



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

Date: Monday, 20<sup>th</sup> September 2021

**Committee:** West Mercia Energy Joint Committee  
**Date:** Tuesday, 28 September 2021  
**Time:** 11.00 am (at the conclusion of the WMS Pensions Joint Committee)  
**Venue:** Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

Members of the public will be able to access the live stream of the meeting by clicking on this link:

[www.shropshire.gov.uk/WestMerciaEnergyJointCommittee28Sept21](http://www.shropshire.gov.uk/WestMerciaEnergyJointCommittee28Sept21)

There will be some access to the meeting room for members of the press and public but this will be very limited in order to comply with Covid-19 regulations. If you wish to attend the meeting please e-mail [democracy@shropshire.gov.uk](mailto:democracy@shropshire.gov.uk) to check that a seat will be available for you.

Tim Collard  
Interim Assistant Director – Legal and Democratic Services

### Members of West Mercia Energy Joint Committee

<i>Herefordshire Council</i>	L Harvey G Davies
<i>Shropshire Council</i>	G Butler E Potter
<i>Telford &amp; Wrekin Council</i>	L Carter R Evans (Chairman)
<i>Worcestershire County Council</i>	A Kent A Hardman (Vice-Chairman)

Your Committee Officer is:

**Emily Marshall** Committee Officer  
Tel: 01743 257717 Email: [emily.marshall@shropshire.gov.uk](mailto:emily.marshall@shropshire.gov.uk)

# AGENDA

## **1 Apologies for Absence**

To receive apologies for absence.

## **2 Minutes (Pages 1 - 4)**

To receive the minutes of the Joint Committee meeting held on 2<sup>nd</sup> march 2021.

Copy attached marked 2.

## **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 24<sup>th</sup> September 2021.

## **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 Joint Committee will provide a verbal update in line with the West Mercia Energy Joint Committee Standing Orders.

## **6 Statement of Accounts 2020/21 and Annual Governance Statement 2020/21 (Pages 5 - 62)**

Report of the Treasurer for West Mercia Energy Joint Committee

Contact: James Walton (01743258915)

## **7 External Audit - Audit Findings Report 2020/21 (Pages 63 - 82)**

Report from the External Auditor for The West Mercia Energy Joint Committee

Report: John Fletcher, WR Partners - [jfletcher@wrpartners.co.uk](mailto:jfletcher@wrpartners.co.uk)

**8 Internal Audit Annual Report 2020/21** (Pages 83 - 90)

Report from the Head of Audit for The West Mercia Energy Joint Committee

Contact: Ceri Pilawski (01743257739)

**9 Distribution Of Surplus** (Pages 91 - 92)

Report of the Treasurer for West Mercia Energy Joint Committee

Contact: James Walton (01743258915)

**10 Risk Management Update** (Pages 93 - 96)

Report of The Director of The West Mercia Energy Joint Committee

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 97 - 98)

To approve the exempt Minutes of the meeting held on 2<sup>nd</sup> March 2021.

**13 Update On Business Plan And Trading Performance To Date 2021/22**  
(Pages 99 - 116)

Report of The Director of The West Mercia Energy Joint Committee

Contact: Nigel Evans (0333101 4353)

**14 Green Energy Update** (Pages 117 - 124)

Report of The Director of The West Mercia Energy Joint Committee

Contact: Nigel Evans (0333101 4353)

**15      Energy Governance, Accountability, Risk and Reporting Policy** (Pages 125 - 164)

Report of The Director of The West Mercia Energy Joint Committee

Contact: Nigel Evans (0333101 4353)

**16      Date of Next Meeting**

To confirm the date of the next meeting of the West Mercia Energy Joint Committee.



## Committee and Date

West Mercia Energy Joint  
Committee

28<sup>th</sup> September 2021

## **WEST MERCIA ENERGY JOINT COMMITTEE**

**Minutes of the meeting held on 2 March 2021**

**In the THIS IS A VIRTUAL MEETING - PLEASE USE THE LINK ON THE AGENDA TO LISTEN TO THE MEETING**

**Times Not Specified**

**Responsible Officer:** Emily Marshall

Email: emily.marshall@shropshire.gov.uk Tel: 01743 257717

### **Present**

Councillor Evans and Peter Nutting

Councillors Robert Macey, Davies and Harvey

### **72 Election of Chairman**

That Councillor Rae Evans be appointed Chairman for the ensuing year.

### **73 Apologies for Absence**

Apologies for absence were received from Councillors Carter, Hardman and Smith.

### **74 Appointment of Vice-Chairman**

That Councillor Hardman be appointed Vice-Chairman for the ensuing year.

### **75 Minutes**

#### **RESOLVED:**

That the Minutes of the West Mercia Energy Joint Committee held on 29<sup>th</sup> September 2020 be approved as a correct record and signed by the Chairman.

### **76 Public Questions**

None received.

### **77 Disclosable Pecuniary Interests**

None

### **78 Supplier Contracts**

The Director of West Mercia Energy reported that there were no new entries in the Supplier Contracts Register since the last meeting.

### **79 External Audit - Audit Plan 2020/21 Page 1**

The Director introduced, John Fletcher (Partner) and Alex Riley (Audit Manager) from W R Partners. W. R. Partners had recently been appointed as External Auditors responsible for delivering the statutory audit for WME.

