Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 21st September 2020

Committee: West Mercia Energy Joint Committee
Date: Tuesday, 29 September 2020
Time: 10.00 am
Venue: THIS IS A VIRTUAL MEETING - PLEASE USE THE LINK ON THE AGENDA TO LISTEN TO THE MEETING

Members of the public will be able to listen to this meeting by clicking on this link:
www.shropshire.gov.uk/WestMerciaEnergyJointCommitteeTuesday29Sept2020

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Claire Porter
Director of Legal and Democratic Services

Members of West Mercia Energy Joint Committee

Herefordshire Council	L Harvey G Davies
Shropshire Council	P Nutting (Vice-Chairman) R Macey
Telford & Wrekin Council	L Carter R Evans
Worcestershire County Council	J Smith A Hardman (Chairman)

Your Committee Officer is:

Emily Marshall Committee Officer
Tel: 01743 257717
Email: emily.marshall@shropshire.gov.uk

AGENDA

1 Apologies for Absence

To receive apologies for absence.

2 Minutes (Pages 1 - 6)

To receive the minutes of the Joint Committee meeting held on 25th February 2020.

3 Public Questions

To receive any question or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00 a.m. on Friday, 25th September 2020.

4 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

5 Supplier Contracts

The Director of West Mercia Energy will provide a verbal update in line with the West Mercia Energy Standing Orders.

6 Statement of Accounts 2019/2020 and Annual Governance Statement 2019/2020 (Pages 7 - 64)

Report of the Treasurer.

Contact: James Walton (01743 258915)

7 External Audit - Audit Findings Report 2019/2020 (Pages 65 - 82)

Report of the External Auditor.

Contact: Richard Percival (0121 212 4000)

8 **Internal Audit - Annual Report 2019/2020** (Pages 83 - 90)

Report of the Audit Services Manager.

Contact: Ceri Pilawski (01743 257739)

9 **Distribution of Surplus** (Pages 91 - 94)

Report of the Treasurer.

Contact: James Walton (01743 258915)

10 **Risk Management Update** (Pages 95 - 98)

Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

11 **Exclusion of Press and Public**

To consider a resolution under Section 100 (A) of the Local Government Act 1972 that the proceedings in relation to the following items shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the provisions of Schedule 12A of the Act.

12 **Exempt Minutes** (Pages 99 - 100)

To approve the exempt Minutes of the meeting held on 25th February 2020.

13 **Update on Business Plan and Trading Performance to Date 2020/21** (Pages 101 - 118)

Exempt Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

14 **Energy Governance, Accountability, Risk and Reporting Policy** (Pages 119 - 158)

Exempt Report of the Director of West Mercia Energy.

Contact: Nigel Evans (0333101 4353)

15 Date of Next Meeting

The next meeting of the West Mercia Energy Joint Committee will be held on Tuesday, 2nd March 2021 at 10.00 a.m.

Committee and Date

West Mercia Energy Joint Committee

29th September 2020

WEST MERCIA ENERGY JOINT COMMITTEE

Minutes of the meeting held on 25 February 2020
In the Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND
10.00 - 11.38 am

Responsible Officer: Emily Marshall
Email: emily.marshall@shropshire.gov.uk Tel: 01743 257717

Present

Councillors Evans, Robert Macey, Hardman, Smith, Davies and Charmley (Substitute) (substitute for Peter Nutting)

37 **Election of Chairman**

RESOLVED:
That Councillor Adrian Hardman be elected Chairman for the duration of the meeting.

38 **Apologies for Absence**

Apologies for absence were received from Councillors Lee Carter, Liz Harvey, Peter Nutting (S. Charmley Substitute) and John Smith, who may be late.

39 **Appointment of Vice-Chairman**

RESOLVED:
That Councillor Steve Charmley be appointed Vice-Chairman for the duration of the meeting.

40 **Minutes**

RESOLVED:
That the Minutes of the West Mercia Energy Joint Committee held on 24th September 2019 be approved as a correct record and signed by the Chairman.

41 **Public Questions**

None received.

42 **Disclosable Pecuniary Interests**

None

43 Supplier Contracts

The Director had no update to report.

44 External Audit Plan 2019/2020

Mr Richard Percival (External Auditor – Grant Thornton) presented the West Mercia Energy Joint Committee Audit Plan 2019/20 (copy attached to the signed minutes).

Mr Percival referred to an increase in the annual fee and in response to a question relating to value for money, The Director and Treasurer commented that they could go and test the market. Mr Percival reminded the Committee that under legislation WME were not required to have an audit, however he would not recommend it.

The Joint Committee agreed it would be useful to test the market with regards to the future audit service.

RESOLVED

1. That the draft audit plan for 2019/2020 as presented by Grant Thornton be approved.
2. That the commissioning of Grant Thornton to undertake the audit in accordance with the audit plan be approved.
3. That the Director of West Mercia Energy test the market to ensure value for money for the 2020/2021 Audit.

45 External Audit - Informing the Audit Risk 2019/2020

Mr Richard Percival - Grant Thornton) presented the Informing the Audit Risk Assessment 2019/2020 for West Mercia Energy Joint Committee (copy attached to the signed minutes) picking out the key points to bring to the Committee’s attention.

Councillor Davies, referred to page 35 and the Director confirmed that policies are reviewed regularly.

RESOLVED:
That having considered the proposed management responses contained in the report at Appendix 1, the submission of these management responses to the queries raised by Grant Thornton be approved.

46 Internal Audit Performance Reports to February 2020

C. Pilawski, Audit Services Manager introduced Internal Audit Performance Report to February 2020 (copy attached to the signed minutes).

The Audit Services Manager drew Members attention to the IT Audit Review, commenting that managers were fully aware of the issues and an action plan was in place. The Director commented that the system was a redevelopment of the existing system and although the overall rating was lower than usual the IT systems were better than they had ever been.

RESOLVED:
That the Committee consider and endorse, with appropriate comment, the performance to date against the 2019/20 Audit Plan as set out in the report.

47 Internal Audit Strategic Plan 2020/21

C. Pilawski, Audit Services Manager introduced Internal Audit Strategic Plan 2020/21 (copy attached to the signed minutes).

RESOLVED:
That the proposed programme of audits for 2020/21, be considered and endorsed with appropriate comment.

48 Anti-Slavery and Human Trafficking Statement 2019/20

The Director of West Mercia Energy presented the Anti-Slavery and Human Trafficking Statement Transparency Statement for 2019/20 (copy attached to the signed minutes) for approval.

RESOLVED:

1. That the draft WME Transparency Statement for 2019/20 be approved.
2. That authority be delegated to the Director to finalise the WME Transparency Statement and publish it in accordance with section 54 of the Modern Slavery Act 2015.

49 Equality Policy

The Director of West Mercia Energy presented the Equality Policy (copy attached to the signed minutes) for approval and adoption.

The Committee recommended that authority be delegated to the Director of West Mercia Energy to refresh and review the Policy at the appropriate time.

RESOLVED:

1. That the Shropshire Council Equality Policy for WME be approved and adopted.
2. That authority be delegated to the Director of West Mercia Energy, to refresh and review the policy at the appropriate time.

50 Transfer of the WMS Pension Liability

The Treasurer presented a report (copy attached to the signed minutes) outline the treatment of the West Mercia Supplies Pension Liability.

The Treasurer began by outlining the history of the Pension Liability for the benefit of new Members. The Committee agreed that it was pleasing to see this longstanding issue come to a conclusion.

RESOLVED:
That the Joint Committee agrees to delegate to the WME Treasurer (Shropshire Council Director of Finance, Governance and Assurance (Section 151 Officer)) the calculation of the final position of the WMS pension deficit as at 1 April 2020 and, subject to the approval of such a transfer by the Owning Authorities respective Cabinets, to effect the transfer of the WMS pension liability to the Owning Authorities.

51 Risk Management Update

The Director presented a report (copy attached to the signed exempt minutes), which provided a review of the WME Risk Management Strategy.

RESOLVED:
1. That the WME Risk Management Strategy attached at Appendix A be approved.
2. That the position as set out in this report be accepted.

52 Minutes of the Flexible Energy Advisory Panel

The Director presented a report (copy attached to the signed exempt minutes), which presented the exempt minutes of the Flexible Energy Management/Advisory Panel meetings that had been held since the last meeting of the Joint Committee.

The Committee agreed that in future these minutes should be circulated by email to Members, for their information, rather than being brought to the Joint Committee.

RESOLVED:
That the minutes of the Flexible Energy Advisory Panel 9th September 2019 be endorsed.

53 Exclusion of Press and Public

RESOLVED:
That under Section 100(A)(A4) of the Local Government Act 1972, the public be excluded during the consideration of the following items of business on the grounds that they might involve the likely disclosure of exempt information as defined in Schedule 12(A) of the Act.

54 Exempt Minutes

RESOLVED:
That the Exempt Minutes of the meeting held on 24th September 2019 be approved as a correct record.

55 Annual Business Plan and Budget 2020/21 including a Review of 2019/20
56

The Director presented an exempt report (copy attached to the signed exempt minutes), presenting the current trading performance for 2019/20, the forecasted year result for 2019/20 and WME Annual Business Plan and Budget for 2020/21 for approval.

RESOLVED:
That the recommendations contained within the exempt report be approved.

56 Date of Next Meeting

RESOLVED:
It was noted that the next meeting would take place on Tuesday, 29th September 2020 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed .... (Chairman)

Date: ....

