WEST MERCIA ENERGY JOINT COMMITTEE

STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2022

WEST MERCIA ENERGY JOINT COMMITTEE

CONTENTS

WEST MERCIA ENERGY JOINT COMMITTEE

FINANCIAL SUMMARY FOR THE YEAR 2021/22

Introduction

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2021 to 31 March 2022 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 2022.

The Cash Flow Statement

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

Narrative report 2021/22

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 substantial year end opinion on West Mercia Energy's internal control environment for 2021/22 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2021/22.

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 all risks which have been classified as medium or high are reported to the Joint Committee at each meeting. With energy market prices being at unprecedented levels within the year the rank of a number of risks were increased. These risks include those associated with operating the trading strategy within these extraordinary market conditions and the impact on customer pricing particularly where the customer delayed contractual commitment. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

Performance and Outlook

Over the 21/22 year we have experienced energy prices and market conditions never seen before with commodity prices rising to unprecedented levels. As a result, the year has been the most challenging in the ten years WME has been operating.

With regards to the energy market fundamentals, the start of the financial year we experienced a prolonged period of cold weather and below seasonal normal levels of wind generation. This led to a greater reliance placed on gas fired generation for heating and subsequently was the catalyst for the market conditions we have since experienced. The uptick in demand for gas, led to a heavy reliance placed upon European gas storage which fell to their lowest levels as winter approached. During the year carbon prices also pushed ever higher to new record levels, as more ambitious climate targets were set and demand levels increased from the previous COVID affected year.

Through 2021 the market considered at what point Nord Stream 2 would come online and various pieces of news regarding this moved the market. The landscape then dramatically changed with the Russian invasion of Ukraine on 24th February and the impact of sanctions from either side. The chance of Nord Stream 2 becoming operational appears non-existent as European looks to pull away from reliance on Russian gas. This move away from Russian gas and the response from Russia will continue to drive the market as we move forward.

To put the extraordinary market movements into some context the market commodity prices for 22/23 rose by 542% for gas and 400% for power between 1st April 2021 and 31st March 2022. In addition Gas Day Ahead rates were also extremely volatile. In the nine years prior to 2021, the average gas Day Ahead price was 48p/therm only hitting levels above £1/therm on six single days. Gas Day Ahead prices were above 100p/therm from the end of July all the way through to the end of the financial year, averaging 227p/therm for the winter period with a peak price of 512p/therm.

As a result, after rarely being reported in the press, energy is consistently hitting the headlines. Over 30 domestic energy suppliers collapsed within the year due to their inability to pass on price increases as a result of the domestic price cap. Domestic customers are now seeing the significant dramatic financial impact as the domestic cap rises. Whilst we do not operate within the domestic market it does provide a useful insight into the challenges faced within the sector.

Pleasingly despite the extensive market pressures we were able to maintain the 21/22 capped prices for customers. The challenges in doing so were considerable and it provided our customers extensive protection from the massive price increases seen elsewhere in the market. By holding to the capped rate whilst other market participants either left the market (e.g. domestic suppliers referred to above) or increased prices, there has been an impact on the WME results for the year but it was considered imperative that we hold to the capped rates.

A significant challenge within the year was the monitoring of the gas cash out mechanism. WME buys gas in advance of the delivery period based on estimated usage. When a firmer position is known for predicted volumes, then WME may purchase more volumes ahead of consumption if market rates are advantageous or sell volumes where more current volume forecasts indicate that procured volumes may be too high. Alternatively, where actual volumes consumed are more or less than procured, then an automatic calculation is made to adjust charges up or down based on actual volumes and actual prices. This is operated through a ‘cash out’ process.

With the Day Ahead market prices at a level never seen before coupled with the challenge of estimating volumes within a pandemic landscape, (e.g. different working behaviours, increased ventilation), the management of the gas cash out mechanism became extremely difficult.

This was closely managed throughout the year by the WME senior management with regular input from the Member Authorities. Pleasingly the out-turn was much better than early forecasts but has still impacted on the trading results for the year. An alternative gas product is being utilised from April 2022 which mitigates the cash out risk.

Overall the effective trading result (before pension/IAS 19 adjustments) for the year is a net profit of £404k compared to £870k for the prior year. Given the unprecedented challenges faced through the year to achieve this result is considered to be highly satisfactory.