Members thanked John and Alex for their informative presentation and commented that they were pleased a procurement exercise had been undertaken and that a local firm had been appointed.

**RESOLVED:**

1. That the draft audit plan for 2020/21 as presented by WR Partners attached at Appendix 1 be approved.
2. That the commissioning of WR Partners to undertake the audit in accordance with the audit plan be approved.

**80 Internal Audit - Performance Reports to March 2021**

Ceri Pilawski, Head of Internal Audit presented the report, which outlined the Internal Audit Performance reports to March 2021.

**RESOLVED:**

That the Committee consider and endorse, with appropriate comment, the performance to date against the 2020/21 Audit Plan as set out in this report.

**81 Internal Audit - Strategic Plan 2021/22**

Ceri Pilawski, Head of Internal Audit presented the report, which outlined the Internal Audit Strategic Plan 2021/22.

**RESOLVED:**

That the proposed programme of audits for 2021/22 be endorsed.

**82 Anti-Slavery and Human Trafficking Statement - 2020-21**

The Director of West Mercia Energy presented the Anti-Slavery and Human Trafficking Statement Transparency Statement for 2020/21 for approval.

In response to a question relating to whether there had been any issues during the current year with suppliers and monitoring to ensure they were compliant. In response the Director reported that the company had quite a restricted supplier base and suppliers such as Total Gas and Power and smaller suppliers were covered by the procurement process. The rest of the supplier base was with the member authorities and covered by detailed Service Level Agreements that were in place. They were larger companies and organisations who were all required to comply with their own statements.

**RESOLVED:**

1. That the draft WME Transparency Statement for 2020/21 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.

### 83 Risk Management Update

The Director presented a report 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 the report be noted.

### 84 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.

### 85 Exempt Minutes

**RESOLVED:**

That the Exempt Minutes of the meeting held on 29<sup>th</sup> September 2020 be approved as a correct record.

### 86 Annual Business Plan and Budget 2021/22 Including a Review of 2020/21

The Director presented an exempt report, presenting the current trading performance for 2020/21, the forecasted full year result for 2020/21 and WME Annual Business Plan and Budget for 2021/22 for approval.

**RESOLVED:**

That the recommendations contained within the exempt report be approved.

### 87 Date of Next Meeting

It was noted that the next meeting would take place on Tuesday, 28<sup>th</sup> September 2021 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed ..... (Chairman)

.....

Date: .....



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	6
28 <sup>th</sup> September 2021	<u>Public</u>

## **Statement of Accounts 2020/21 and Annual Governance Statement 2020/21**

**Responsible Officer** James Walton - Treasurer

e-mail: [james.walton@shropshire.gov.uk](mailto: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 2020/21 and the Annual Governance Statement 2020/21.

### **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 2020/21 to be signed by the Chairman and the Treasurer.
  - c) To consider the Annual Governance Statement 2020/21.

## **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, WR Partners have audited the accounts during July and August 2021.
- 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 30<sup>th</sup> 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 2020/21, which details processes and procedures in place to enable WME to carry out its' functions effectively. See Appendix 3.
- 5.5 The Statement of Accounts reflect the removal of the pension deficit relating to the former employees of West Mercia Supplies.

## 6 Publication of Accounts

- 6.1 Once signed, the annual Statement of Accounts 2020/21 will be available via the WME website.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
CIPFA Code of Practice (CODE) on Local Authority Accounting
CIPFA/SOLACE guidance on the Annual Governance Statement
Joint Committee 28 <sup>th</sup> September 2015 – Local Audit and Accountability Act
<b>Member</b> Councillor Rae Evans of Telford and Wrekin Council (Chair of the Joint Committee)
<b>Appendices</b> 1 - The Letter of Representation 2 - Statement of Accounts 2020/21 3 - Annual Governance Statement 2020/21

WR Partners  
Chartered Accountants  
Belmont House  
Shrewsbury Business Park  
Shrewsbury  
SY2 6LG

28<sup>th</sup> September 2021

Dear Sirs

**West Mercia Energy Joint Committee  
Financial Statements for the Year Ended 31 March 2021**

The following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience such as we consider necessary in connection with your audit of the joint committee's financial statements for the year ended 31<sup>st</sup> March 2021. These enquiries have included inspection of supporting documentation where appropriate. All representations are made to the best of our knowledge and belief.

**GENERAL**

1. We have fulfilled our responsibilities as members of the joint committee, as set out in the terms of your engagement letter dated 20<sup>th</sup> January 2021, for preparing financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), for being satisfied that they give a true and fair view and for making accurate representations to you.
2. All the transactions undertaken by the joint committee have been properly reflected and recorded in the accounting records.
3. All the accounting records have been made available to you for the purpose of your audit. We have provided you with unrestricted access to all appropriate persons within the joint committee, and with all other records and related information requested, including minutes of all management and joint committee member meetings.
4. The financial statements are free of material misstatements, including omissions.
5. The effects of uncorrected misstatements in the sum of £373,493 are immaterial in total.

**INTERNAL CONTROL AND FRAUD**

6. We acknowledge our responsibility for the design, implementation and maintenance of internal control systems to prevent and detect fraud and error. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud.
7. We have disclosed to you all instances of known or suspected fraud affecting the entity involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.
8. We have also disclosed to you all information in relation to allegations of fraud or suspected fraud affecting the entity's financial statements communicated by current or former employees, analysts, regulators or others.

