

**WEST MERCIA ENERGY  
JOINT COMMITTEE**

**STATEMENT OF ACCOUNTS  
FOR THE YEAR  
ENDED 31<sup>ST</sup> MARCH 2023**

Providing energy services  
for the public sector

A Local Authority owned purchasing organisation



## **WEST MERCIA ENERGY JOINT COMMITTEE**

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## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **FINANCIAL SUMMARY** **FOR THE YEAR 2022/23**

#### **Introduction**

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2022 to 31 March 2023 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 2023.

##### **The Cash Flow Statement**

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

## **Narrative report 2022/23**

### 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 2022/23 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2022/23.

### Risks and Opportunities

The 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 reaching further unprecedented levels within the year, the rank of a number of risks which had been raised the previous year, were maintained at the increased levels. These risks included those associated with operating the trading strategy within the extraordinary market conditions experienced and the impact of generally high prices. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

## Performance and Outlook

### *Markets:*

In this year that followed the Russian invasion of Ukraine the market reached unprecedented peaks amid huge volatility. For example at the end of August gas commodity prices rose to over 700p/therm, 14 times the historic average rate of 50p and on the power side, Jan 23 contract rates ranged between £198/MWh and £1,015/MWh (historic averages circa £50/MWh).

Gas and electricity prices had risen to unprecedented levels prior to Russia's invasion, partly due to the threat of this happening. In the immediate aftermath of the invasion, prices soared in the expectation of ramifications in the form of the curtailment of Russian gas supplies to Europe. As supplies remained largely unaffected, prices corrected back to pre-invasion levels by mid-March.

Commodity rates then rose substantially to the end of August on the back of some LNG restrictions in US supply, concerns around reduced gas flows to Europe through Nord Stream 1 and general fears around supply ahead of the winter season with the risk of potential blackouts.

At the end of August the EU announced plans to intervene in the markets in order to reduce energy costs and offer protection to consumers. Whilst details at the time were sketchy it signalled to the markets that prices would no longer be allowed to increase unchecked. As a result, there was a dramatic downward correction in prices, with the Winter 23 gas contract falling 183p/therm on 31st August from its previous close of 723p. By market close on Friday 2nd September the Winter 23 contract had lost 43% of its value within a week.

With relatively mild weather reducing demand for gas and electricity, a continuation of a high supply of LNG, good levels of wind generation and healthy European gas storage levels, energy prices have softened greatly from the start of December and into 2023.

With such extremities seen in the market it makes it all the more pleasing that we secured rates for our customers significantly below the market as well as the government support scheme that was put in place from 1<sup>st</sup> October 2022.

### *Operational:*

Away from the energy markets, one of the key successes of the year has been a number of new, key partnerships the most significant of which being the approval of our flexible frameworks by the Department for Education. This will be a valuable tool over the coming year to aid our customer retention, but also as a way of contracting with new schools and Trusts as well providing additional credibility when liaising with other public sector bodies.

Customer retention has continued to be excellent with all large external contracts retained and retention rates above 99% for a second year on the Main Portfolio category.

During the year we launched our "Use Cleaner, Use Less" campaign to support customers to use less energy, become more energy efficient and to use cleaner energy. The vast majority of our customers have continued to select 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 mindful of the increase in costs for certificated green energy.

### *Financial:*

In 22/23 we saw billed levels near on double compared to the prior year due to the conversion of key procurement only customers to our fully managed service (which includes a payment service) and also due to the rising energy rates. Despite this increase in billed levels we have continued to keep close control of our debt management with only relatively small increases in longer term customer debt.

This increase in turnover combined with the timing of supplier payments has resulted in higher bank balances held than at the previous year end date as well as higher short term debtor and creditor balances. Furthermore with the positive result for the year together with the pension balance moving from a liability of £0.264m to an asset of £0.283m, the overall net asset position of the business has risen from £1.605m on 31<sup>st</sup> March 2022 to £3.530m on 31<sup>st</sup> March 2023.

Overall the effective trading result (before pension/IAS 19 adjustments) for the year is a net profit of £2.4m which compares favourably against both the budgeted level for the year as well as the prior year result. This is an excellent result for the business whilst at the same time providing outstanding rates to our customers through the year.

The organisation has been considered as a going concern with a strong Business Plan in place for 2023/24, continued positive cash positions held with both supplier and customer contracts in place beyond March 2024.