The turnover for the year increased by 11.5% due to volumes increasing from the prior year which had been more affected by lockdown measures as well as price increases.

During 21/22 the WME green offering was expanded further with the vast majority of our customers selecting REGO (renewable energy guarantees of origin) backed electricity products and we have continued to assist customers with generation offsetting arrangements.

Supporting our customers in this area will remain a key focus over the coming year and in May 2022 we launched 'Use Cleaner, Use Less', our campaign to support customers to use less energy, become more energy efficient and to use cleaner energy.

In late 2021, a staffing restructure was agreed aimed to support the expanded customer base and to build greater resilience. This was substantially completed in the first half of 2022.

Despite the WME traded positions being significantly below the market rates, prices for 22/23 gave rise to year on year price increases not seen before especially for those customers who renewed their contract late on ahead of the new year. Commodity prices remain strong and coupled with ever increasing non-commodity rates (e.g. network charges, governmental levies) customer budgets are likely to continue to be squeezed into the medium term.

The organisation has been considered as a going concern with a strong Business Plan in place for 2022/23, continued positive cash positions held with both supplier and customer contracts in place beyond March 2023.

Further Information

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

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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 2022.

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

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 2022 and its income and expenditure for the year ended 31 March 2022.

James Walton
Executive Director of Resources for Shropshire Council
Treasurer to West Mercia Energy Joint Committee

Joint Committee Approval

I certify that the West Mercia Energy Joint Committee approved the Statement of Accounts for the year ended 31 March 2022.

Cllr Liz Harvey
Chairman of the
West Mercia Energy Joint Committee

Date:

MOVEMENT IN RESERVES STATEMENT
AS AT 31 MARCH 2022

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 20	Note 21	
	£000	£000	£000	£000
Balance at 31 March 2021	**1,470**	**-331**	**14**	**1,153**
Total comprehensive income & expenditure	452	-	-	452
Transfer to/from Reserves	-60	67	-7	-
Increase/decrease in year	392	67	-7	452
Balance at 31 March 2022	**1,862**	**-264**	**7**	**1,605**

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.

The notes to the Core Financial Statements are on Pages 13 onwards.

MOVEMENT IN RESERVES STATEMENT (CONTINUED)

AS AT 31 MARCH 2021

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 20	Note 21	
	£000	£000	£000	£000
Balance at 31 March 2020	**1,744**	**-6,928**	**14**	**-5,170**
Total comprehensive income & expenditure	6,323	-	-	**6,323**
Transfer to/from Reserves	-6,597	6,597	-	**0**
Increase/decrease in year	-274	6,597	0	6,323
Balance at 31 March 2021	**1,470**	**-331**	**14**	**1,153**

The notes to the Core Financial Statements are on Pages 13 onwards.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

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

	Notes	2021/22	2020/21
		£000	**£000**
INCOME			
Turnover	**6**	-67,604	-60,646
Less cost of goods sold		67,089	59,745
Gross profit		-515	-901
Other trading operation income		-717	-667
Gross Profit		**-1,232**	**-1,568**
OPERATING EXPENSES			
Employees	**8**	609	548
Pension impact (IAS19)	**18**	205	-6,769
Premises		34	35
Supplies & services		117	71
Central departmental & technical support		81	109
Provision for bad debts		5	-9
Depreciation		8	7
Total Operating Expenses		**1,059**	**-6,008**
SURPLUS OF SERVICES		**-173**	**-7,576**
Financing and investment income and expenditure	**7**	0	-31
NET OPERATING SURPLUS		**-173**	**-7,607**
Distribution to Member Authorities		0	1,111
NET PROFIT FOR THE YEAR		**-173**	**-6,496**
OTHER COMPREHENSIVE INCOME & EXPENDITURE			
Remeasurements (Liabilities & Assets)	**18**	-279	173
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		**-452**	**-6,323**

The notes to the Core Financial Statements are on Pages 13 onwards.