## ASSETS AND LIABILITIES

9. The joint committee has satisfactory title to all assets and there are no liens or encumbrances on the joint committee's assets, except for those that are disclosed in the notes to the financial statements.
10. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
11. We have no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.
12. The trading risk provision of £373,493 has been included as a provision within the financial statements to provide members of the joint committee with a measurable potential exposure to the organisation due to future price rises. We consider this provision to be fairly valued at the year end.
13. The disposal of the WMS element of the defined benefit pension scheme has been fairly accounted for within the financial statements with a transfer out of West Mercia Energy recognised for the total of £6,928k during the year.

## ACCOUNTING ESTIMATES

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

## LOANS AND ARRANGEMENTS

15. The joint committee has not granted any advances or credits to, or made guarantees on behalf of, management or members other than those disclosed in the financial statements.

## LEGAL CLAIMS

16. We have disclosed to you all claims in connection with litigation that have been, or are expected to be, received and such matters, as appropriate, have been properly accounted for and disclosed in the financial statements.

## LAWS AND REGULATIONS

17. 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 the financial statements.

## RELATED PARTIES

18. Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements. We have disclosed to you all relevant information concerning such relationships and transactions and are not aware of any other matters which require disclosure in order to comply with the requirements accounting standards.

## SUBSEQUENT EVENTS

19. All events subsequent to the date of the financial statements which require adjustment or disclosure have been properly accounted for and disclosed.

## GOING CONCERN

20. We believe that the joint committee's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the joint committee's needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the joint committee's ability to continue as a going concern need to be made in the financial statements.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Each member has taken all the steps that they ought to have taken as a member in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Joint Committee**

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**WEST MERCIA ENERGY  
JOINT COMMITTEE**

**STATEMENT OF ACCOUNTS  
FOR THE YEAR  
ENDED 31<sup>ST</sup> MARCH 2021**

Providing energy services  
for the public sector  
A Local Authority owned purchasing organisation





## **WEST MERCIA ENERGY JOINT COMMITTEE**

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## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **FINANCIAL SUMMARY** **FOR THE YEAR 2020/21**

#### **Introduction**

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2020 to 31 March 2021 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 2021.

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

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

## **Narrative report 2020/21**

### 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 2020/21 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2020/21.

## Risks and Opportunities

A WME Risk Management Strategy is approved annually by the Joint Committee and a detailed risk register is maintained. The risk register is kept under constant review and all risks which have been classified as medium or high are reported to the Joint Committee at each meeting. These risks include those associated with operating a flexible trading strategy, performance management of key supplier, customer retention and more recently the impacts of the pandemic. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

## Performance and Outlook

Like most organisations, the past year has presented several challenges with the effects of Covid-19 impacting on a number of areas of the business. On the operational side, ahead of the first lockdown in March 2020 staff moved to work from home and this transition was successful with customer service levels maintained.

Forecasting of consumed volumes proved challenging during the year as the various lockdowns impacted on our customer base in different ways. The impact was most substantial during the first lockdown with both gas and electricity volumes down by some 30% in the first quarter of the year, although some of the reductions in gas will have been magnified due to the higher than seasonal norm temperatures.

As we moved through the year consumed volumes started to recover especially for gas where ventilation measures adopted led to greater heating demand. By the end of the financial year gas volumes were broadly in line with budgeted levels although the consumption pattern was much different to normal years, i.e. less consumption in the first half of the year than usual with winter volumes increasing. We also saw a change in the consumption profile for electricity which became more winter weighted than a normal year. Whilst electricity volumes did also recover during the year, given that they are more linked to occupancy levels than gas, consumed volumes were approx. 14% lower than the previous year.

This reduction in electricity volumes contributed to the reduction in the turnover which fell from £70.246m to £60.646m. Our turnover was also reduced as pleasingly our capped energy prices for 20/21 were lower than the previous year.

In addition, Covid-19 has impacted on some of the plans put forward within the 20/21 business plan and made securing new business more difficult. Despite these challenges we have had a positive year in terms of customer retention, whilst also picking up some new business and further enhancing WME's service provisions.

During 20/21 the WME green offering was expanded with the vast majority of our customers selecting REGO (renewable energy guarantees of origin) backed electricity products and we have supported customers with generation offsetting arrangements. Supporting our customers in this area will remain a key focus over the coming year.

The pension liability relating to the former West Mercia Supplies employees has been removed from the financial statements of WME meaning that a positive balance sheet is now being presented (i.e. net assets rather than the net liabilities previously). The pension liability adjustment does substantially impact on the Income & Expenditure Statement with a large credit adjustment which is outlined on page 10 and in the accompanying notes to the accounts.

Putting the pension liability adjustment to one side, the true trading results for 2020/21 are in line with the budgeted levels which given the challenges associated with the year is an excellent outcome.

Energy market prices will continue to be a key factor affecting the level of turnover and net result of WME in the future. In addition consumed volumes, at least at the start of the year, will continue to see some impact from Covid-19 as lockdown measures slowly ease and new ways of working by elements of customer base will impact on longer term demand levels.

The organisation has been considered as a going concern with a strong Business Plan in place for 2021/22, continued positive cash positions held and both supplier and customer contracts in place beyond March 2022.