### **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 2023.

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 2023 and its income and expenditure for the year ended 31 March 2023.

**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 2023.

**Cllr**  
**Chairman of the**  
**West Mercia Energy Joint Committee**

**Date:**



## MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2023

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
<b>Balance at 31 March 2022</b>	<b>1,862</b>	<b>-264</b>	<b>7</b>	<b>1,605</b>
Total comprehensive income & expenditure	1,925	-	-	1,925
Transfer to/from Reserves	-548	547	1	0
Increase/decrease in year	1,377	547	1	1,925
<b>Balance at 31 March 2023</b>	<b>3,239</b>	<b>283</b>	<b>8</b>	<b>3,530</b>

### 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 2022

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
	£000	Note 20 £000	Note 21 £000	£000
<b>Balance at 31 March 2021</b>	<b>1,470</b>	<b>-331</b>	<b>14</b>	<b>1,153</b>
Total comprehensive income & expenditure	452	-	-	<b>452</b>
Transfer to/from Reserves	-60	67	-7	<b>0</b>
Increase/decrease in year	392	67	-7	452
<b>Balance at 31 March 2022</b>	<b>1,862</b>	<b>-264</b>	<b>7</b>	<b>1,605</b>

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

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

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

	Notes	2022/23 £000	2021/22 £000
<b>INCOME</b>			
Turnover	6	-134,946	-67,604
Less cost of goods sold		132,378	67,089
Gross profit		-2,568	-515
Other trading operation income		-683	-717
<b>Gross Profit</b>		<b>-3,251</b>	<b>-1,232</b>
<b>OPERATING EXPENSES</b>			
Employees	8	763	609
Pension impact (IAS19)	18	232	205
Premises		35	34
Supplies & services		78	117
Central departmental & technical support		72	81
Provision for bad debts		37	5
Depreciation		6	8
<b>Total Operating Expenses</b>		<b>1,223</b>	<b>1,059</b>
		<b>-2,028</b>	<b>-173</b>
<b>SURPLUS OF SERVICES</b>			
Financing and investment income and expenditure	7	-85	0
<b>NET OPERATING SURPLUS</b>		<b>-2,113</b>	<b>-173</b>
Distribution to Member Authorities		972	0
<b>NET PROFIT FOR THE YEAR</b>		<b>-1,141</b>	<b>-173</b>
<b>OTHER COMPREHENSIVE INCOME &amp; EXPENDITURE</b>			
Remeasurements (Liabilities & Assets)	18	-1,294	-279
Restriction of pension surplus recognised	18	510	0
<b>Other Comprehensive Income &amp; Expenditure</b>		<b>-784</b>	<b>-279</b>
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>		<b>-1,925</b>	<b>-452</b>

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

## BALANCE SHEET AS AT 31 MARCH 2023

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 2022 £000		31 March 2023 £000	Notes
7	Plant & equipment	8	12
<u>7</u>	<b>Long term assets</b>	<u>8</u>	
10,797	Short term debtors	23,804	15
3,306	Cash and cash equivalents	15,525	16
<u>14,103</u>	<b>Current assets</b>	<u>39,329</u>	
-12,241	Short term creditors	-36,090	17
<u>-12,241</u>	<b>Current liabilities</b>	<u>-36,090</u>	
<u>1,862</u>	<b>Net current assets</b>	<u>3,239</u>	
-264	Defined benefit pension - surplus/(deficit)	283	18
<u>-264</u>	<b>Defined benefit pension asset/(liability)</b>	<u>283</u>	
<b>1,605</b>	<b>Net Assets</b>	<b>3,530</b>	
	<b>Financed by:</b>		
1,862	General fund	3,239	
-264	Pensions reserve	283	
7	Joint committee capital adjustment account	8	
<b>1,605</b>	<b>Total Reserves</b>	<b>3,530</b>	19

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

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2023

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.