Committee and Date	Item
West Mercia Energy Joint Committee 29th September 2020	6 Public

Statement of Accounts 2019/20
and Annual Governance Statement 2019/20

Responsible Officer James Walton - Treasurer
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

1.1 The purpose of this report is to present to the Joint Committee the Letter of Representation, the Statement of Accounts 2019/20 and the Annual Governance Statement 2019/20.

2. Recommendations

2.1 The Joint Committee is asked;

a) To note the Letter of Representation to be signed by the Chairman and submitted by the Treasurer.

b) To consider the finalised Statement of Accounts 2019/20 to be signed by the Chairman and the Treasurer.

c) To consider the Annual Governance Statement 2019/20.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Details of the potential risks affecting the balances and financial health of WME are considered within the Statement of Accounts

4. Financial Implications

4.1 This report considers the overall financial position of WME in the form of the Statement of Accounts, the accounts consider the level of assets controlled by WME and the level of balances held.

5. Background

5.1 WME external auditors, Grant Thornton have audited the accounts during August.

5.2 WME is required to produce a Letter of Representation for the external auditors which provides assurance that the information submitted within the accounts is accurate and that all material information has been disclosed to the auditors. External audit will only sign off the accounts once this letter has been received. See Appendix 1

5.3 The Joint Committee is required to approve the annual Statement of Accounts by the 30th September after the findings of the audit are known. The Statement of Accounts are contained in Appendix 2.

5.4 The Statement of Accounts is accompanied by WME's Annual Governance Statement 2019/20, which details processes and procedures in place to enable WME to carry out its' functions effectively. See Appendix 3.

6 Publication of Accounts

6.1 Once signed, the annual Statement of Accounts 2019/20 will be available via the WME website.

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

CIPFA Code of Practice (CODE) on Local Authority Accounting

CIPFA/SOLACE guidance on the Annual Governance Statement

Joint Committee 28th September 2015 – Local Audit and Accountability Act

Member
Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices

1 - The Letter of Representation

2 - Statement of Accounts 2019/20

3 - Annual Governance Statement 2019/20

WEST MERCIA ENERGY

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

29 September 2020

Dear Sirs

West Mercia Energy Joint Committee
Financial Statements for the Year Ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of West Mercia Energy Joint Committee for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards as adopted by the European Union and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter, for the preparation of the financial statements in accordance with International Financial Reporting Standards; in particular the financial statements are fairly presented in accordance therewith.

ii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iii. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

v. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed.

vi. The financial statements are free of material misstatements, including omissions.

vii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

Information Provided

viii. We have provided you with:
  a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  b. additional information that you have requested from us for the purpose of your audit; and
  c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

ix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

x. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  a. management;
  b. employees who have significant roles in internal control; or
  c. others where the fraud could have a material effect on the financial statements.

xii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xiv. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Joint Committee at its meeting on 29 September 2020.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Joint Committee

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WEST MERCIA ENERGY

WEST MERCIA ENERGY JOINT COMMITTEE

STATEMENT OF ACCOUNTS FOR THE YEAR ENDING 31ST MARCH 2020

WEST MERCIA ENERGY JOINT COMMITTEE

CONTENTS

WEST MERCIA ENERGY JOINT COMMITTEE

FINANCIAL SUMMARY
FOR THE YEAR 2019/20

Introduction

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2019 to 31 March 2020 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 2020.

The Cash Flow Statement
This summarises the inflows and outflows of cash arising from the day to day transactions of the organisation.

Narrative report 2019/20

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 positive year end opinion on West Mercia Energy’s internal control environment for 2019/20 confirming that the organisation’s governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2019/20.

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 is presented to the Joint Committee on an annual basis. Furthermore, all risks which have been classified as medium or high are reported to the Joint Committee at each meeting. These risks include those associated with operating a flexible trading strategy, performance management of key suppliers and customer retention. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

Performance and Outlook

The turnover for the year increased by some 6% to £70.2m driven by a combination of greater consumed volumes and higher energy prices. The net operating surplus of £0.880 million for the year 2019/20 represents an increase in profits from the previous year of £0.148m as a result of the increase in the customer base, the greater volumes consumed and benefits secured from the market. In addition the cost base of the business has continued to have been closely controlled and well managed throughout the year.

Overall, on 31st March 2020, the net liabilities of the Joint Committee stood at £5.170 million (£5.549 million at 31st March 2019). The net working capital of the Joint Committee continues to be closely monitored and this has resulted in a strong performance throughout 2019/20.

Ahead of the start of the financial year Brexit was very much on the horizon, the outcome at that time being very difficult to forecast and as a consequence a slightly more prudent approach was adopted to the within year trading strategy. Despite this it is positive that benefits were secured from the market that allowed customer prices to be discounted within the year by some £1m, demonstrating the benefits of the flexible trading strategy within the financial year. The trading strategy adopted has continued to provide an appropriate balance between a market focused approach and the necessary protection against rising energy prices.

During the year customer retention levels have continued to be high. The new procurement only service option for customers which was developed the previous year went live during the year with the supplies of the first major customer successfully transferring to WME under this arrangement in April. This is a positive enhancement to the WME service offering and further interest has been seen from other customers in this service during the year. In addition the WME offer has been expanded further by the provision of additional trading basket options for customers and more recently, following agreement at the September Joint Committee, a new fixed price, fixed term DPS arrangement has been set up.

The year saw a dramatic increase in the interest from Local Authorities for green energy in line with their carbon zero ambitions and this has been supported through the products available and developed in partnership with the WME energy supplier. Support of this agenda will be a key focus for the business moving forward. In developing a zero carbon energy strategy Local Authorities may be considering longer term solutions, such as investment in local renewable generation, which can ensure security of supply as well as potential income opportunities. The route taken by each Local Authority will be specific to them and will likely depend on factors such as local grid capacity, future security of supply, renewable potential and the Local Authorities' ambition. As each Local Authorities' approach may be different WME will be adapting support services to satisfy these new requirements and the changing energy landscape generally.

In 2020/21 Covid-19 is impacting on the volumes consumed as schools only operate to support the children of key workers and certain year groups, and offices sparsely populated as the vast majority of staff work from home. The level of impact on the WME results for 2020/21 will depend on the length and extent of the lockdown period. This area is being closely monitored by WME management both for 2020/21 and as well as the longer term impact as the consumption patterns of some customers are likely to change.

With regards Brexit it remains very difficult to forecast the outcome. To some extent it has ceased to be a factor impacting on the energy markets, particularly in light of the effects of covid-19, and whilst Brexit will become more of a factor as we approach the end of the year, it is likely to be one of several ongoing issues which will add volatility to the markets. The extent to which Brexit influences the market continues to be mainly dependent on the degree to which market access and energy interconnectivity is maintained between the UK and the EU in a post-Brexit scenario. Energy market prices will continue to be the key factor affecting the level of turnover and net result of WME in the future, and the potential impact of Brexit on the markets will continue to be assessed.

Energy market prices will continue to be a key factor affecting the level of turnover and net result of WME in the future. The capped prices set for 2020/21 in March reflect lower commodity prices secured as a result of falling market prices from late 2019.

The pension liability was retained fully following the sale of the stationery division in 2012. The liability as at 31st March 2020 was £6.928 million, an increase of £0.119 million, from £6.809 million as at 31st March 2019. Given the extent this pension liability dominates the balance sheet of the Joint Committee it has been agreed that from 1st April 2020 this liability will transfer to a new Joint Committee which deals solely with this.

Further Information

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

James Walton, S151 Officer
Shropshire Council
Shirehall
Abbey Foregate
Shrewsbury
Shropshire
SY2 6ND
Tel 0345 678 9000

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 2020.

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

In accordance with the Accounts and Audit (England) Regulations 2015 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 2020 and its income and expenditure for the year ended 31 March 2020.

James Walton
Director of Finance Governance and Assurance of Shropshire Council
Treasurer to West Mercia Energy Joint Committee

Joint Committee Approval

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the West Mercia Energy Joint Committee approved the Statement of Accounts for the year ended 31 March 2020.