### **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 2021.

In preparing this Statement of Accounts the Treasurer to the Joint Committee has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- applied the concept of 'going concern' by assuming that Joint Committee's services will continue to operate for the foreseeable future.

The Treasurer to the Joint Committee has also to:

- ensure proper accounting records are kept, which are up to date;
- take reasonable steps for the prevention and detection of fraud and other irregularities.



## **APPROVAL OF THE STATEMENT OF ACCOUNTS**

### **Treasurer to the Joint Committee**

I certify that the Committee's Statement of Accounts provides a true and fair view of the financial position of the West Mercia Energy Joint Committee at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

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

### **Joint Committee Approval**

I certify that the West Mercia Energy Joint Committee approved the Statement of Accounts for the year ended 31 March 2021.

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

**Date:**

## MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2021

This statement shows the movement in the year on the different reserves held by the Joint Committee. The gain or (loss) for the year shows the true economic cost of the Joint Committee's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

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

### Pensions Reserve

This statement shows the movement in the year on the different reserves held by the Joint Committee. The gain or (loss) for the year 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 2020

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 20	Note 21	
	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>	<b>1,421</b>	<b>-6,971</b>	<b>1</b>	<b>-5,549</b>
Total comprehensive income & expenditure	379	-	-	<b>379</b>
Transfer to/from Reserves	-56	43	13	-
Increase/decrease in year	323	43	13	379
<b>Balance at 31 March 2020</b>	<b>1,744</b>	<b>-6,928</b>	<b>14</b>	<b>-5,170</b>

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

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

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

	Notes	2020/21 £000	2019/20 £000
<b>INCOME</b>			
Turnover	6	-60,646	-70,246
Less cost of goods sold		59,745	68,876
Gross profit		-901	-1,370
Other trading operation income		-667	-717
<b>Gross Profit</b>		<b>-1,568</b>	<b>-2,087</b>
<b>OPERATING EXPENSES</b>			
Employees	8	548	811
Pension impact (IAS19)	18	-6,769	-3
Premises		35	35
Supplies & services		71	97
Central departmental & technical support		109	118
Provision for bad debts		-9	22
Depreciation		7	4
<b>Total Operating Expenses</b>		<b>-6,008</b>	<b>1,084</b>
<b>SURPLUS OF SERVICES</b>		<b>-7,576</b>	<b>-1,003</b>
Financing and investment income and expenditure	7	-31	123
<b>NET OPERATING SURPLUS</b>		<b>-7,607</b>	<b>-880</b>
Distribution to Member Authorities		1,111	704
<b>NET PROFIT / LOSS FOR THE YEAR</b>		<b>-6,496</b>	<b>-176</b>
<b>OTHER COMPREHENSIVE INCOME &amp; EXPENDITURE</b>			
Remeasurements (Liabilities & Assets)	18	173	-203
<b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>		<b>-6,323</b>	<b>-379</b>

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



## BALANCE SHEET AS AT 31 MARCH 2021

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Joint Committee. The net assets of the Joint Committee (assets less liabilities) are matched by the reserves held by the Joint Committee.

31 March 2020 £000		31 March 2021 £000	Notes
14	Plant & equipment	14	12
<b>14</b>	<b>Long term assets</b>	<b>14</b>	
11,794	Short term debtors	10,063	15
7,371	Cash and cash equivalents	2,164	16
<b>19,165</b>	<b>Current assets</b>	<b>12,227</b>	
-17,421	Short term creditors	-10,757	17
<b>-17,421</b>	<b>Current liabilities</b>	<b>-10,757</b>	
<b>1,744</b>	<b>Net current assets</b>	<b>1,470</b>	
-6,928	Other long term liabilities	-331	18
<b>-6,928</b>	<b>Long term liabilities</b>	<b>-331</b>	
<b>-5,170</b>	<b>Net (Liabilities)/Assets</b>	<b>1,153</b>	
	<b>Financed by:</b>		
1,744	General fund	1,470	
-6,928	Pensions reserve	-331	
14	Joint committee capital adjustment account	14	
<b>-5,170</b>	<b>Total Reserves</b>	<b>1,153</b>	19

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

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2021

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.

2019/20		2020/21	
£000		£000	£000 Notes
<b>Operating activities</b>			
<u>Cash outflows</u>			
640	Cash paid to and on behalf of employees	554	
272	Other operating costs	206	
66,515	Cost of goods sold	66,403	
67,427			67,163
<u>Cash inflows</u>			
-68,961	Turnover	-62,377	
-717	Other trading operation income	-667	
-69,678			-63,044
-2,251	<b>Net cash inflow from operating activities</b>		4,119 22.1
-23	<b>Investing activities</b>		-23 22.2
704	<b>Financing activities</b>		1,111 22.3
<b>-1,570</b>	<b>Net decrease (increase) in cash and cash equivalents</b>		<b>5,207 22.4</b>
5,801	Cash and cash equivalents at 1st April		7,371
<b>7,371</b>	<b>Cash and cash equivalents at 31st March</b>		<b>2,164 22.4</b>

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



## **NOTES TO THE CORE FINANCIAL STATEMENTS**

### **1. Accounting Policies**

#### **1.1 General Principles**

This Statement of Accounts for 2020/21 summarises the Joint Committee's transactions for the 2020/21 financial year and its position at 31 March 2021. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, as far as it is practicable and applicable to the Joint Committee, supported by International Financial Reporting Standards (IFRS). The nature of the Joint Committee as a purchasing consortium means that full compliance is not always possible. The only departure relates to the the Comprehensive Income and Expenditure Statement layout which shows the income first and then all the expenditure grouped by type of expense. This differs from Local Authority Accounting, but this layout does allow a reader to interpret the statement in relation to the industry the Joint Committee operates in.