BALANCE SHEET
AS AT 31 MARCH 2022

The Balance Sheet shows the value as at the Balance Sheet date of the assets 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 2021 £000		31 March 2022 £000	Notes
14	Plant & equipment	7	**12**
14	**Long term assets**	**7**	
10,063	Short term debtors	10,797	**15**
2,164	Cash and cash equivalents	3,306	**16**
12,227	**Current assets**	**14,103**	
-10,757	Short term creditors	-12,241	**17**
-10,757	**Current liabilities**	**-12,241**	
1,470	**Net current assets**	**1,862**	
-331	Other long term liabilities	-264	**18**
-331	**Long term liabilities**	**-264**	
1,153	**Net Assets**	**1,605**	
	Financed by:		
1,470	General fund	1,862	
-331	Pensions reserve	-264	
14	Joint committee capital adjustment account	7	
1,153	**Total Reserves**	**1,605**	**19**

The notes to the Core Financial Statements are on Pages 13 onwards.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2022

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.

2020/21		2021/22		
£000		£000	£000	Notes
	Operating activities			
	Cash outflows			
554	Cash paid to and on behalf of employees	595		
206	Other operating costs	237		
66,403	Cost of goods sold	65,619		
67,163			66,451	
	Cash inflows			
-62,377	Turnover	-66,870		
-667	Other trading operation income	-717		
-63,044			-67,587	
4,119	**Net cash inflow from operating activities**		-1,136	22.1
-23	**Investing activities**		-6	22.2
1,111	**Financing activities**		-	22.3
5,207	**Net decrease (increase) in cash and cash equivalents**		**-1,142**	22.4
7,371	Cash and cash equivalents at 1st April		2,164	
2,164	**Cash and cash equivalents at 31st March**		**3,306**	22.4

The notes to the Core Financial Statements are on Pages 13 onwards.

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

1.1 General Principles

This Statement of Accounts for 2021/22 summarises the Joint Committee's transactions for the 2021/22 financial year and its position at 31 March 2022. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom (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. The only departure relates to the the Comprehensive Income and Expenditure Statement layout which 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.

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 a minimum of 12 months from the date of the approval of the financial statements. 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 30th September 2023.

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

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.

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 Financial Liabilities

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 2022/23.

Pensions Reserve
The Pensions Reserve represents the difference between the value of the pension fund assets and the present value of the actuarially calculated 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 2.7% (2020/21: 2.2%) 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 Foreign Currency

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

1.15 Events After the Balance Sheet Date

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

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

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

The distribution payment from the General Fund to Member Authorities of £576k was deferred to after the Balance Sheet date so is not reflected within these financial statements. This payment distributes part of the General Fund brought forward at the end of year 2020/21 between Member Authorities in accordance with the formula determined in the Joint Agreement.

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

1.16 Provisions

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

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 2022/23 Code:

- IFRS 16 Leases (but only for those that have decided to adopt IFRS 16 in the 2022/23 year).

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

  - • IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS

  - • IAS 37 (Onerous contracts) – clarifies the intention of the standard

  - • IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material

  - • IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply in limited circumstances.

  None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. It is not envisaged that these will have a significant effect on the financial statements.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16.

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.

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.

	2021/22				
	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	62	439	501	-	501
Services/Support services	-119	-209	-328	-59	-387
Net cost of Services	-57	230	173	-59	114
Other Income and Expenditure			279		279
Distribution of Surplus to Member Authorities			-		-
Surplus or (Deficit)			452	-59	393
Opening General Fund					1,470
Capital Purchases funded from General Fund					-1
Less deficit on General Fund					393
Closing General Fund					**1,862**

2020/21	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	782	27	809		809
Services/Support services	13	6,785	6,798	-6,590	208
Net cost of Services	795	6,812	7,607	-6,590	1,017
Other Income and Expenditure			-173		-173
Distribution of Surplus to Member Authorities			-1,111		-1,111
Surplus or (Deficit)			6,323	-6,590	-267
Opening General Fund					1,744
Capital Purchases funded from General Fund					-7
Add surplus on General Fund					-267
Closing General Fund					**1,470**

4a. Note to the expenditure and funding analysis

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

	2021/22			
	Adjustments for Capital Purposes	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Net Cost of Services	8	-67		-59
Other income and expenditure from the Expenditure and Funding Analysis		279		279
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	7	212	-	219

	2020/21			
	Adjustments for Capital Purposes	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Net Cost of Services	7	-6,597		-6,590
Other income and expenditure from the Expenditure and Funding Analysis		-173		-173
Capital Purchases funded from General Fund	-7			-7
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	-	-6,770	-	-6,770

4b. Analysis of income and expenditure by nature

Income received on a segmental basis is analysed below:

	2021/22 Income from Services	2020/21 Income from Services
	£000	£000
Energy Sales	67,320	60,316
Other Income	285	330
Total income analysed on a segmental basis	67,605	60,646

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 2022 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 £73,000. However the assumptions interact in complex ways. During 2021/22 the actuaries advised that the net pensions liability had decreased by £67,000.