2021/22	2022/23	
£000	£000	£000 Notes
<b>Operating activities</b>		
<u>Cash outflows</u>		
595	819	
237	222	
65,619	108,473	
66,451		109,514
<u>Cash inflows</u>		
-66,870	-121,939	
-717	-683	
-67,587		-122,622
-1,136		-13,108 22.1
-6		-83 22.2
0		972 22.3
<b>-1,142 Net decrease (increase) in cash and cash equivalents</b>		<b>-12,219 22.4</b>
2,164		3,306
<b>3,306 Cash and cash equivalents at 31st March</b>		<b>15,525 22.4</b>

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 2022/23 summarises the Joint Committee's transactions for the 2022/23 financial year and its position at 31 March 2023. 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 30<sup>th</sup> September 2024.

#### **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:

<b>Asset and Method of Valuation</b>	<b>Depreciation/Amortisation Period</b>
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 2023/24.

### **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 31<sup>st</sup> 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 4.7% (2021/22: 2.7%) 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.

### **Pension Surplus (net Pension Asset)**

Pension surplus is the fair value of plan assets less the fair value of the defined benefit obligation, less any associated costs. Where there is a net pension asset in the balance sheet the organisation could have an unconditional right either to a reduction in future contributions or a refund assuming the gradual settlement of the schemes liabilities over its life. The surplus is on the basis the pensions scheme continues until final payment is made to the final member in the scheme and is restricted to the reduction in future contribution or refund receivable.

### **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.

### **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 His 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 2023/24 Code:

- Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.
- Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020

These changes are not expected to have a material impact on the accounts

## **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.

2022/23					
	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	2,261	159	2,420	-	2,420
Services/Support services	-53	-254	-307	-541	-848
Net cost of Services	2,208	-95	2,113	-541	1,572
Other Income and Expenditure			784		784
Distribution of Surplus to Member Authorities			-972		-972
Surplus or (Deficit)			1,925	-541	1,384
Opening General Fund					1,862
Capital Purchases funded from General Fund					-7
Add surplus on General Fund					1,384
<b>Closing General Fund</b>					<b>3,239</b>

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
Add surplus on General Fund					393
<b>Closing General Fund</b>					<b>1,862</b>



## 4a. Note to the expenditure and funding analysis

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

2022/23				
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Net Cost of Services	6	-547		-541
Other income and expenditure from the Expenditure and Funding Analysis		784		784
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	-1	237	-	236

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

## 4b. Analysis of income and expenditure by nature

Income received on a segmental basis is analysed below:

	2022/23	2021/22
	Income from Services	Income from Services
	£000	£000
Energy Sales	134,536	67,319
Other Income	410	285
<b>Total income analysed on a segmental basis</b>	<b>134,946</b>	<b>67,604</b>

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.

There are no items in the Joint Committee's Balance Sheet at 31 March 2023 for which there is a risk of material adjustment in the forthcoming year.

## 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.

	2022/23	2021/22
	£000	£000
Net interest on pension scheme assets and liabilities	5	7
Interest receivable and similar income	-90	-7
<b>Total</b>	<b>-85</b>	<b>-</b>

## 8. Staff Remuneration

In 2022/23 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2022/23	2021/22
£ 55,000 to £ 59,999	1	-
£ 95,000 to £ 99,999	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 £54,999 or between £60,000 and £94,999, so the staff remuneration table above has been adjusted accordingly.

### Disclosure of Remuneration for Senior Employees

#### 2022/23

Post Title	Salary (inc fees & allowances) £	Bonuses (PRP) £	Pension Contributions £	Total Remuneration (inc pension contribution) £
Director	93,105	3,295	0	96,400
	<b>93,105</b>	<b>3,295</b>	<b>0</b>	<b>96,400</b>

#### 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
	<b>97,345</b>	<b>5,064</b>	<b>0</b>	<b>102,409</b>

There are no compulsory redundancies or staff members receiving exit packages in 2022/23 or 2021/22.

## 9. Audit Costs

During 2022/23 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2022/23 £000	2021/22 £000
Fees payable to External Auditors with regard to external audit services	14	13

## 10. Related Party Transactions

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

### Members and Officers

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

The Joint Committee Members are also members of other local organisations (for example county councils). No 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:

	2022/23 £000	2021/22 £000
Herefordshire Council	2,220	1,908
Shropshire Council	4,466	3,624
Telford & Wrekin Council	4,115	2,931
Worcestershire County Council	3,311	4,707

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

	2022/23	2021/22
	£000	£000
Human Resources Support Services	3	1
Payroll Services	1	1
Treasury Services	5	5
Committee Services	6	6
Financial Advice	15	15
Internal Audit	8	9
ICT support	9	8
Legal Services	1	5
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:

	2022/23	2021/22
	£000	£000
Net Profit for the Year – Per Comprehensive Income and Expenditure Statement	-1,141	-173
Profit Related Pay	-75	-19
Distribution of Surplus to Member Authorities	-972	-
Pensions Movement included in Operating Expenses	-237	-212
<b>Net Surplus for PRP/Distribution Purposes</b>	<b>-2,425</b>	<b>-404</b>

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

2022/23 includes both the distribution from the General Fund to Member Authorities of £576k which was deferred from October 2021 to June 2022 (distributing part of the General Fund brought forward at the end of 2020/21), and the distribution of £396k paid in October 2022 (distributing part of the General Fund brought forward at the end of 2021/22).

## 12. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2022/23	Plant, Equipment and Motor Vehicles 2021/22
	£000	£000
<b>Cost / Valuation</b>		
As at 1 April	79	78
Additions	7	1
Disposals	-	-
As at 31 March	86	79
<b>Accumulated Depreciation</b>		
As at 1 April	72	64
Charge	6	8
Relating to disposals	-	-
As at 31 March	78	72
<b>Net Book Value</b>		
<b>As at 31 March</b>	<b>8</b>	<b>7</b>

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 31<sup>st</sup> March 2023.

## 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		31-3-23	31-3-22
	31-3-23	31-3-22	31-3-23	31-3-22	31-3-23	31-3-22	31-3-23	31-3-22		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Fair Value through profit or loss</b>										
Long term Equity Instruments	-	-	-	-	-	-	-	-	-	-
<b>Amortised Cost</b>										
Debtors	-	-	-	-	-	-	23,804	10,727	23,804	10,727
Cash & Cash Equivalents	-	-	-	-	-	-	15,525	3,306	15,525	3,306
Total Financial Assets	-	-	-	-	-	-	39,329	14,033	39,329	14,033
Non- Financial Assets	-	-	-	-	-	-	-	70	-	70
<b>Total</b>	-	-	-	-	-	-	39,329	14,103	39,329	14,103

## Financial Liabilities

	Long Term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors		31-3-23 £'000	31-3-22 £'000
	31-3-23 £'000	31-3-22 £'000	31-3-23 £'000	31-3-22 £'000	31-3-23 £'000	31-3-22 £'000	31-3-23 £'000	31-3-22 £'000		
<b>Amortised Cost</b>										
Principal	-	-	-	-	-	-	35,830	12,241	35,830	12,241
Loans Accrued interest	-	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
<b>Total Financial Liabilities</b>							35,830	12,241	35,830	12,241
Non-Financial Liabilities	-	-	-	-	-	-	260	-	260	-
<b>Total</b>	-	-	-	-	-	-	36,090	12,241	36,090	12,241

## Income, Expense, Gains and Losses

	2022/23					2021/22				
	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	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-	-	-	-	-	-
Interest income	-	90	-	-	90	-	7	-	-	7
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	90	-	-	90	-	7	-	-	7
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain for the year</b>	-	90	-	-	90	-	7	-	-	7



## 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 £23.804m outstanding (2021/22 - £10.797) from customers, £0.502m (2021/22 - £0.283m) is past its due date for payment. The amount past due date is analysed by age as follows:

	2022/23	2021/22
	£'000	£'000
Less than 3 months overdue	475	305
3 to 6 months overdue	40	-1
6 months to 1 year overdue	20	-6
More than 1 year overdue	-33	-15
<b>Total</b>	<b>502</b>	<b>283</b>

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 2023 £000	31 March 2022 £000
Member Authorities	1,915	2,020
Other Local Authorities	21,035	8,700
Bodies external to general government	854	77
	<b>23,804</b>	<b>10,797</b>

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

	31 March 2023 £000	31 March 2022 £000
Herefordshire Council	287	219
Shropshire Council	682	529
Telford & Wrekin Council	506	314
Worcestershire County Council	440	958
	<b>1,915</b>	<b>2,020</b>

## 16. Cash and Cash Equivalents

	Opening Balance 1 <sup>st</sup> April 2022 £000	Movement During the Year £000	Closing Balance 31 <sup>st</sup> March 2023 £000
<b>Bank current accounts</b>	<b>3,306</b>	<b>12,219</b>	<b>15,525</b>

## 17. Short Term Creditors

	31 March 2023 £000	31 March 2022 £000
Member Authorities	198	83
Other Local Authorities	6,003	1,452
Bodies external to general government	29,889	10,706
	<b>36,090</b>	<b>12,241</b>

## 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 following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2022/23.