Cllr Adrian Hardman
Chairman of the
West Mercia Energy Joint Committee

Date:

MOVEMENT IN RESERVES STATEMENT

AS AT 31 MARCH 2020

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 2019	**1,421**	**-6,971**	**1**	**-5,549**
Total comprehensive income & expenditure	379	-	-	**379**
Transfer to/from Reserves	-56	43	13	**-**
Increase/decrease in year	323	43	13	379
Balance at 31 March 2020	**1,744**	**-6,928**	**14**	**-5,170**

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 2019

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 20	Note 21	
	£000	£000	£000	£000
Balance at 31 March 2018	**1,473**	**-6,372**	**2**	**-4,897**
Total comprehensive income & expenditure	-652	-	-	**-652**
Transfer to/from Reserves	600	-599	-1	**-**
Increase/decrease in year	-52	-599	-1	-652
Balance at 31 March 2019	**1,421**	**-6,971**	**1**	**-5,549**

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

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

	Notes	2019/20	2018/19
		£000	**£000**
INCOME			
Turnover	**6**	-70,246	-66,277
Less cost of goods sold		68,876	65,169
Gross profit		-1,370	-1,108
Other trading operation income		-717	-647
Gross Profit		**-2,087**	**-1,755**
OPERATING EXPENSES			
Employees	**8**	811	761
Pension impact (IAS19)	**18**	-3	-99
Premises		35	36
Supplies & services		97	90
Central departmental & technical support		118	106
Provision for bad debts		22	2
Depreciation		4	2
Total Operating Expenses		**1,084**	**898**
SURPLUS OF SERVICES		**-1,003**	**-857**
Financing and investment income and expenditure	**7**	123	125
NET OPERATING SURPLUS		**-880**	**-732**
Distribution to Member Authorities		704	843
NET PROFIT / LOSS FOR THE YEAR		**-176**	**111**
OTHER COMPREHENSIVE INCOME & EXPENDITURE			
Remeasurements (Liabilities & Assets)	**18**	-203	541
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE		**-379**	**652**

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

BALANCE SHEET
AS AT 31 MARCH 2020

The Balance Sheet shows the value as at the Balance Sheet date of the asset 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 2019 £000		31 March 2020 £000	
1	Plant & equipment	14	**12**
1	**Long term assets**	**14**	
10,509	Short term debtors	11,794	**15**
5,801	Cash and cash equivalents	7,371	**16**
16,310	**Current assets**	**19,165**	
-15,051	Short term creditors	-17,421	**17**
-15,051	**Current liabilities**	**-17,421**	
1,259	**Net current assets**	**1,744**	
-6,809	Other long term liabilities	-6,928	**18**
-6,809	**Long term liabilities**	**-6,928**	
-5,549	**Net liabilities**	**-5,170**	
	Financed by:		
1,421	General fund	1,744	
-6,971	Pensions reserve	-6,928	
1	Joint committee capital adjustment account	14	
-5,549	**Total reserves**	**-5,170**	**19**

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

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.

2018/19		2019/20		
£000		**£000**	**£000**	**Notes**
	Operating activities			
	<u>Cash outflows</u>			
601	Cash paid to and on behalf of employees	640		
234	Other operating costs	272		
63,079	Cost of goods sold	66,515		
63,914			67,427	
	<u>Cash inflows</u>			
-67,225	Turnover	-68,961		
-647	Other trading operation income	-717		
-67,872			-69,678	
-3,958	**Net cash inflow from operating activities**		-2,251	**22.1**
-31	**Investing activities**		-23	**22.2**
843	**Financing activities**		704	**22.3**
-3,146	**Net decrease (increase) in cash and cash equivalents**		**-1,570**	**22.4**
2,655	Cash and cash equivalents at 1st April		5,801	
5,801	**Cash and cash equivalents at 31st March**		**7,371**	**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 2019/20 summarises the Joint Committee’s transactions for the 2019/20 financial year and its position at 31 March 2020. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (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 for example the Comprehensive Income and Expenditure Statement layout 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. The Joint Committee has prepared an annual Statement of Accounts in line with the Accounts and Audit (England) Regulations 2015.

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 the foreseeable future. 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 31st March 2021.

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

Where the carrying amount of an item of plant and equipment is decreased as a result of a revaluation, ie a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment), the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (ie up to its historical cost) and thereafter charged to the Net Surplus or Deficit for the Year.

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.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter charged to the Net Surplus or Deficit for the Year.

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 <u>Financial Liabilities</u>

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 2020/21.

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
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 2.3% (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.

At the point of sale of the West Mercia Supplies (WMS) stationery division in 2012 the existing pension deficit relating to the former WMS staff was retained within the continuing West Mercia Energy business. By 30th April 2020 the four member authorities had approved to allocate the pension deficit liability in relation to former WMS employees to a new employer within the Shropshire County Pension Fund called WMS Pension from 1st April 2020. The effect of this will be a transfer of £6.928m net pension liability to WMS Pension. This policy change is considered as a non adjusting event after the reporting period and so the figures in the Statement of Accounts have not been amended to reflect this.

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

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 2019/20 Code:

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

Annual improvements to IFRS Standards 2015 – 2017 cycle

Amendments to IAS 19 Employee Benefits: Pan Amendment, Curtailment or settlement

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.

IFRS 15 has been considered and there is not considered to be a significant impact on the Accounts.

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.

	2019/20				
	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	785	45	830		830
Services/Support services	112	-62	50	-39	11
Net cost of Services	897	-17	880	-39	841
Other Income and Expenditure			203		203
Distribution of Surplus to Member Authorities			-704		-704
Surplus or (Deficit)			379	-39	340
Opening General Fund					1,421
Capital Purchases funded from General Fund					-17
Add Surplus on General Fund					340
Closing General Fund					**1,744**

	2018/19				
	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	955	67	1,022		1,022
Services/Support services	-244	-46	-290	601	311
Net cost of Services	711	21	732	601	1,333
Other Income and Expenditure			-541		-541
Distribution of Surplus to Member Authorities			-843		-843
Surplus or (Deficit)			-652	601	-51
Opening General Fund					1,473
Capital Purchases funded from General Fund					-1
Less Deficit on General Fund					-51
Closing General Fund					**1,421**

4a. Note to the expenditure and funding analysis

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

	2019/20			
	Adjustments for Capital Purposes	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Net Cost of Services	4	-43		-39
Other income and expenditure from the Expenditure and Funding Analysis		203		203
Capital Purchases funded from General Fund	-17			-17
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	-13	160	-	147

	2018/19			
	Adjustments for Capital Purposes	**Net change for the Pensions Adjustments**	**Other Differences**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**
Net Cost of Services	2	599		601
Other income and expenditure from the Expenditure and Funding Analysis		-541		-541
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	1	58	-	59

4b. Analysis of income and expenditure by nature

Income received on a segmental basis is analysed below:

	2019/20 Income from Services	2018/19 Income from Services
	£000	**£000**
Energy Sales	69,443	65,949
Other Income	803	328
Total income analysed on a segmental basis	70,246	66,277

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 2020 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 £445,000. However the assumptions interact in complex ways. During 2019/20 the actuaries advised that the net pensions liability had decreased by £43,000.

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.

	2019/20	2018/19
	£000	**£000**
Pensions interest cost and expected return on pensions	163	157
Interest receivable and similar income	-40	-32
Total	**123**	**125**

8. Staff Remuneration

In 2019/20 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2019/20	2018/19
£ 65,000 to £ 69,999	-	1
£ 70,000 to £ 74,999	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 £64,999 so the staff remuneration table above has been adjusted accordingly.

Disclosure of Remuneration for Senior Employees

2019/20

Post Title	**Salary** (inc fees & allowances) **£**	**Bonuses** (PRP) **£**	**Pension Contributions** **£**	**Total Remuneration** (inc pension contribution) **£**
Director	65,616	4,461	7,568	77,645
	65,616	**4,461**	**7,568**	**77,645**

2018/19

Post Title	**Salary** (inc fees & allowances) **£**	**Bonuses** (PRP) **£**	**Pension Contributions** **£**	**Total Remuneration** (inc pension contribution) **£**
Director	64,328	4,132	7,394	75,854
	64,328	**4,132**	**7,394**	**75,854**

There are no compulsory redundancies or staff members receiving exit packages in 2019/20 or 2018/19.

9. Audit Costs

During 2019/20 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2019/20 **£000**	**2018/19** **£000**
Fees payable to External Auditors with regard to external audit services	14	14

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). The wife of 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:

	2019/20	2018/19
	£000	£000
Herefordshire Council	1,802	1,711
Shropshire Council	3,715	3,467
Telford & Wrekin Council	3,060	3,205
Worcestershire County Council	5,822	5,727

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

	2019/20	2018/19
	£000	£000
Human Resources Support Services	2	1
Payroll Services	1	1
Treasury Services	5	4
Committee Services	6	6
Financial Advice	14	13
Internal Audit	10	11
ICT support	10	9
Legal Services	6	8
Procurement	7	6

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

	2019/20	**2018/19**
	£000	**£000**
ICT support	3	10

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 in 2019/20 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:

	2019/20	**2018/19**
	£000	**£000**
Net Profit for the Year – Per Comprehensive Income and Expenditure Statement	-176	111
Profit Related Pay	-69	-36
Distribution of Surplus Member Authorities	-704	-843
Pensions Movement included in Operating Expenses	-160	-58
Net Surplus for PRP/Distribution Purposes	**-1,109**	**-826**

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

These statements include distribution from the General Fund to Member Authorities of £0.704 million. This payment distributes part of the General Fund brought forward at the end of year 2018/19 between Member Authorities in accordance with the formula determined in the Joint Agreement.

12. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2019/20 £000	Plant, Equipment and Motor Vehicles 2018/19 £000
Cost / Valuation		
As at 1 April	76	75
Additions	17	1
Disposals	-14	-
As at 31 March	79	76
Accumulated Depreciation		
As at 1 April	75	73
Charge	4	2
Relating to disposals	-14	-
As at 31 March	65	75
Net Book Value		
As at 31 March 2020	**14**	**1**
As at 31 March 2019	1	2

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 2020.