#### **1.2 Concepts**

The Statement of Accounts have been prepared in accordance with all prevailing concepts of accrual and going concern together with relevance, reliability and comparability. The going concern concept assumes that the organisation will continue in operational existence for a minimum of 12 months from the date of the approval of the financial statements. The management of WME are of this view due to the Joint Agreement that is in place and both supplier and customer contracts are in place beyond 31<sup>st</sup> March 2022.

#### **1.3 Legislation**

Where specific legislative requirements regarding accounting treatment conflict with the Joint Committee's own accounting policies, legislative requirements shall apply.

#### **1.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information about the effect of transactions, other events and conditions on the Organisations' financial position or financial performance.

Where a change is made it is made retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparable amounts for the prior period.

## **1.5 Accruals of Expenditure and Income**

Revenue and capital transactions are accounted for on an accruals basis in accordance with proper accounting practices. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

Sums owed to the Joint Committee as at 31 March are included as debtors. Sums still owed by the Joint Committee at 31 March are included as creditors.

## **1.6 Plant and Equipment and Motor Vehicles**

Under s102 of the local Government Act 1972, a Joint Committee does not have sufficient corporate status to acquire assets. However, given that the Joint Committee both accrues the economic benefits from and assumes liabilities for its Building assets, the “substance over form” policy justifies the inclusion of the assets in the Organisation’s accounts.

Plant and equipment and motor vehicles are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, or for administrative purposes, and are expected to be used during more than one period.

### **Recognition**

The cost of an item of plant and equipment and motor vehicles is recognised (and hence capitalised) as an asset on the Balance Sheet if:

- it is probable that the future economic benefits or service potential associated with the item will flow to the organisation;
- the cost of the item can be measured reliably; and
- has a value in excess of £500.

Costs that meet the recognition principle include initial costs of acquisition and construction, and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (ie labour costs and consumables), commonly referred to as ‘repairs and maintenance’, are not capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and is charged to revenue, when it is incurred.

### Initial Measurement

Expenditure on the acquisition, creation and enhancement of plant and equipment, with a value in excess of £500, that qualifies for recognition is capitalised on an accruals basis in the accounts. To be capitalised, the expenditure must be for assets yielding benefits to the Joint Committee for a period of greater than one year.

### Measurement After Recognition

Plant and equipment are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS). Plant and equipment are classified into the groupings required by the Local Authority Code and are included in the Balance Sheet net of depreciation.

### Derecognition

The carrying amount of an item of plant and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount an additional entry is required; the balance of the Revaluation Reserve in respect of asset derecognised is written off to the Joint Committee Capital Adjustment Account and reported in the Movement in Reserves Statement.

### Depreciation

Depreciation is provided on tangible fixed assets calculated by using the straight-line method where appropriate.

Depreciation and amortisation are charged over the finite useful life of each asset, based on their value, these lives, and methods of valuation, being as follows:

Asset and Method of Valuation	Depreciation/Amortisation Period
Computer Equipment (Historical Cost)	3 years
Office Equipment (Historical Cost)	3 years
Fixtures & Fittings (Historical Cost)	3 years
Motor Vehicles (Historical Cost)	3 years

## **Impairment**

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- a significant decline (ie more than expected as a result of the passage of time or normal use) in an asset's carrying amount during the period, that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the organisation to undertake a significant reorganisation; or
- a significant adverse change in the statutory or other regulatory environment in which the organisation operates.

## **1.7 Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that are readily convertible to known amounts of cash with insignificant risk of change in value. The Joint Committee holds no cash equivalents.

## **1.8 Debtors and Creditors**

Revenue and capital transactions are accounted for on an accruals basis and where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the obligations in the contract or transfer of economic benefits.

## **1.9 Financial Assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at;

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Joint Committee's business model is to hold investments to collect contractual cash flows ie payments of interest and principal. Most of the Joint Committee's financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely

payment of principal and interest ie where the cash flows do not take the form of a basic debt instrument.

### **Financial Assets Measured at Fair Value through Profit and Loss**

These are financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost.

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Joint Committee becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

Instruments with quoted market prices – the market price

Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Expected Credit Loss Model**

The Joint Committee recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Joint Committee.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses

## **1.10 Financial Liabilities**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

## **1.11 Reserves**

### **General Fund Balance**

The Balance Sheet includes a sum for the General Fund Balance. This shows the total unused accumulated net surplus for the Joint Committee carried forward to 2021/22.

### **Pensions Reserve**

The Pensions Reserve represents the difference between the value of the pension fund assets and the present value of the actuarially calculated scheme liabilities.

### **Joint Committee Capital Adjustment Account**

This represents the difference between the costs of fixed assets consumed and the financing set aside to pay for them.

## **1.12 Employee Benefits**

The accounting policy relating to the treatment of benefits payable during employment and post-employment benefits is consistent with IAS 19 Employee Benefits.