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.

	2021/22	2020/21
	£000	£000
Net interest on pension scheme assets and liabilities	7	-1
Interest receivable and similar income	-7	-30
Total	**-**	**-31**

8. Staff Remuneration

In 2021/22 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees 2021/22	2020/21
£ 75,000 to £ 79,999	-	1
£ 100,000 to £ 104,999	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 £74,999 or between £80,000 and £99,999, so the staff remuneration table above has been adjusted accordingly.

Disclosure of Remuneration for Senior Employees

2021/22

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	97,345	5,064	0	102,409
	97,345	**5,064**	**0**	**102,409**

2020/21

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	67,419	8,202	0	75,621
	67,419	**8,202**	**0**	**75,621**

There are no compulsory redundancies or staff members receiving exit packages in 2021/22 or 2020/21.

9. Audit Costs

During 2021/22 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2021/22 £000	2020/21 £000
Fees payable to External Auditors with regard to external audit services	13	13

10. Related Party Transactions

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

Members and Officers

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

The Joint Committee Members are also members of other local organisations (for example county councils). 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:

	2021/22	2020/21
	£000	**£000**
Herefordshire Council	1,908	1,711
Shropshire Council	3,624	3,332
Telford & Wrekin Council	2,931	2,633
Worcestershire County Council	4,707	4,801

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

	2021/22	2020/21
	£000	**£000**
Human Resources Support Services	1	3
Payroll Services	1	1
Treasury Services	5	4
Committee Services	6	6
Financial Advice	15	15
Internal Audit	9	10
ICT support	8	8
Legal Services	5	4
Procurement	7	7

11. Net Surplus Adjustment for PRP/ Distribution Purposes

The Comprehensive Income and Expenditure Statement shows the net surplus for the year.

For internal memorandum purposes, this figure requires adjustment to provide a net surplus that is used to calculate profit related pay and member authority distributions.

First, the employee's expenses line in the Income and Expenditure Statement accrues for the profit related pay due to employees. Second, adjustment is made for the distribution of retained surplus that has been charged to the Income and Expenditure Statement.

Additionally, the effects of IAS19 pension adjustments (See Note 18) have to be neutralised by adjusting for the Earmarked Pension Reserve movement.

The calculation is shown in the table below:

	2021/22 £000	2020/21 £000
Net Profit for the Year – Per Comprehensive Income and Expenditure Statement	-173	-6,496
Profit Related Pay	-19	-33
Distribution of Surplus Member Authorities	-	-1,111
Pensions Movement included in Operating Expenses	-212	6,770
Net Surplus for PRP/Distribution Purposes	**-404**	**-870**

The employees are set an annual surplus target level which is compared to the final result to determine the level of PRP.

These statements do not include the distribution from the General Fund to Member Authorities of £576k as payment was deferred to 2022/23. This payment distributes part of the General Fund brought forward at the end of year 2020/21 between Member Authorities in accordance with the formula determined in the Joint Agreement.

12. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2021/22 £000	Plant, Equipment and Motor Vehicles 2020/21 £000
Cost / Valuation		
As at 1 April	78	79
Additions	1	7
Disposals	-	-8
As at 31 March	79	78
Accumulated Depreciation		
As at 1 April	64	65
Charge	8	7
Relating to disposals	-	-8
As at 31 March	72	64
Net Book Value		
As at 31 March	**7**	**14**

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

13. 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 2022.