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			
	31-3-20	31-3-19	31-3-20	31-3-19	31-3-20	31-3-19	31-3-20	31-3-19	31-3-20	31-3-19
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fair Value through profit or loss										
Long term Equity Instruments	-	-	-	-	-	-	-	-	-	-
Amortised Cost										
Debtors	-	-	-	-	-	-	11,786	10,509	11,786	10,509
Cash & Cash Equivalents	-	-	-	-	-	-	7,371	5,801	7,371	5,801
Total Financial Assets	-	-	-	-	-	-	19,157	16,310	19,157	16,310
Non- Financial Assets	-	-	-	-	-	-	8	-	8	-
Total	-	-	-	-	-	-	19,165	16,310	19,165	16,310

Financial Liabilities

	Long Term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-3-20 £'000	31-3-19 £'000	31-3-20 £'000	31-3-19 £'000	31-3-20 £'000	31-3-19 £'000	31-3-20 £'000	31-3-19 £'000	31-3-20 £'000	31-3-19 £'000
Amortised Cost										
Principal	-	-	-	-	-	-	17,421	15,007	17,421	15,007
Loans Accrued interest	-	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
Total Financial Liabilities							17,421	15,007	17,421	15,007
Non- Financial Liabilities	-	-	-	-	-	-	-	44	-	44
Total	-	-	-	-	-	-	17,421	15,051	17,421	15,051

Income, Expense, Gains and Losses

	2019/20					2018/19				
	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	-	40	-	-	40	-	32	-	-	32
Total income in Surplus or Deficit on the Provision of Services	-	40	-	-	40	-	32	-	-	32
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
Net gain for the year	-	40	-	-	40	-	32	-	-	32

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 has been negligible, being less than 0.01% of turnover for each of the three financial years to 2018/19. However, for 2019/20 concerns of the effect of coronavirus has led to an increase in expected levels of bad debt, although still negligible at 0.03% of turnover for 2019/20.

The Joint committee generally allows its customers 28 days credit. Of the £11.794m outstanding (2018/19 - £10,509) from Customers £0.264m (2018/19 - £0.838m) is past its due date for payment. The amount past due date is analysed by age as follows:

	2019/20 £'000	2018/19 £'000
Less than 3 months overdue	291	862
3 to 6 months overdue	-8	-3
6 months to 1 year overdue	-4	-9
More than 1 year overdue	-15	-12
Total income	264	838

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 2020 £000	31 March 2019 £000
Member Authorities	1,841	1,467
Other Local Authorities	8,747	9,023
Bodies external to general government	1,206	19
	11,794	**10,509**

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

	31 March 2020 £000	31 March 2019 £000
Herefordshire Council	216	214
Shropshire Council	772	369
Telford & Wrekin Council	296	324
Worcestershire County Council	557	560
	1,841	**1,467**

16. Cash and Cash Equivalents

	Opening Balance 1st April 2019	Movement During the Year	Closing Balance 31st March 2020
	£000	**£000**	**£000**
Bank current accounts	**5,801**	**1,570**	**7,371**

17. Short Term Creditors

	31 March 2020 £000	31 March 2019 £000
Member Authorities	473	394
Other Local Authorities	2,220	1,245
Bodies external to general government	14,728	13,412
	17,421	**15,051**

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, following the legal process and feedback from auditors it has been suggested that some allowance is built into the accounting figures.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2019/20.

Comprehensive Income & Expenditure Statement	**2019/20 £000**	**2018/19 £000**
Operating Expense (Employees):		
• Current Service Cost	149	127
• Past Service Cost	85	-
• Administration Expenses	3	3
• Employers Contributions	-240	-229
Pension Impact (IAS19)	-3	-99
Financing and Investment Income and Expenditure**:**		
• Net Interest Cost	163	157
Total Post-employment benefits contained within Net Operating Surplus	**160**	**58**
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)	870	-308
Actuarial (gains) and losses arising on changes in Financial assumptions	-1,073	849
Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure	**-203**	**541**
Net charge to Comprehensive Income & Expenditure Statement	**-43**	**599**

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:	2019/20 £000	2018/19 £000
Reversal of net charges made for retirement benefits in accordance with IAS19	-400	-287
Actual Amount Charged against the General Fund Balance for Pensions in the Year:		
• Employers contributions payable to the Scheme	240	229
Remeasurement of the net defined liabilities	203	-541
Movement on Pension's Reserve	**43**	**-599**

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;

	2019/20 £000	2018/19 £000
Present Value of the defined benefit obligation	16,273	17,304
Fair Value of plan assets	-9,345	-10,333
Net liability arising from defined benefit obligation	**6,928**	**6,971**

Reconciliation of Pension Reserve to Pension Liabilities

	2019/20 £000	2018/19 £000
Pension Reserve	6,928	6,971
Advance payment of employer contributions	-	-162
Pension Liabilities	**6,928**	**6,809**

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

	2019/20	2018/19
	£000	£000
Opening fair value of scheme assets	-10,333	-9,933
Interest income	-246	-262
Remeasurement gain		
The return on Plan assets	870	-308
Employer contributions	-240	-229
Contributions by scheme participants	-29	-28
Benefits paid	630	424
Administration Expenses	3	3
At 31 March	**-9,345**	**-10,333**

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

	Funded	Liabilities
	2019/20	2018/19
	£000	£000
At 1 April	17,304	16,305
Current Service Cost	149	127
Interest cost	409	419
Contributions by scheme participants	29	28
Past service Cost (gain)	85	-
Remeasurement (Liabilities)		
• Experience (gain)/Loss	-68	-
• Actuarial (gains)/losses on financial assumptions	-237	849
• (Gain)/Loss on demographic assumptions	-768	-
Benefits paid	-630	-424
Lump sum deficit repayment	-	-162
At 31 March	**16,273**	**17,142**

Pension Scheme Assets

	Fair value of Scheme Assets	
	2019/20	2018/19
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	121	659
Cash Total	**121**	**659**
Equity Instruments		
• UK Quoted	450	696
• Global quoted	4,224	4,534
Equity Instruments Total	**4,674**	**5,230**
Bonds		
• Overseas –Global Fixed Income	1,346	770
• Other Class 2 – Absolute return bonds	738	889
Bonds Total	**2,084**	**1,659**
Property		
• Property Funds	401	551
Property Total	**401**	**551**
Private Equity	523	533
Private Equity Total	**523**	**533**
Other Investment Funds		
• Infrastructure	336	392
• Hedge Funds	598	692
• BMO – LDI manager	318	378
• Property debt	140	66
• Insurance Linked Securities	150	173
Other Total	**1,542**	**1,701**
Total assets	**9,345**	**10,333**

All scheme assets have quoted prices in active markets

COVID-19

In March 2020 there have been substantial falls in equity markets around the world in relation to the COVID-19 pandemic. This will have consequences for asset values, and these falls in equity markets will be reflected in the accounting figures. The market falls also extended to corporate bonds resulting in a rise in yields of 0.5% p.a. As the discount rate for accounting purposes is based on the corporate yields, this rise in yields will have caused a reduction in accounting liabilities over March 2020.

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:	**2019/20**	**2018/19**
Longevity at 65 for current pensioners (years):		
Men	22.9	23.2
Women	25	26.4
Longevity at 65 for future pensioners (years):		
Men	24.2	25.4
Women	26.6	28.7
Rate of CPI Inflation	2.1%	2.2%
Rate of Increase in Salaries	3.35%	3.7%
Rate of Increase in Pensions	2.2%	2.3%
Rate for Discounting Scheme Liabilities	2.3%	2.4%

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	**Decrease in assumption**
	£000	**£000**
Longevity (increase or decrease in 1 year)	16,718	15,828
Rate of inflation (increase or decrease by 0.1%)	16,537	16,009
Rate of increase in salaries (increase or decrease by 0.1%)	16,286	16,260
Rate of increase in pensions (increase or decrease by 0.1%)	16,537	16,009
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	16,015	16,531

*The current Defined Benefit Obligation as at 31st March 2020 is £16,273 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 will take 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 £175,000 expected contributions to the scheme in 2020/2021

The weighted average duration of the defined benefit obligation for scheme members is 16 years, 2019/2020 (17 years 2018/2019).

19. Reserves

An analysis of the reserves is shown below:

	Opening Balance 1st April 2019	Contributions		Closing Balance 31st March 2020
		To	From	
	£000	£000	£000	£000
General Fund	1,421	379	-56	1,744
Pensions reserve	-6,971	443	-400	-6,928
Joint Committee capital adjustment account	1	18	-5	14
Total reserves	**-5,549**	**840**	**-461**	**-5,170**

Comparative Analysis in 2018/19

	Opening Balance 1st April 2018 £000	Contributions		Closing Balance 31st March 2019 £000
		To £000	From £000	
General Fund	1,473	600	-652	1,421
Pensions reserve	-6,372	374	-973	-6,971
Joint Committee capital adjustment account	2	1	-2	1
Total reserves	**-4,897**	**975**	**-1,627**	**-5,549**

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.