### **Benefits Payable During Employment**

Where the accumulating short-term absences (eg annual leave and flexi time earned by employees but not taken at 31<sup>st</sup> March) are not material, these are not accrued for in the accounts.

### **Post-Employment Benefits**

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme.

The liabilities of the Pension Fund attributable to the Joint Committee are included in the Balance Sheet on an actuarial basis using the project unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected warnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.2% (2019/20: 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.

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

### **1.16 Provisions**

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

Expected credit loss is accounted for as a general provision for all debts over 12 months old plus any specific debts which are less than 12 months old.

### **1.17 Value Added Tax (VAT)**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **1.18 Distribution of Surplus to Member Authorities**

The Joint Agreement requires the Joint Committee to determine the level of accumulated surplus that shall be retained for various reserve purposes. In practice the Joint Committee typically takes its decision in October. The decision is taken in the light of known accumulated surplus, a view at that point of the amount to be retained for contingency, future investment or other reserve purposes, including a consideration of performance, risks and development proposals at that time. The distribution made to Member Authorities is then charged to the Comprehensive Income and Expenditure Statement in the year that it is agreed by the Joint Committee.

## **2. Accounting standards that have been issued but have not yet been adopted**

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 Code:

Definition of a Business: Amendments to IFRS 3 Business Combinations

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS7

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16.

## **3. Critical judgements in applying accounting policies**

We've generally complied with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). In instances where code is not relevant, we would make a critical judgement.

In applying the accounting policies set out in Note 1, the Joint Committee has had to consider certain judgements about complex transactions or those involving uncertainty about future events.

IFRS 15 Revenue from Contract with Customers 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.

2020/21					
	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	782	27	809		809
Services/Support services	13	6,785	6,798	-6,590	208
Net cost of Services	795	6,812	7,607	-6,590	1,017
Other Income and Expenditure			-173		-173
Distribution of Surplus to Member Authorities			-1,111		-1,111
Surplus or (Deficit)			6,323	-6,590	-267
Opening General Fund					1,744
Capital Purchases funded from General Fund					-7
Less deficit on General Fund					-267
<b>Closing General Fund</b>					<b>1,470</b>



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
<b>Closing General Fund</b>					<b>1,744</b>

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

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

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

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

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

Income received on a segmental basis is analysed below:

	2020/21 Income from Services	2019/20 Income from Services
	£000	£000
Energy Sales	60,316	69,443
Other Income	330	803
<b>Total income analysed on a segmental basis</b>	<b>60,646</b>	<b>70,246</b>

An analysis of Expenditure is shown on the face of the Comprehensive Income and Expenditure Statement

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures based on assumptions made by the Joint Committee. Estimates are made taking into account historical experience, current trends and other relevant factors. There is, however, a risk that actual results could be materially different from the assumptions and estimates.

The items in the Joint Committee's Balance Sheet at 31 March 2021 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
<b>Pensions Liability</b>	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 £71,000. However the assumptions interact in complex ways. During 2020/21 the actuaries advised that the net pensions liability had decreased by £6,597,000 including pensions transferred to new employer.

## 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.

	2020/21	2019/20
	£000	£000
Net interest on pension scheme assets and liabilities	-1	163
Interest receivable and similar income	-30	-40
<b>Total</b>	<b>-31</b>	<b>123</b>

## 8. Staff Remuneration

In 2020/21 the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2020/21	2019/20
£ 70,000 to £ 74,999	-	1
£ 75,000 to £ 79,999	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 £69,999 so the staff remuneration table above has been adjusted accordingly.

## Disclosure of Remuneration for Senior Employees

### 2020/21

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

### 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
	<b>65,616</b>	<b>4,461</b>	<b>7,568</b>	<b>77,645</b>

There are no compulsory redundancies or staff members receiving exit packages in 2020/21 or 2019/20.

## 9. Audit Costs

During 2020/21 the Joint Committee incurred the following fees in respect of external audit and inspection.

	2020/21 £000	2019/20 £000
Fees payable to External Auditors with regard to external audit services	13	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). 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:

	2020/21	2019/20
	£000	£000
Herefordshire Council	1,711	1,802
Shropshire Council	3,332	3,715
Telford & Wrekin Council	2,633	3,060
Worcestershire County Council	4,801	5,822

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

	2020/21	2019/20
	£000	£000
Human Resources Support Services	3	2
Payroll Services	1	1
Treasury Services	4	5
Committee Services	6	6
Financial Advice	15	14
Internal Audit	10	10
ICT support	8	10
Legal Services	4	6
Procurement	7	7

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

	2020/21	2019/20
	£000	£000
ICT support	-	3

## 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:

	2020/21	2019/20
	£000	£000
Net Profit for the Year – Per Comprehensive Income and Expenditure Statement	-6,496	-176
Profit Related Pay	-33	-69
Distribution of Surplus Member Authorities	-1,111	-704
Pensions Movement included in Operating Expenses	6,770	-160
<b>Net Surplus for PRP/Distribution Purposes</b>	<b>-870</b>	<b>-1,109</b>

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 £1.111 million. This payment distributes part of the General Fund brought forward at the end of year 2019/20 between Member Authorities in accordance with the formula determined in the Joint Agreement.