14. 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			
	31-3-22	31-3-21	31-3-22	31-3-21	31-3-22	31-3-21	31-3-22	31-3-21	31-3-22	31-3-21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through profit or loss										
Long term Equity Instruments	-	-	-	-	-	-	-	-	-	-
Amortised Cost										
Debtors	-	-	-	-	-	-	10,727	10,063	10,727	10,063
Cash & Cash Equivalents	-	-	-	-	-	-	3,306	2,164	3,306	2,164
Total Financial Assets	-	-	-	-	-	-	14,033	12,227	14,033	12,227
Non-Financial Assets	-	-	-	-	-	-	70	-	70	-
Total	-	-	-	-	-	-	14,103	12,227	14,103	12,227

WEST MERCIA ENERGY

Financial Liabilities

	Long Term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-3-22 £'000	31-3-21 £'000	31-3-22 £'000	31-3-21 £'000	31-3-22 £'000	31-3-21 £'000	31-3-22 £'000	31-3-21 £'000	31-3-22 £'000	31-3-21 £'000
Amortised Cost										
Principal	-	-	-	-	-	-	12,241	10,737	12,241	10,737
Loans Accrued interest	-	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
Total Financial Liabilities							12,241	10,737	12,241	10,737
Non- Financial Liabilities	-	-	-	-	-	-	-	20	-	20
Total	-	-	-	-	-	-	12,241	10,757	12,241	10,757

Income, Expense, Gains and Losses

	2021/22					2020/21				
	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	-	7	-	-	7	-	30	-	-	30
Total income in Surplus or Deficit on the Provision of Services	-	7	-	-	7	-	30	-	-	30
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
Net gain for the year	-	7	-	-	7	-	30	-	-	30

Fair Values of Assets and Liabilities

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

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

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

Nature and Extent of Risks Arising from Financial Instruments

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

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

Credit Risk

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made managed by Shropshire Council and are made with banks which satisfy criteria as outlined in Shropshire Council's creditworthiness policy.
Customer debt is managed in accordance with the Joint Committee Credit Management Policy. The level of debt written off each financial year in previous years is negligible, with the net position of write offs over the last three financial years being less 0.03% of turnover.

The Joint committee generally allows its customers 28 days credit. Of the £10.797m outstanding (2020/21 - £10.063) from Customers £0.283m (2020/21 - £0.551m) is past its due date for payment. The amount past due date is analysed by age as follows:

	2021/22 £'000	2020/21 £'000
Less than 3 months overdue	305	575
3 to 6 months overdue	-1	4
6 months to 1 year overdue	-6	-7
More than 1 year overdue	-15	-21
Total income	**283**	**551**

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.

15. Short Term Debtors

	31 March 2022 £000	31 March 2021 £000
Member Authorities	2,020	1,807
Other Local Authorities	8,700	8,235
Bodies external to general government	77	21
	10,797	**10,063**

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

	31 March 2022 £000	31 March 2021 £000
Herefordshire Council	219	411
Shropshire Council	529	531
Telford & Wrekin Council	314	322
Worcestershire County Council	958	543
	2,020	**1,807**

16. Cash and Cash Equivalents

	Opening Balance 1st April 2021	Movement During the Year	Closing Balance 31st March 2022
	£000	£000	£000
Bank current accounts	**2,164**	**1,142**	**3,306**

17. Short Term Creditors

	31 March 2022 £000	31 March 2021 £000
Member Authorities	83	575
Other Local Authorities	1,452	2,253
Bodies external to general government	10,706	7,929
	12,241	**10,757**

18. 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.

The Court of Appeal ruling for Firefighters/Judges (Sargeant and McCloud cases)

The decisions of the Court of Appeal in the Sargeant/McCloud cases have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. The Government has accepted that the remedies relating to the McCloud judgement will need to be made in relation to all public service pension scheme, including the LPGS. However whilst it is highly unlikely that the exact form of the remedy will be known in the immediate future, and therefore any cost at this stage can only be an estimate.

There are other recent rulings that can in theory have an impact on the LGPS.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2021/22.