	2019/20 £000	2018/19 £000
Opening Balance at 1 April	-6,971	-6,372
Remeasurement (Liabilities & Assets)	203	-541
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	-400	-287
Employer's pensions contributions & direct payments to pensioners payable in the year	240	229
Closing Balance at 31 March	**-6,928**	**-6,971**

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 2020 £000	**31 March 2019 £000**
Opening balance at 1 April	1	2
Fixed assets purchased from revenue resources	17	1
Depreciation of fixed assets	-4	-2
Closing Balance at 31 March	**14**	**1**

22. Note to the Cash Flow Statement

22.1 Reconciliation of Income and Expenditure Statement to Net Cashflow

2018/19 £000		2019/20 £000
732	**Net Operating Surplus on Comprehensive I&E Statement**	880
	Adjust net surplus on the provision of services for non cash movements	
2	Depreciation	4
221	Movements on Pension	322
948	(Increase) / decrease in debtors	-1,285
2,087	Increase / (decrease) in creditors	2,370
	Adjust for items included in the net surplus on the provision of services	
-32	Interest and investment income	-40
3,958	**Net cash inflow from operating activities**	**2,251**

22.2 Cash Flow Statement – Investing Activities

	31 March 2020 £000	31 March 2019 £000
Interest and investment income	-40	-32
Purchase of plant and equipment	17	1
TOTAL	**-23**	**-31**

22.3 Cash Flow Statement – Financing Activities

	31 March 2020 £000	31 March 2019 £000
Distribution to Member Authorities	704	843
TOTAL	**704**	**843**

22.4 Movement in Cash and Cash Equivalents

	Balance 31/03/19 £000	Balance 31/03/20 £000	Movement In Year £000
Cash in hand	5,801	7,371	1,570

23. Purchase of Non-current Assets

Non-current assets to the value of £17,000 relating to office equipment and motor vehicles were financed from the General Fund Balance in 2019/20 (£1,000 2018/19).

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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WEST MERCIA ENERGY JOINT COMMITTEE

ANNUAL GOVERNANCE STATEMENT 2019/20

Scope of Responsibility

West Mercia Energy Joint Committee (Joint Committee) is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The Joint Committee also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness

In discharging this overall responsibility, the Joint Committee is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the organisation’s functions and which includes arrangements for the management of risk.

The Joint Committee has an interlocking set of documents, protocols and procedures that provide assurance in corporate governance matters which are consistent with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework and guidance notes (2016), and CIPFA, The Role of the Chief Financial Officer in Local Government (2015) and meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of an Annual Governance Statement.

Due to the Coronavirus pandemic, the Accounts and Audit (Amendment) Regulation 2020 was passed to amend the dates by which the Statement of Accounts must be approved and published.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture values, by which the Joint Committee is directed and controlled and reviews how its activities contribute to the strategic objectives of the Member Authorities. It enables the Joint Committee to monitor the achievement of its own strategic objectives and to consider whether those objectives have led to the delivery of the intended outcomes as set out in the Business Plan.

The system of internal control is designed to manage risk to a reasonable level and is not intended to eliminate all risk of failure to achieve policies, aims and objectives completely. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is designed to identify and prioritise the risks to the achievement of the Joint Committee policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

It is kept under continual review and changes are made to accommodate a changing risk profile when and where necessary. The Joint Committee seeks to maintain sound systems to protect against risks and mitigate their impact upon the organisation. The systems are constantly being reviewed and updated. Risks in this policy relate to the whole organisation and not just trading risks which inevitably form the largest sector of risk.

The Governance Framework

The business is operated under the authority of a Joint Committee formed under the Local Government Act 1972, the Member Authorities being Shropshire Council, Herefordshire Council, Worcestershire County Council and Telford & Wrekin Council. A Joint Agreement between those Member Authorities determines the governance arrangements.

The Joint Committee is the elected Member body responsible for the discharge of the functions of the Member Authorities. The Joint Agreement determines a number of strategic policies that shall be maintained and provides Financial Regulations for the business. It operates under a system of Standing Orders, an annual business plan (including budget) and strategic policies. Many of the strategic policies are modelled on those adopted by Shropshire Council. All delegation and authority levels relating to the business are outlined in the West Mercia Energy Scheme of Delegation.

Shropshire Council acts as the Lead Authority and employs staff and holds property employed on behalf of the Member Authorities. A Secretary and a Treasurer to the Joint Committee are appointed from the Officers of the Member Authorities. A Director, appointed by the Joint Committee, operates and manages the business on a day to day basis.

From June 2013 to reflect the size of the organisation and simplify the governance arrangements appropriate to risk, the duties of the Audit Committee transferred to the Joint Committee. These duties include review of the financial and performance reporting of the organisation, the adequacy of the internal control, governance and risk management framework and considering any issues arising from the auditing of the organisation either by Internal or External Audit.

Objectives, targets and performance measures are set in an Annual Business Plan which reflects the outcome of external and customer consultation, analysis of current and future needs and consideration of current performance.

Members, officers and staff behaviours are governed by Codes of Conduct, which include a requirement for declarations of interest to be completed by Members and senior officers annually. Registers of interests of Members are maintained by their own councils.

Key decisions are made by the Joint Committee based on written reports which may include assessments of legal and financial implications, consideration of risks and how these will be managed. Other day to day decisions are made by officers, which were referred to the Director as appropriate.

Risk Management procedures are formalised within the Risk Management Strategy, which is reviewed on an annual basis. The Business Continuity Plan is reviewed on an annual basis.

Review of Effectiveness

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.

Internal Audit

2019/20 Audit programme
Five audits were performed during the year. Four good assurance opinions were given for the finance, debtors, procurement, corporate governance and risk management systems and one limited assurance on the IT system. A total of twenty one recommendations have been made over the five audit areas reviewed in the year. There are no fundamental recommendations and the five significant recommendations, identified in the IT audit review, covered improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. A management action plan is in place to address these issues within an agreed timeframe

Based on the work undertaken and management responses received; the organisation's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a reasonable year end opinion on West Mercia Energy's internal control environment for 2019/20.

Significant Governance Issues

No significant governance issues were highlighted during 2019/20.

Key Risks

Management review the risk profile of the business on a continual basis and reports highlighting all risks rated medium and high are presented to the Joint Committee at each meeting. There were no high risks in respect of 2019/20.

The COVID 19 Pandemic has resulted in the business, implementing business continuity plans to ensure that services continued to be delivered to customers without interuption. The Director will continue to monitor the position, in line with Government advice. Appropriate updates will be presented to the Joint Committee as required and changes implemented to the internal control processes as appropriate.

The impact of Brexit on market conditions continues to be kept under review by the Director during the financial year and with the transition arrangements due to end on the 31st December 2020 the position will continue to be monitored during the new financial year, with appropriate updates presented to the Joint Committee and changes implemented to the internal control processes as appropriate.

The position in respect of the historic pension fund deficit has been addressed within the financial year and papers presented to the four owning authorities to allow them to consider removing this from the West Mercia Energy balance sheet for the next financial year. This has no impact on the accounts for 2019/20 and will be kept under review.

Certification

To the best of our knowledge, the governance arrangements as defined above have been operating effectively during the year. Steps will be taken over the coming year to resolve the governance arrangements as highlighted above. Any improvements implemented shall be monitored as part of the next annual review.

Treasurer: ………………………………………….
(James Walton)

Chairman of the
West Mercia Energy Joint Committee: ………………………………………….
(Cllr Adrian Hardman)

Agenda Item 7

WEST MERCIA ENERGY

Committee and Date

West Mercia Energy Joint Committee

29th September 2020

Item

7

Public

EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2019/20

Responsible Officer Nigel Evans
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1. Summary

1.1 Grant Thornton, the Joint Committee's external auditors, have substantially completed their audit work regarding the financial statements of the Joint Committee for the year ended 31st March 2020 and this report enables them to present their audit findings to the Joint Committee.

2. Recommendations

2.1 The Joint Committee are asked to consider and endorse, with appropriate comment, the contents of the audit findings report presented by Grant Thornton.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Grant Thornton's audit work was conducted in accordance with the International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 At the Joint Committee of 28 September 2015, it was highlighted that from 1st April 2015 implementation of the Local Audit and Accountability Act 2014 meant that joint committees are no longer required to have their accounts separately prepared and audited. At this Joint Committee it was agreed to continue with an annual external audit in order to provide the Joint Committee with the necessary continued assurance regarding stewardship of funds.

5.2 Grant Thornton presented their audit plan for 2019/20 to the February Joint Committee which was considered and endorsed.

5.3 Grant Thornton have substantially completed their audit work of the WME financial statements and subject to the outstanding areas which they need to cover (as outlined on page five of their report), they anticipate issuing an unqualified audit opinion following this Joint Committee meeting.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Joint Committee 25th February 2020 – External Audit, Audit Plan 2019/20 Joint Committee 28th September 2015 – Local Audit and Accountability Act
Member Councillor A Hardman of Worcestershire County Council (chair of the Joint Committee)
Appendices Grant Thornton, The Audit Findings for West Mercia Energy Year Ended 31 March 2020

Grant Thornton

Audit Findings

Year ending 31 March 2020

West Mercia Energy
29 September 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the audit of West Mercia Energy (‘the Joint Committee’) and the preparation of the Joint Committee's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we report whether, in our opinion: • the Joint Committee's financial statements give a true and fair view of the Joint Committee’s financial position and Joint Committee’s expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We also report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely in August and September and is substantially complete (see page 5). We have not identified any adjustments to the financial statements that have resulted in an impact on the Statement of Comprehensive Income and Expenditure. We anticipate issuing an unqualified audit opinion following the Joint Committee meeting on 29 September 2020, and receipt of the management representation letter. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Joint Committee, principally around the requirements to work remotely in addition to significant changes to the profile of energy use by WME’s clients and related additional forecasting. Both finance and the audit team also faced difficulties around access to systems and planning for the possibility of reduced capacity due to staff sickness.	We updated our audit risk assessment to consider the impact of the pandemic on our audit, resulting in an additional financial statements level significant risk being designated in respect of Covid 19. Further detail is set out on page 6. Draft financial statements were provided to the audit team on 27 July 2020 as agreed. Restrictions for non-essential travel and social distancing meant both WME staff and the audit team had to adapt to working entirely remotely. There were particular challenges this year in areas such as physical verification of assets, completion of ‘walkthrough’ testing and observation of the production of reports such as the Trial Balance and Journals report. WME staff and the audit team used video calling and screen sharing technology to overcome these challenges.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit and in particular the positive way they have supported us working remotely.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice (‘the Code’). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Joint Committee's business and is risk based. It included:

- An evaluation of the Joint Committee's internal controls environment including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- An additional Financial Statement level significant risk in relation to the impact of the pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved (outlined at the Status of the Audit slide overleaf), we anticipate issuing an unqualified audit opinion following the Joint Committee meeting on 29 September 2020.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality has been adjusted on receipt of the 2019/20 draft accounts. We detail in the table below our assessment of materiality for West Mercia Energy.