	2022/23 £000	2021/22 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Operating Expense (Employees):		
• Current Service Cost	227	202
• Past Service Cost	-	-
• Administration Expenses	5	3
• Employers Contributions	-	-
• Settlements and Transfer	-	-
Pension Impact (IAS19)	232	205
Financing and Investment Income and Expenditure:		
• Net Interest Cost	5	7
<b>Total Post-employment benefits contained within Net Operating Surplus</b>	<b>237</b>	<b>212</b>
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)	-99	-107
Actuarial (gains) and losses arising on changes in Financial assumptions	-1,195	-172
Restriction in recognition of surplus	510	0
<b>Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure</b>	<b>-784</b>	<b>-279</b>
<b>Net charge to Comprehensive Income &amp; Expenditure Statement</b>	<b>-547</b>	<b>-67</b>

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.

	2022/23 £000	2021/22 £000
<b>Movement in Reserves Statement:</b>		
Reversal of net charges made for retirement benefits in accordance with IAS19	-237	-212
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	1,294	279
Restriction in recognition of surplus	-510	0
<b>Movement on Pensions Reserve</b>	<b>547</b>	<b>67</b>

## 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;

	2022/23 £000	2021/22 £000
Present Value of the defined benefit obligation	1,787	2,644
Fair Value of plan assets	-2,580	-2,380
Restriction in recognition of surplus	510	0
<b>Net liability (asset) arising from defined benefit obligation</b>	<b>-283</b>	<b>264</b>

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

	2022/23 £000	2021/22 £000
Opening fair value of scheme assets	-2,380	-2,191
Interest income	-65	-49
Remeasurement gain		
The return on Plan assets	-99	-107
Employer contributions	-	-
Contributions by scheme participants	-41	-36
Benefits paid	-	-
Administration Expenses	5	3
Settlements	-	-
Transfer to another employer	-	-
<b>At 31 March</b>	<b>-2,580</b>	<b>-2,380</b>

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

	Funded 2022/23 £000	Liabilities 2021/22 £000
At 1 April	2,644	2,522
Current Service Cost	227	202
Interest cost	70	56
Contributions by scheme participants	41	36
Past service Cost (gain)	-	-
Remeasurement (Liabilities)		
• Experience (gain)/Loss	380	7
• Actuarial (gains)/losses on financial assumptions	-1,547	-161
• (Gain)/Loss on demographic assumptions	-28	-18
Benefits paid	-	-
Lump sum deficit repayment	-	-
<b>At 31 March</b>	<b>1,787</b>	<b>2,644</b>

## Pension Scheme Assets

	Fair value of Scheme Assets	
	2022/23	2021/22
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	12	40
<b>Cash Total</b>	<b>12</b>	<b>40</b>
Equity Instruments		
• UK Quoted	0	115
• Global quoted	1,322	1,089
<b>Equity Instruments Total</b>	<b>1,322</b>	<b>1204</b>
Bonds		
• Overseas – Global Fixed Income	157	156
• Overseas – Global Dynamic	173	151
• Other Class 2 – Absolute return bonds	153	144
<b>Bonds Total</b>	<b>483</b>	<b>451</b>
Property		
• Property Funds	86	89
<b>Property Total</b>	<b>86</b>	<b>89</b>
Private Equity	230	199
<b>Private Equity Total</b>	<b>230</b>	<b>199</b>
Other Investment Funds		
• Infrastructure	165	81
• Hedge Funds	170	147
• BMO – LDI manager	0	82
• Property debt	36	50
• Private Debt	37	3
• Insurance Linked Securities	39	34
<b>Other Total</b>	<b>447</b>	<b>397</b>
<b>Total assets</b>	<b>2,580</b>	<b>2,380</b>

All scheme assets have quoted prices in active markets

### Basis for Estimating Assets and Liabilities

The liabilities of the scheme have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions including mortality rates and salary levels.

The Pension Fund liabilities/assets have been assessed by Mercer Limited who are independent actuaries.