Comprehensive Income & Expenditure Statement	**2021/22 £000**	**2020/21 £000**
Operating Expense (Employees):		
• Current Service Cost	202	156
• Past Service Cost	-	-
• Administration Expenses	3	3
• Employers Contributions	-	-
• Settlements and Transfer	-	-6,928
Pension Impact (IAS19)	205	-6,769
Financing and Investment Income and Expenditure**:**		
• Net Interest Cost	7	-1
Total Post-employment benefits contained within Net Operating Surplus	**212**	**-6,770**
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)	-107	-271
Actuarial (gains) and losses arising on changes in Financial assumptions	-172	444
Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure	**-279**	**173**
Net charge to Comprehensive Income & Expenditure Statement	**-67**	**-6,597**

The Settlements and Transfer of £6.928m in 2020/21 related to the Member Authorities agreeing to transfer the pension deficit liability to a new Joint Committee from 1st April 2020, called West Mercia Supplies (Pensions), the liability was originally a result of the sale of the stationery division in 2012.

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:	2021/22 £000	2020/21 £000
Reversal of net charges made for retirement benefits in accordance with IAS19	-212	6,770
Actual Amount Charged against the General Fund Balance for Pensions in the Year:		
• Employers contributions payable to the Scheme	-	-
Remeasurement of the net defined liabilities	279	-173
Movement on Pensions Reserve	**67**	**6,597**

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;

	2021/22 £000	2020/21 £000
Present Value of the defined benefit obligation	2,644	2,522
Fair Value of plan assets	-2,380	-2,191
Net liability arising from defined benefit obligation	**264**	**331**

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

	2021/22 £000	2020/21 £000
Opening fair value of scheme assets	-2,191	-9,345
Interest income	-49	-43
Remeasurement gain		
The return on Plan assets	-107	-271
Employer contributions	-	-
Contributions by scheme participants	-36	-33
Benefits paid	-	-
Administration Expenses	3	3
Settlements	-	10,815
Transfer to another employer	-	-3,317
At 31 March	**-2,380**	**-2,191**

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

	Funded	Liabilities
	2021/22 £000	2020/21 £000
At 1 April	2,522	16,273
Current Service Cost	202	156
Interest cost	56	42
Contributions by scheme participants	36	33
Past service Cost (gain)	-	-
Remeasurement (Liabilities)		
• Experience (gain)/Loss	7	-34
• Actuarial (gains)/losses on financial assumptions	-161	478
• (Gain)/Loss on demographic assumptions	-18	-
Benefits paid	-	-
Lump sum deficit repayment	-	-14,426
At 31 March	**2,644**	**2,522**

Pension Scheme Assets

	Fair value of Scheme Assets	
	2021/22	2020/21
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	40	7
Cash Total	**40**	**7**
Equity Instruments		
• UK Quoted	115	102
• Global quoted	1089	1,003
Equity Instruments Total	**1204**	**1,105**
Bonds		
• Overseas – Global Fixed Income	156	160
• Overseas – Global Dynamic	151	153
• Other Class 2 – Absolute return bonds	144	149
Bonds Total	**451**	**462**
Property		
• Property Funds	89	85
Property Total	**89**	**85**
Private Equity	199	149
Private Equity Total	**199**	**149**
Other Investment Funds		
• Infrastructure	81	70
• Hedge Funds	147	140
• BMO – LDI manager	82	77
• Property debt	50	61
• Private Debt	3	-
• Insurance Linked Securities	34	35
Other Total	**397**	**383**
Total assets	**2,380**	**2,191**

All scheme assets have quoted prices in active markets

COVID-19 / Ukraine

Since February 2020 there have been substantial volatility in financial markets around the world in relation to COVID-19 pandemic, and while this has reduced in recent months, the potential for further volatility remains. Despite a period of relative stability, recently the volatility has increased again with the situation in Ukraine. This has consequences for asset values. Over the same period, the market volatility has also extended to corporate bonds, but ultimately AA rated corporate bond yields at 31 March have settled at around 2.7% - 2.8% p.a - higher than at the start of the accounting year. As the discount rate for accounting purposes is based on market yields, this will also impact on accounting liabilities. Finally, there has been an impact on market-implied RPI (Retail Price Index) over the period, CPI (Consumer Price Inflation) is currently a lower measure of inflation than RPI. However, Government have confirmed that RPI will increase in line with CPIH (Consumer Price Index Including owner occupiers' Housing costs) from 2030. CPIH is generally lower that RPI, meaning RPI inflation will be lower from 2030. The long term average to CPI and CPIH to be similar.