	Joint Committee Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,400k	2% of turnover (approximately) • User expectation, prior year measures, entity concept of materiality, risk
Performance materiality	1,050k	75% of headline materiality • Experience of misstatement, business activities, accounting systems, people, controls, fraud risks
Trivial matters	70k	5% of headline materiality in line with ISAs
Materiality for specific transactions, balances or disclosures	50k	Remuneration disclosures • Materiality has been reduced due to sensitive nature and public interest in these disclosures

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- 🟢 Receipt of assurance from the auditors of Shropshire County Pension Fund in relation to the IAS 19 disclosures.
- 🟢 Completion of audit testing including receipt of bank confirmations requested and documentation of debtor and creditor sample testing .
- 🟢 Receipt of signed management representation letter.
- 🟢 Review of final set of draft financial statements and resolution of review points following engagement lead final review.

Status

- 🔴 Likely to result in material adjustment or significant change to disclosures within the financial statements
- 🟠 Potential to result in material adjustment or significant change to disclosures within the financial statements
- 🟢 Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

Significant audit risks

	Risks identified in our Audit Plan	Auditor commentary
❶	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. For West Mercia Energy, we have concluded that the greatest risk of material misstatement relates to the occurrence of utility income	We have undertaken the following work in relation to this risk: – reviewed and tested revenue recognition policies; – evaluated design and tested operating effectiveness of controls around revenue recognition; and – analytical review and substantive testing of income transactions. As a result of audit procedures performed, we have not identified any issues in relation to improper revenue recognition
❷	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	We have undertaken the following work in relation to this risk: – evaluated design effectiveness of management controls over journals; – analysed the journals listing and determined the criteria for selecting high risk, unusual journals; – tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; and – gained an understanding of the accounting estimates and critical judgments applied made by management and considered their reasonableness with regard to corroborative evidence. As a result of audit procedures performed, we have not identified any issues in relation to management override of controls.
❸	**Covid– 19** Following the outbreak of Covid 19 and subsequent lockdown restrictions in March 2020, we designated an additional financial statement level significant risk in respect of the pandemic and its impact on global market conditions (in particular in relation to the LGPS liability calculation) and control and governance issues associated with remote working.	We have undertaken the following work in relation to this risk : – worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations (no changes were made to materiality levels previously reported); – evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; – evaluated whether sufficient audit evidence could be obtained through remote technology; – evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; and – evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment We have not identified any material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.

Significant audit risks (continued)

	Risks identified in our Audit Plan	Auditor commentary
④	**Valuation of pension fund net liability** The Joint Committee's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration	We have undertaken the following work in relation to this risk: – updated our understanding of the processes and controls in place to ensure that the pension fund net liability is not materially misstated and evaluated the design of associated controls; – evaluated the instructions issued by management of the information provided to the actuary to estimate the net pension liability; – assessed the competence, capabilities and objectivity of the actuary; – assessed the accuracy and completeness of the information provided to the actuary to estimate the net pension liability; – tested the consistency of the pension fund assets and liabilities and disclosures in the financial statements with the actuarial report; and – undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary and performing any additional procedures suggested within the report; As a result of audit procedures performed, we have not identified any issues in relation to the valuation of the pension fund net liability. Our conclusion is subject to assurances from the auditor of Shropshire County Pension Fund as to the control surrounding the validity and accuracy of membership data, contributions data and the benefits data sent to the actuary by the pension fund, and the assets valuation in the pension fund financial statements.
	Going concern disclosures WME is dependent on being able to trade on favourable terms within the existing energy market. There are heightened risks for trading die to Brexit outcomes uncertainties. We therefore identified the adequacy of disclosures relating to going concern in the financial statements as a significant risk at the planning stage.	We have undertaken the following work in relation to this risk: During the planning stage of the audit we were concerned about the potential impact of on access to energy markets and currency fluctuations of a ‘no deal’ Brexit. Following this, the Covid19 pandemic created additional pressures in relation to reduced energy usage at client sites following the imposition of lockdown restrictions and the possibility of a worsening economic outlook leading to an unwillingness to continue the arrangement on the part of the owners. The results of our work in this area are set out overleaf. We have no concerns to report about the Joint Committee adopting the going concern concept for its 2019/20 financial statements.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management have undertaken the following process in order to determine the applicability of the going concern assumption: • Produced a detailed business plan for the 2020/21 period • Obtained joint agreements between owning authorities • Produced long term cash flow forecasts	Management have concluded that West Mercia Energy is a going concern and as such, the financial statements have been prepared on this basis.
Work performed • Consideration of factors and events which may be indicative of a going concern issue or cast significant doubt over an entity’s ability to continue as a going concern • Review of management’s supporting documents as stated above to understand whether assumptions used are reasonable • Inquiries of key management personnel	There are no factors that we are aware of which we consider would cast significant doubt over West Mercia Energy’s ability to continue as a going concern. We considered three key risks to the going concern assumption. - Maintaining cash liquidity for foreseeable future - The potential impact of a ‘no deal’ Brexit on energy markets and West Mercia Energy’s business model - The withdrawal of one or more member authorities from the Joint Committee Management assumptions in relation to cash flow, which is the key driver in ensuring solvency, appear reasonable. The assessment provided extends to 12 months following the date of anticipated audit opinion. The possibility of a ‘no deal’ Brexit does not appear to present a fundamental threat to West Mercia Energy’s financial viability. It is reasonable to conclude at this time that the major driver of the future success of West Mercia Energy will be the impact of supply and demand on market prices, with Brexit being one of a number of factors impacting that. To date West Mercia Energy has provided a net financial contribution to the Joint Committee member authorities. It appears unlikely that West Mercia Energy will become unprofitable due to the impact of Brexit or Covid19 and it has large contracts secured for 2022 and 2023. No member authorities have given notice of intention to leave to Joint Committee.
Concluding comments	Overall, we are satisfied that the preparation of the financial statements using the going concern principal is reasonable. Our conclusion is based on the assumption that the four member organisations of the Joint Committee will continue the current arrangement and to support WME for at least the next 12 months.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £6.809m	The Joint Committee's net pension liability at 31 March 2020 is £6.928m (PY £6.809mm) comprising the Shropshire County Pension Fund Local Government and unfunded defined benefit pension scheme obligations. The Joint Committee uses Mercer to provide actuarial valuations of the Joint Committee's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. As at the time of writing, we await receipt of assurance from the auditors of Shropshire Pension Fund in relation to information supplied to the Actuary for the purposes of the triennial valuation. Our opinion will be subject to receipt of this assurance.	See below	● (subject to Pension Fund auditor response)

Audit Comments

We have

- Undertaken an assessment of management's expert
- Reviewed and assessed the actuary's roll forward approach taken,
- Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3% – 2.4%	●
Pension increase rate	2.2%	2.1%	●
Salary growth	3.35%	Employer specific Long term: 3.35% - 3.6%	●
Life expectancy – Males currently aged 45 / 65	24.2/ 22.9	22.5 – 24.7 / 20.9 – 23.2	●
Life expectancy – Females currently aged 45 / 65	26.6 / 25	25.9 – 27.7/ 24 – 25.8	●

Reviewed

- the completeness and accuracy of the underlying information used to determine the estimate
- Impact of any changes to valuation method
- Reasonableness of the Authority's share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue and capital transactions are accounted for on an accruals basis. This means that all revenue income is recorded when the debt has been established rather than when money has been received.	• The policy is appropriate under the relevant accounting framework, IFRS. • Extent of judgement involved is low, and the range of possible outcomes and potential financial statement impact of different accounting policy choices would be minimal • Disclosure of the accounting policy in the notes to the financial statements is adequate • Accounting policy is reasonable when compared to peers and industry practice	● Green
Judgements and estimates	• Key estimates and judgements include: – Accruals – Valuation of pension fund net liability	• The accounting policies for areas of key estimate and judgement are adequately disclosed and appropriate under the relevant accounting framework, IFRS. • Testing performed in relation to accruals has not identified any issues, we consider management procedures for calculation liabilities to be appropriate • The extent of management judgment involved in the calculation of the net defined benefit obligation associated with the LGPS is minimal. Reliance is placed on actuarial experts of which we have corroborated and found to be reasonable • Please note, we await responses from the auditors of Shropshire Pension Fund in relation to data supplied to the Actuary for the purposes of the triennial valuation prior to being able to issue assurance over the estimate and accounts.	● Amber (work in progress)
Other critical policies		• We have reviewed the Joint Committee's policies against the requirements of the CIPFA Code of Practice. The Joint Committee's accounting policies are appropriate and consistent with previous years.	● Green

Assessment

●	Marginal accounting policy which could potentially be open to challenge by regulators
●	Accounting policy appropriate but scope for improved disclosure
●	Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Joint Committee. We have not been made aware of any incidents of material fraud in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Joint Committee, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to entities with which the Joint Committee holds cash. This permission was granted and the requests were sent and information obtained as required.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of West Mercia Energy Joint Committee in the audit opinion.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council’s Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office’s Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

No non-audit services have been provided to the Joint Committee.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted/ unadjusted misstatements

As a result of audit procedures undertaken, we have not identified any misstatements for adjustment.

