- 7.1 The accumulated surplus at 31 March 2020 was £1.744 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £1.111 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 | 308,268 |
| Shropshire | 274,804 |
| Herefordshire | 248,614 |
| Telford & Wrekin | 279,031 |

- 7.3 If approved it is proposed to pay these amounts in October 2020.

8 Distribution formula

- 8.1 Ahead of next year's distribution consideration will be given to a new distribution formula to allow an equitable distribution for the scenario of Member Authorities adopting differing pricing approaches. Any proposed changes to the distribution formula as currently stated in the Joint Agreement between the Member Authorities will need to be considered and agreed by each Member Authority's Cabinet/Executive in order to formally amend the Joint Agreement.

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| List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) |
| Statement of Accounts 2019/20 |
| Member Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee) |
| Appendices None |