The significant assumptions used by the actuary have been:

	2022/23	2021/22
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners (years):		
Men	22.2	22.9
Women	24.5	25.1
Longevity at 65 for future pensioners (years):		
Men	23.5	24.1
Women	26.3	26.7
Rate of CPI Inflation	2.7%	3%
Rate of Increase in Salaries	3.95%	4.25%
Rate of Increase in Pensions	2.8%	3.1%
Rate for Discounting Scheme Liabilities	4.7%	2.7%

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.



<b>Impact on the Defined Benefit Obligation in the Scheme*</b>	
	<b>Increase in assumption £000</b>
Longevity (increase in 1 year)	1,819
Rate of inflation (increase by 0.25%)	1,915
Rate of increase in salaries (increase by 0.25%)	1,832
Rate of increase in pensions (increase by 0.25%)	1,915
Rate for discounting scheme liabilities (increase by 0.5%)	1,564

\*The current Defined Benefit Obligation as at 31<sup>st</sup> March 2023 is £1.787 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 Lead 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 2022. Revised contribution rates from the 2022 actuarial valuation took effect on 1<sup>st</sup> April 2023

The Joint Committee anticipates to pay £nil expected contributions to the scheme in 2023/2024

The weighted average duration of the defined benefit obligation for scheme members is 28 years, 2022/2023 (30 years 2021/2022).

## 19. Reserves

An analysis of the reserves is shown below:

	Opening Balance	Contributions		Closing Balance
	1 <sup>st</sup> April 2022	To	From	31 <sup>st</sup> March 2023
	£000	£000	£000	£000
General Fund	1,862	2,355	-978	3,239
Pensions reserve	-264	1,359	-812	283
Joint Committee capital adjustment account	7	7	-6	8
<b>Total reserves</b>	<b>1,605</b>	<b>3,721</b>	<b>-1,796</b>	<b>3,530</b>

## Comparative Analysis in 2021/22

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

## 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 2022/23 balance on the Pensions Reserve shows a surplus, which could result in a right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. The Joint Committee, in the ordinary course of business has no right to unilaterally wind up, or otherwise augment the benefits due to members, of the scheme.

	2022/23 £000	2021/22 £000
Opening Balance at 1 April	-264	-331
Remeasurement (Liabilities & Assets)	1,294	279
Restriction in recognition of surplus	-510	0
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	-237	-212
<b>Closing Balance at 31 March</b>	<b>283</b>	<b>-264</b>

## 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 2023 £000	31 March 2022 £000
Opening balance at 1 April	7	14
Fixed assets purchased from revenue resources	7	1
Depreciation of fixed assets	-6	-8
<b>Closing Balance at 31 March</b>	<b>8</b>	<b>7</b>

## 22. Note to the Cash Flow Statement

### 22.1 Reconciliation of Income and Expenditure Statement to Net Cashflow

2021/22 £000	2022/23 £000
173 <b>Net Operating Surplus on Comprehensive I&amp;E Statement</b>	2,113
<b>Adjust net surplus on the provision of services for non cash movements</b>	
8 Depreciation	6
212 Movements on Pension	237
-734 (Increase) / decrease in debtors	-13,007
1,484 Increase / (decrease) in creditors	23,849
<b>Adjust for items included in the net surplus on the provision of services</b>	
-7 Interest and investment income	-90
<b>1,136 Net cash inflow from operating activities</b>	<b>13,108</b>

## 22.2 Cash Flow Statement – Investing Activities

	31 March 2023 £000	31 March 2022 £000
Interest and investment income	-90	-7
Purchase of plant and equipment	7	1
<b>TOTAL</b>	<b>-83</b>	<b>-6</b>

## 22.3 Cash Flow Statement – Financing Activities

	31 March 2023 £000	31 March 2022 £000
Distribution to Member Authorities	972	-
<b>TOTAL</b>	<b>972</b>	<b>-</b>

## 22.4 Movement in Cash and Cash Equivalents

	Balance 31/03/22 £000	Balance 31/03/23 £000	Movement In Year £000
Cash in hand	3,306	15,525	12,219

## 23. Purchase of Non-current Assets

Non-current assets to the value of £7,000 relating to computer and office equipment and motor vehicles were financed from the General Fund Balance in 2022/23 (£1,000 2021/22).

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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