Misclassification and disclosure changes

- The draft accounts included 30 years as the weighted average duration of the defined benefit obligation for scheme members. The assumption disclosed as adopted for WME is outside the range used by the actuary that PwC has concluded is reasonable. On undertaking further work to corroborate the duration stated, we identified that the 30 years reflects the workforce and profile after the transfer of WMS. The stated assumption was adjusted to 16 years, which is in keeping with the combined WME and WMS employer positions.

- We also noted a smaller number of trivial disclosure and clerical issues which were amended by the Finance team within the final set of financial statements.

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee
Joint Committee audit	£14,250	£14,250
Total audit fees (excluding VAT)	**£14,250**	**£14,250**

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Committee and Date West Mercia Energy Joint Committee 29th September 2020	Item 8 Public

WEST MERCIA ENERGY
INTERNAL AUDIT ANNUAL REPORT 2019/20

Responsible Officer Ceri Pilawski
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1. Summary

1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2020. It reports on progress against the annual audit plan and provides the Head of Audit's opinion on the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes when considering the Public Sector Internal Audit Standards or Guidance, as required by the Accounts and Audit Regulations 2015.

1.2 Final performance has been good with 100% of the plan being delivered.

1.3 Four good assurance opinions were given in 2019/20 for the finance, debtors, procurement, corporate governance and risk management systems and one limited assurance on the IT system. A total of 21 recommendations have been made over the five audit areas reviewed in the year. There are no fundamental recommendations and the five significant recommendations, identified in the IT audit review, covered improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. A management action plan is in place to address these issues within an agreed timeframe.

1.4 ***Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a reasonable year end opinion on West Mercia Energy's internal control environment for 2019/20.***

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

a) Performance against the Audit Plan for the year ended 31 March 2020.

b) That the system of governance, risk management and internal control is operating effectively and can be relied upon when considering the Annual Governance Statement for 2019/20.

c) The Head of Audit's reasonable year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2019/20 based on the work undertaken and management responses received.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Company's financial, governance and risk management systems and procedures and is closely aligned to the Company's risk register. The Plan is delivered in an effective manner; where Internal Audit independently and objectively examines, evaluates and reports on the adequacy of its customers control environments as a contribution to the proper, economic, efficient and effective use of resources. Failure to maintain robust internal controls create an environment where poor performance, fraud, irregularity and inefficiency can go undetected leading to financial loss and reputational damage.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.

3.3 There are no direct environmental, equalities or climate change consequences of this proposal.

3.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

4. Financial Implications

The Internal Audit plan is delivered within approved budgets; the work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the Company.

5 Background

This report is the culmination of the work of the Internal Audit team during 2019/20 and seeks to:

5.1 Provide an opinion on the adequacy of the risk management, control and governance arrangements;

5.2 Inform the annual review of the effectiveness of its system of internal control that informs the Annual Governance Statement by commenting on the nature and extent of significant risks; and

5.3 Inform the review of an effective Internal Audit by providing performance data against the plan.

5.4 Confirm to the Joint Committee that the Audit service has been delivered free from interference throughout the year.

5.5 The requirement for Internal Audit derives from local government legislation, including section 151 of the Local Government Act 1972 which requires the Authority to plan for the proper administration of its financial affairs. Proper administration includes Internal Audit. More specific requirements are detailed in the Accounts and Audit Regulations 2015, in that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, and taking into account public sector internal auditing standards or guidance”.

5.6 The Public Sector Internal Audit Standards (PSIAS) define the scope of the annual report on internal audit activity. The annual report must incorporate an annual internal audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and internal control. This annual report provides information to support that assessment and that an effective Internal Audit is established for West Mercia Energy, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Internal Audit Service is provided by Shropshire Council. In June 2020, a paper is to be presented to Shropshire Council’s Audit Committee which provides assurance on the effectiveness of the Internal Audit service against the PSIAS, West Mercia Energy can take their assurance from this report.

5.7 Internal Audit operates a strategic risk based plan. The plan is reviewed each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk, this results in a comprehensive range of audits undertaken in the year, to support the overall opinion on the control environment. The plan contains a small contingency provision for any unforeseen work demands that may arise and any special investigations, are delivered in addition to the planned work in agreement with the Director.

Annual Internal Audit Opinion from Internal Audit Work undertaken during 2019/20

5.8 It is the responsibility of West Mercia Energy to develop and maintain the internal control framework. In undertaking its work, Internal Audit has a responsibility under the Public Sector Internal Audit Standards to deliver an annual internal audit opinion and report. This opinion plays a key part in informing West Mercia Energy’s Annual Governance Statement.

5.9 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Company's internal control systems.

5.10 No system of internal control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that absolute assurance. The work of Internal Audit is intended only to provide reasonable assurance on controls based on the work undertaken. In assessing the level of assurance to be given, I have considered:

5.11 The work undertaken on the fundamental financial systems. Whilst revealing a small number of areas of weakness and areas identified for improvement, there are no weaknesses that could result in a material misstatement in the Company's accounts and reliance can be placed upon them. Plans have been adopted to manage outstanding concerns.

5.12 From IT audit work undertaken during the year, there have been significant issues identified; improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system have been agreed. A management action plan is in place to address these issues within an agreed timeframe. Overall, the Company's financial systems, internal control environment and risk management procedures are reasonably sound and working effectively.

5.13 These assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

Based on the work undertaken and management responses received; the company's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a reasonable year end opinion on West Mercia Energy's internal control environment for 2019/20.

Whilst there was no reduction in planned Internal Audit work in 2019/20, as the Coronavirus situation evolves conversations with the Director of WME will be ongoing and if there are any significant changes to the control environment before finalisation of the financial reporting, these will be considered and reported on.

Key Assurances provided during 2019/20

5.14 Audit assurance opinions are awarded on completion of audit reviews reflecting the efficiency and effectiveness of the controls in place, opinions are graded as follows:

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.

Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a sound system of control, there are weaknesses in the system that leaves some risks not
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the organisation to high risks that

5.9 Audit recommendations are also an indicator of the effectiveness of the Company's internal control environment and are rated according to their priority:

Best Practice (BP)	Proposed improvement, rather than addressing a risk.
Requires Attention (RA)	Addressing a minor control weakness or housekeeping issue
Significant (S)	Addressing a significant control weakness where the system may be working but errors may go undetected.
Fundamental (F)	Immediate action required to address major control weakness that, if not addressed, could lead to material

5.10 Recommendations are rated in relation to the audit area rather than the organisation's control environment, for example, a control weakness deemed serious in one area which results in a significant or fundamental recommendation may not affect the overall control environment. Similarly, a few significant recommendations in a small number of areas would not result in a limited opinion if most of the areas examined were sound.

Audit assurance opinions and recommendations delivered in 2019/20

Audit Area		**No. of Recommendations made**				
	Assurance level	**Best Practice**	**Requires Attention**	**Significant**	**Fundamental**	**Total**
Debtors System	Good	0	4	0	0	4
Finance System	Good	0	2	0	0	2
Corporate Governance and Risk Management	Good	0	1	0	0	1
Procurement	Good	0	1	0	0	1
IT	Limited	0	8	5	0	13
Total for the period		**0**	**16**	**5**	**0**	**21**
Total to date • **numbers**		**0**	**16**	**0**	**0**	**21**
• **percentage**		**0%**	**76%**	**24%**	**0%**	**100%**

5.11 The Internal Audit team has achieved 100% of the plan which is in line with its target. Four good assurance levels were issued during the financial year and one limited opinion. The IT review also attracted five significant recommendations; These cover improved controls for compliance with data protection policies; continuity processes to ensure system availability; procedures for the authorisation of changes and the security, efficiency and effectiveness of interfaces with the system. An action plan is in place to address these issues within an agreed timeframe and they will be followed up next year to determine whether satisfactory improvements have been made. No recommendations have been rejected in the year by management.

5.12 IT audit resources were used to provide support and advice on the completion of an IT control matrix required to support a tender submission and to challenge the approach taken in changes to IT systems in place of a pure audit review, this was considered added value by all parties.

Audit Performance

5.13 Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, and evaluating improvements made over the last twelve months. The effectiveness of Internal Audit is further reviewed through the Joint Committee's delivery of its responsibilities and direct from customers as they provided responses to surveys sent out after each audit.

Reporting

5.14 All Internal Audit work is reviewed by a senior auditor to ensure it complies with Internal Audit's standards and that the recommendations made are supported by the work undertaken before any audit reports are issued. This is a fundamental part of ensuring audit quality and that clients receive reports which are both informative, useful and add value to their work processes and procedures.