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:	2021/22	2020/21
Longevity at 65 for current pensioners (years):		
Men	22.9	23
Women	25.1	25.1
Longevity at 65 for future pensioners (years):		
Men	24.1	24.3
Women	26.7	26.7
Rate of CPI Inflation	3%	2.7%
Rate of Increase in Salaries	4.25%	3.95%
Rate of Increase in Pensions	3.1%	2.8%
Rate for Discounting Scheme Liabilities	2.7%	2.2%

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)	2,717	2,571
Rate of inflation (increase or decrease by 0.1%)	2,723	2,565
Rate of increase in salaries (increase or decrease by 0.1%)	2,659	2,629
Rate of increase in pensions (increase or decrease by 0.1%)	2,723	2,565
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	2,567	2,721

*The current Defined Benefit Obligation as at 31st March 2022 is £2,644 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 Council 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. A triennial valuation was completed as at 31 March 2019 with the next one due to be completed as at 31 March 2022. Revised contribution rates from the 2019 actuarial valuation took effect on 1st April 2020

The Government announced in 2019 that the "McCloud judgment" needs to be remedied for all schemes including the LGPS. The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. West Mercia Energy has chosen not to pay any additional contribution at this stage for the "McCloud judgment".

The Joint Committee anticipates to pay £nil expected contributions to the scheme in 2022/2023

The weighted average duration of the defined benefit obligation for scheme members is 30 years, 2021/2022 (30 years 2020/2021).

19. Reserves

An analysis of the reserves is shown below:

	Opening Balance 1st April 2021 £000	Contributions To £000	From £000	Closing Balance 31st March 2022 £000
General Fund	1,470	452	-60	1,862
Pensions reserve	-331	328	-261	-264
Joint Committee capital adjustment account	14	1	-8	7
Total reserves	**1,153**	**781**	**-329**	**1,605**

Comparative Analysis in 2020/21

	Opening Balance 1st April 2020 £000	Contributions To £000	From £000	Closing Balance 31st March 2021 £000
General Fund	1,744	6,323	-6,597	1,470
Pensions reserve	-6,928	6,971	-374	-331
Joint Committee capital adjustment account	14	7	-7	14
Total reserves	**-5,170**	**13,301**	**-6,978**	**1,153**

20. 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.

	2021/22 £000	2020/21 £000
Opening Balance at 1 April	-331	-6,928
Remeasurement (Liabilities & Assets)	279	-173
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	-212	-158
Employer's pensions contributions & direct payments to pensioners payable in the year		-
Settlements and transfer out	-	6,928
Closing Balance at 31 March	**-264**	**-331**

21. 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 2022 £000	31 March 2021 £000
Opening balance at 1 April	14	14
Fixed assets purchased from revenue resources	1	7
Depreciation of fixed assets	-8	-7
Closing Balance at 31 March	**7**	**14**

22. Note to the Cash Flow Statement

22.1 Reconciliation of Income and Expenditure Statement to Net Cashflow

Restated 2020/21 £000		2021/22 £000
7,607	**Net Operating Surplus on Comprehensive I&E Statement**	173
	Adjust net surplus on the provision of services for non cash movements	
7	Depreciation	8
-6,770	Movements on Pension	212
1,731	(Increase) / decrease in debtors	-734
-6,664	Increase / (decrease) in creditors	1,484
	Adjust for items included in the net surplus on the provision of services	
-30	Interest and investment income	-7
-4,119	**Net cash inflow from operating activities**	**1,136**

22.2 Cash Flow Statement – Investing Activities

	31 March 2022 £000	31 March 2021 £000
Interest and investment income	-7	-30
Purchase of plant and equipment	1	7
TOTAL	**-6**	**-23**

22.3 Cash Flow Statement – Financing Activities

	31 March 2022 £000	31 March 2021 £000
Distribution to Member Authorities	-	1,111
TOTAL	**-**	**1,111**

22.4 Movement in Cash and Cash Equivalents

	Balance 31/03/21 £000	Balance 31/03/22 £000	Movement In Year £000
Cash in hand	2,164	3,306	1,142

23. Purchase of Non-current Assets

Non-current assets to the value of £1,000 relating to computer equipment and motor vehicles were financed from the General Fund Balance in 2021/22 (£7,000 2020/21).

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.

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