



Committee and Date

West Mercia Energy Joint
Committee

27th September 2022

Item

Public

Distribution of Surplus

Responsible Officer James Walton - Treasurer
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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 2022 to the Member Authorities.

2. Recommendations

- 2.1 It is recommended that the Joint Committee;
- a) Approve the retention of accumulated surplus of £0.890 million
 - b) Approve the distribution of accumulated surplus of £0.396 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 2022	1,862
2020/21 distribution - paid June 2022	576
Recommended Surplus distribution	<u>396</u>
General Fund balance after distribution	890

5 Background

- 5.1 Following on from the completion of the Statement of Accounts 2021/22 and the External Auditor's finalised Audit Findings Report 2021/22, 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 The 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: Retention 2022

	£'000's
Capital at Risk (gas and electricity)	790
General	<u>100</u>
	890

7 Distribution of Surplus

7.1 The accumulated surplus at 31 March 2022 was £1.862 million. In June 2022 the deferred 2020/21 distribution of £0.576 million was paid leaving a remaining accumulated surplus of £1.286 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £0.396 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	62,037
Shropshire	111,185
Telford & Wrekin	80,075
Worcestershire	142,264

7.3 If approved it is proposed to pay these amounts in October 2022.

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

Statement of Accounts 2021/22

Member

Councillor L Harvey of Herefordshire Council (Chair of the Joint Committee)

Appendices None