5.15 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After agreement, a formal implementation plan containing management's agreed actions and comments is issued to relevant officers. Follow up reviews capture evidence of implementation of recommendations.

Quality Assurance/Customer Feedback Survey

5.16 A customer feedback survey form is sent out with all audits completed. These provide key responses on the quality of audit service in relation to the following areas:

- Pre-auditing arrangements;
- Post audit briefings;
- Audit coverage/scope of the audit;
- Timeliness of production of report;
- Accuracy and clarity of the report;

- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of audit to your business.

5.17 The surveys are a key part of ensuring the work meets our client expectations and that the quality of audit work is maintained. The results have been analysed over the last year and the percentage of responses are identified in the table below:

Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	**2019/20 (%)**
Pre-audit arrangements	100
Post-audit briefing	100
Audit coverage/scope of the audit	100
Timeliness of production of report	100
Accuracy and clarity of report	100
Practicality of recommendations	75
Professionalism of approach	100
Communication skills	100
Timeliness of audit to your business	100
Number of forms returned	4

5.18 In all cases customers considered audit to be a positive support. Overall the results are pleasing, showing services delivered consistently at a high level. The only area where the Council have fallen below 100% relates to the practicality of recommendations in one audit which was rated reasonable. The information is used both to improve techniques overall within the team and at annual performance appraisals to identify future development focus relating to individual skills or competences.

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

- Joint Committee 26th February 2019 – Internal Audit Strategic Plan 2019/20.
- Public Sector Internal Audit Standards.
- Accounts and Audit Regulations 2015.

Member

Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices: None

WEST MERCIA ENERGY

Committee and Date	Item
West Mercia Energy Joint Committee 29th September 2020	9 Public

Distribution of Surplus

Responsible Officer James Walton - Treasurer
e-mail: james.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

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

2. Recommendations

2.1 It is recommended that the Joint Committee;

a) Approve the retention of accumulated surplus of £0.633 million

b) Approve the distribution of accumulated surplus of £1.111 million, in accordance with the provisions of the Joint Agreement.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 There is a risk to the Member Authorities and the business of WME if a distribution is made to the Member Authorities without retaining sufficient funds for the proper operation of the business, to maintain a contingency fund and general reserves or provide for future investment. This risk is mitigated as the amount recommended for retention has been calculated taking into account future capital commitments and energy trading reserves (Capital at Risk for gas and electricity).

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

4.1 The effect of the amount recommended for distribution as surplus on WME's General Fund is detailed below;

Table 1: General Fund balance

	(£'000)
General Fund Balances as at 1 April 2020	1,744
Recommended Surplus distribution	1,111
General Fund balance after distribution	633

5 Background

5.1 Following on from the completion of the Statement of Accounts 2019/20 and the External Auditor's finalised Audit Findings Report 2019/20, it is appropriate to consider distribution to the Member Authorities of the surplus held at the year end as described in the Joint Agreement;

Paragraph 7.3.

a) The Joint Committee shall determine the level of accumulated surplus that shall be retained for contingency, for future investment or for other reserve purposes, having considered the recommendations of the Treasurer and Director and

b) The whole or any part of any remaining accumulated surplus balance (not otherwise retained for contingency, future investment or reserve purposes) shall be distributed to the Member Authorities in the manner described in clause 8 hereto.'

5.2 Paragraph 8.6 provides

The balance of the accumulated surplus identified for distribution shall be divided and distributed to each Member Authority as follows:

a) Each Member Authority shall receive a percentage share of the accumulated surplus identified for distribution arising from the transactions with the Member Authorities calculated in accordance with the percentage of the gross profit generated by the receiving Member Authority's transactions with WME during the financial year prior to the date of distribution and

b) Each Member Authority shall receive 25% of the accumulated surplus identified for distribution generated by transactions with non-Member Authority customers during the financial year prior to the date of distribution.

6 Retention of Surplus

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

Table 2: Retention 2020

	£'000's
Capital at Risk (gas and electricity)	533
General	100
	633

7 Distribution of Surplus

7.1 The accumulated surplus at 31 March 2020 was £1.744 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £1.111 million is available for distribution to the Member Authorities.

7.2 If the amount for the distribution of surplus is agreed the amounts to be distributed to each Member Authority are:

Table 3: Owners element of distribution

	£
Worcestershire	308,268
Shropshire	274,804
Herefordshire	248,614
Telford & Wrekin	279,031

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

8 Distribution formula

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

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

Statement of Accounts 2019/20

Member
Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)

Appendices None

Committee and Date	Item
West Mercia Energy Joint Committee 29th September 2020	10 Public

EXEMPT - NOT FOR PUBLICATION BY VIRTUE OF CATEGORY 3 PARAGRAPH 10.4.3 OF THE COUNCIL'S ACCESS TO INFORMATION PROCEDURE RULES

RISK MANAGEMENT UPDATE

Responsible Officer Nigel Evans
e-mail: nevans@westmerciaenergy.co.uk Tel: 0333101 4353

1. Summary

1.1 The purpose of this report is for the Joint Committee to receive details of all medium and high risks in accordance with the WME Risk Management Strategy.

2. Recommendations

2.1 The Joint Committee are asked to consider and endorse, with appropriate comment the medium and high risks presented.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

4. Financial Implications

4.1 The financial implications of each risk are considered when the impact of the risk is assessed.

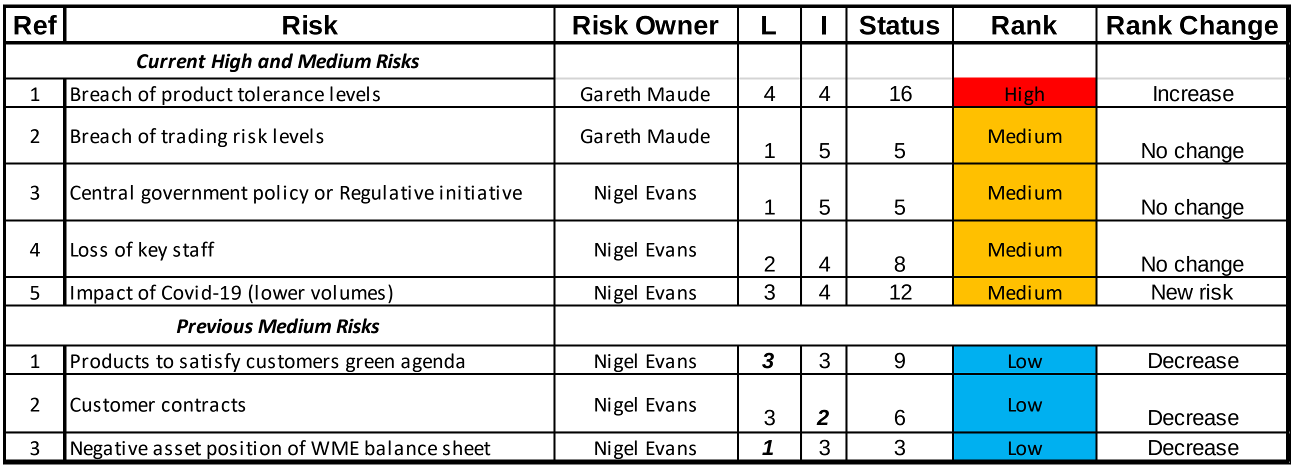
5. Background

5.1 The WME Risk Management Strategy is reviewed and presented to the Joint Committee on an annual basis. This was presented and endorsed by the Joint Committee in February. WME Risk Management Strategy states that the Joint Committee are to receive details of all medium and high risks at each meeting.

5.2 The risk register is kept under constant review and is formally reviewed by the management of WME twice a year. The current risk register comprises of seventy three highlighted risks.

5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.

5.4 The table below identifies the five current high and medium risks, the three medium risks from the last meeting that now have a lower rank (classified as low) and the change in rank levels from the last meeting.



Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
Current High and Medium Risks							
1	Breach of product tolerance levels	Gareth Maude	4	4	16	High	Increase
2	Breach of trading risk levels	Gareth Maude	1	5	5	Medium	No change
3	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No change
4	Loss of key staff	Nigel Evans	2	4	8	Medium	No change
5	Impact of Covid-19 (lower volumes)	Nigel Evans	3	4	12	Medium	New risk
Previous Medium Risks							
1	Products to satisfy customers green agenda	Nigel Evans	***3***	3	9	Low	Decrease
2	Customer contracts	Nigel Evans	3	***2***	6	Low	Decrease
3	Negative asset position of WME balance sheet	Nigel Evans	***1***	3	3	Low	Decrease

L – likelihood of the risk
I – impact of the risk

5.5 Consideration of the impact of Covid-19 on lower consumed volumes has been identified as a new risk. Furthermore lower consumed volumes will impact on the potential breach of product levels and as a result the status of this risk has been increased from medium to high due to an increase in the likelihood level.

5.6 Three risks which were previous identified as medium have now been reclassified as low risk. The likelihood has been reduced on the first and third of the risks with the impact of the second risk downgraded.

5.7 With regards Brexit, to some extent it has ceased to be a factor impacting on the energy markets, particularly in light of the effects of Covid-19. As previously, any impacts of Brexit have been considered within other specific risks.

List of Background Papers (This MUST be completed for all reports, but does

not include items containing exempt or confidential information) Joint Committee 25th February 2020 – Risk Management Update
Member Councillor A Hardman of Worcestershire County Council (Chair of the Joint Committee)
Appendices None

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