## 12. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2020/21	Plant, Equipment and Motor Vehicles 2019/20
	£000	£000
<b>Cost / Valuation</b>		
As at 1 April	79	76
Additions	7	17
Disposals	-8	-14
As at 31 March	78	79
<b>Accumulated Depreciation</b>		
As at 1 April	65	75
Charge	7	4
Relating to disposals	-8	-14
As at 31 March	64	65
<b>Net Book Value</b>		
<b>As at 31 March</b>	<b>14</b>	<b>14</b>

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

## 13. Contractual Commitments

West Mercia Energy has a lease agreement on the business premises, at a value not material to the accounts.

There were no capital commitments for the year ended 31<sup>st</sup> March 2021.

## 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		31-3-21	31-3-20
	31-3-21	31-3-20	31-3-21	31-3-20	31-3-21	31-3-20	31-3-21	31-3-20		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Fair Value through profit or loss</b>										
Long term Equity Instruments	-	-	-	-	-	-	-	-	-	-
<b>Amortised Cost</b>										
Debtors	-	-	-	-	-	-	10,063	11,786	10,063	11,786
Cash & Cash Equivalents	-	-	-	-	-	-	2,164	7,371	2,164	7,371
Total Financial Assets	-	-	-	-	-	-	12,227	19,157	12,227	19,157
Non- Financial Assets	-	-	-	-	-	-	-	8	-	8
<b>Total</b>	-	-	-	-	-	-	12,227	19,165	12,227	19,165



## Financial Liabilities

	Long Term				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-3-21 £'000	31-3-20 £'000	31-3-21 £'000	31-3-20 £'000	31-3-21 £'000	31-3-20 £'000	31-3-21 £'000	31-3-20 £'000	31-3-21 £'000	31-3-20 £'000
<b>Amortised Cost</b>										
Principal	-	-	-	-	-	-	10,737	17,421	10,737	17,421
Loans Accrued interest	-	-	-	-	-	-	-	-	-	-
Bank Overdraft	-	-	-	-	-	-	-	-	-	-
Total Financial Liabilities							10,737	17,421	10,737	17,421
Non- Financial Liabilities	-	-	-	-	-	-	20	-	20	-
<b>Total</b>	-	-	-	-	-	-	10,757	17,421	10,757	17,421

## Income, Expense, Gains and Losses

	2020/21					2019/20				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-	-	-	-	-	-
Interest income	-	30	-	-	30	-	40	-	-	40
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	30	-	-	30	-	40	-	-	40
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain for the year</b>	-	30	-	-	30	-	40	-	-	40

## 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, generally being less than 0.01% of turnover. For 2019/20 concerns of the effect of coronavirus 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 £10.063m outstanding (2019/20 - £11.794) from Customers £0.551m (2019/20 - £0.264m) is past its due date for payment. The amount past due date is analysed by age as follows:

	2020/21	2019/20
	£'000	£'000
Less than 3 months overdue	575	291
3 to 6 months overdue	4	-8
6 months to 1 year overdue	-7	-4
More than 1 year overdue	-21	-15
<b>Total income</b>	<b>551</b>	<b>264</b>

Older credit balances represent credit notes or payments on account which arise in the normal course of business and may be offset by outstanding debt in the less than 3 months overdue category.

### **Liquidity Risk**

In order to support seasonal trade variations, the Joint Committee has a treasury arrangement with Shropshire Council that provides ready access to liquid funds for short-term borrowing at market interest rates.

### **Market Risk**

The Joint Committee is exposed to interest rate risk in terms of its exposure to rate movements on its bank deposits and short-term borrowings. The impact on the Income and Expenditure Statement for rate changes on interest receivable and payable on such transactions is nominal in relation to the Joint Committee's turnover.

## **15. Short Term Debtors**

	<b>31 March 2021 £000</b>	<b>31 March 2020 £000</b>
Member Authorities	1,807	1,841
Other Local Authorities	8,235	8,747
Bodies external to general government	21	1,206
	<b>10,063</b>	<b>11,794</b>

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

	<b>31 March 2021 £000</b>	<b>31 March 2020 £000</b>
Herefordshire Council	411	216
Shropshire Council	531	772
Telford & Wrekin Council	322	296
Worcestershire County Council	543	557
	<b>1,807</b>	<b>1,841</b>

## 16. Cash and Cash Equivalents

	Opening Balance 1 <sup>st</sup> April 2020 £000	Movement During the Year £000	Closing Balance 31 <sup>st</sup> March 2021 £000
Bank current accounts	7,371	-5,207	2,164

## 17. Short Term Creditors

	31 March 2021 £000	31 March 2020 £000
Member Authorities	575	473
Other Local Authorities	2,253	2,220
Bodies external to general government	7,929	14,728
	<b>10,757</b>	<b>17,421</b>

## 18. Defined Benefits Pension Scheme

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.

The Joint Committee participates in the Shropshire County Pension Fund, which is a funded Defined Benefit scheme. This means that retirement benefits are determined independently of the investments of the fund and the Joint Committee has an obligation to make contributions where assets are insufficient to meet employee benefits. The Joint Committee and its employees pay contributions into the fund which is calculated at a level intended to balance pension liabilities with investment assets. The Joint Committee recognises the cost of retirement benefits in the cost of employees when they are earned rather than when the benefits are paid as pensions.

The principal risks to the Joint Committee of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme.

