

Distribution of Surplus

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1. Summary

- 1.1 The purpose of this report is to recommend the level of distribution of the surplus held on 31st March 2021 to the Member Authorities. This follows the agreement by the Joint Committee at the September and November 2021 Joint Committee meetings to defer the approval of the distribution of surplus to the Member Authorities until the March 2022 meeting.

2. Recommendations

- 2.1 It is recommended that the Joint Committee;
- a) Approve the retention of a minimum accumulated surplus of £0.894 million
 - b) Delegate authority to the Treasurer, following a review of the updated forecasted positions and final volumes for March 2022, to increase the retained amount of the accumulated surplus in Recommendation 2.1 in order to ensure prudent cashflow for the 21/22 financial year.
 - c) Approve , once the Treasurer has exercised the delegation in Recommendation 2.1(b), the distribution of any remaining accumulated surplus up to a maximum of £0.576 million following the deduction of the retained amount, in accordance with the revised distribution method under the amended provisions of the Joint Agreement. This is subject to the formal approval of the revised distribution method by Worcestershire County Council, the remaining Member Authority to do so.

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3. Risk Assessment and Opportunities Appraisal

- 3.1 Due to unprecedented trading conditions and gas prices being at a historically high level, the implications of this on the 2021/22 financial period were not yet known at the September 2021 and November 2021 Joint Committee meetings. Deferring the distribution has assisted in managing the risks associated with this and has also allowed for the agreement of the new distribution formula by the Member Authorities

Cabinet/Executive, which allows for an equitable distribution for the scenario of Member Authorities adopting differing pricing approaches.

- 3.2 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).
- 3.3 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 of 1 April 2021	1,470
Recommended Surplus distribution	<u>576</u>
General Fund balance after distribution	894

5 Background

- 5.1 Following the completion of the Statement of Accounts and the External Auditor's report for 2020/21 and the agreed deferral of the approval of the distribution of surplus until this current Joint Committee meeting, it is now appropriate to consider distribution to the Member Authorities of the surplus held at the year end, as described in the Joint Agreement and the amendment to the Joint Agreement;

Paragraph 7.3 of the Joint Agreement

- 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 The amended Joint Agreement following the agreement of the new distribution formula provides

The amount of the accumulated surplus ... to be distributed to each Member Authority in a Financial Year shall be calculated in accordance with the following formula:

$$DA = A + B - C (+ \text{ or } -) D (+ \text{ or } -) E$$

Where:

- DA is the distribution amount from the accumulated surplus to be paid to an individual Member Authority in a Financial Year;
- A is the gross profit contribution generated by that Member Authority's transactions with WME during the previous Financial Year;
- B is 25% of the gross profit generated by non-Member Authority customers during the previous Financial Year;
- C is 25% of the expenditure incurred by WME during the previous Financial Year;
- D is 25% of the amount allocated in WME's accounts for movement in the retention sum during the previous Financial Year, which may be a positive or negative figure;
- E is 25% of the amount allocated in WME's accounts for other movements in WME's General Fund during the previous Financial Year, which may be a positive or negative figure.

6 Retention of Surplus

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

Table 2: Retentions

	£'000's
Capital at Risk (gas and electricity)	794
General	<u>100</u>
	894

7 Distribution of Surplus

7.1 The accumulated surplus on 31 March 2021 was £1.470 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained, consequentially £0.576 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

	£
Herefordshire	106,288
Shropshire	137,521
Telford & Wrekin	143,953
Worcestershire	188,209

- 7.3 Given the current extreme volatility in the energy markets, it is considered prudent for the Treasurer, in liaison with the Managing Director of WME, to review updated forecasted positions for the 21/22 financial year once March volumes are finalised. This review will take place in early April and the amount would be available for distribution in April.
- 7.4 The new distribution method has been approved by the Cabinet's of Herefordshire Council, Shropshire Council and Telford & Wrekin Council. At the time of writing this report Worcestershire County Council had not secured approval. For a distribution to be made, uniform agreement of the method is required by all four Member Authorities.

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

Joint Committee 28th September 2021 - Statement of Accounts 2020/21

Joint Committee 29th November 2021 – Distribution of Surplus

Joint Committee 28th September 2021 – Distribution of Surplus

Member

Councillor Rae Evans of Telford & Wrekin Council (Chair of the Joint Committee)

Appendices None