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

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

There are other recent rulings that can in theory have an impact on the LGPS, but until further information is known there have not been any adjustments made.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during 2020/21.

	2020/21 £000	2019/20 £000
<b>Comprehensive Income &amp; Expenditure Statement</b>		
Operating Expense (Employees):		
• Current Service Cost	156	149
• Past Service Cost	-	85
• Administration Expenses	3	3
• Employers Contributions	-	-240
• Settlements and Transfer	-6,928	-
Pension Impact (IAS19)	-6,769	-3
Financing and Investment Income and Expenditure:		
• Net Interest Cost	-1	163
<b>Total Post-employment benefits contained within Net Operating Surplus</b>	<b>-6,770</b>	<b>160</b>
Other Comprehensive Income & Expenditure:		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	-271	870
Actuarial (gains) and losses arising on changes in Financial assumptions	444	-1,073
<b>Total Post-employment Benefits contained within the Other Comprehensive Income and Expenditure</b>	<b>173</b>	<b>-203</b>
<b>Net charge to Comprehensive Income &amp; Expenditure Statement</b>	<b>-6,597</b>	<b>-43</b>

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

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. These benefits will not be payable until retirement but the Joint Committee has a commitment to make payments that need to be disclosed at the time that the employees earn their future entitlement.



	2020/21 £000	2019/20 £000
<b>Movement in Reserves Statement:</b>		
Reversal of net charges made for retirement benefits in accordance with IAS19	-6,770	-400
Actual Amount Charged against the General Fund Balance for Pensions in the Year:		
• Employers contributions payable to the Scheme	-	240
Remeasurement of the net defined liabilities	-173	203
<b>Movement on Pension's Reserve</b>	<b>-6,597</b>	<b>43</b>

### Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Joint Committee's obligation in respect of its defined benefit plans is as follows;

	2020/21 £000	2019/20 £000
Present Value of the defined benefit obligation	2,522	16,273
Fair Value of plan assets	-2,191	-9,345
<b>Net liability arising from defined benefit obligation</b>	<b>331</b>	<b>6,928</b>



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

	2020/21	2019/20
	£000	£000
Opening fair value of scheme assets	-9,345	-10,333
Interest income	-43	-246
Remeasurement gain		
The return on Plan assets	-271	870
Employer contributions	-	-240
Contributions by scheme participants	-33	-29
Benefits paid	-	630
Administration Expenses	3	3
Settlements	10,815	-
Transfer to another employer	-3,317	-
<b>At 31 March</b>	<b>-2,191</b>	<b>-9,345</b>

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

	Funded	Liabilities
	2020/21	2019/20
	£000	£000
At 1 April	16,273	17,304
Current Service Cost	156	149
Interest cost	42	409
Contributions by scheme participants	33	29
Past service Cost (gain)	-	85
Remeasurement (Liabilities)		
• Experience (gain)/Loss	-34	-68
• Actuarial (gains)/losses on financial assumptions	478	-237
• (Gain)/Loss on demographic assumptions	-	-768
Benefits paid	-	-630
Lump sum deficit repayment	-14,426	-
<b>At 31 March</b>	<b>2,522</b>	<b>16,273</b>

## Pension Scheme Assets

Fair value of Scheme Assets		
	2020/21	2019/20
	£000	£000
Cash & Cash Equivalents		
• Cash Accounts	<u>7</u>	<u>121</u>
<b>Cash Total</b>	<b>7</b>	<b>121</b>
Equity Instruments		
• UK Quoted	102	450
• Global quoted	<u>1,003</u>	<u>4,224</u>
<b>Equity Instruments Total</b>	<b>1,105</b>	<b>4,674</b>
Bonds		
• Overseas – Global Fixed Income	160	1,346
• Overseas – Global Dynamic	153	-
• Other Class 2 – Absolute return bonds	<u>149</u>	<u>738</u>
<b>Bonds Total</b>	<b>462</b>	<b>2,084</b>
Property		
• Property Funds	<u>85</u>	<u>401</u>
<b>Property Total</b>	<b>85</b>	<b>401</b>
Private Equity	<u>149</u>	<u>523</u>
<b>Private Equity Total</b>	<b>149</b>	<b>523</b>
Other Investment Funds		
• Infrastructure	70	336
• Hedge Funds	140	598
• BMO – LDI manager	77	318
• Property debt	61	140
• Insurance Linked Securities	<u>35</u>	<u>150</u>
<b>Other Total</b>	<b>383</b>	<b>1,542</b>
<b>Total assets</b>	<b>2,191</b>	<b>9,345</b>

All scheme assets have quoted prices in active markets

## COVID-19

Since February 2020 there have been substantial volatility in financial markets around the world in relation to COVID-19 pandemic, and while this has reduced in recent months, the potential for further volatility remains. This may have consequences for asset values, and this will be reflected in the 2020/21 accounting figures. Over the same period, the market volatility has also extended to corporate bonds, and after an initial spike seen on the yields on AA rates corporate bonds reduce from previous levels. As the discount rate for accounting purposes is based on corporate bond yields, this will also impact on accounting liabilities. Finally, there has been an impact on market-implied RPI over the period, although this will in part be related to the consultation on RPI reform and demand for gilts, rather than any fundamental shift in expectations.

## 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:

	2020/21	2019/20
<b>Mortality assumptions:</b>		
Longevity at 65 for current pensioners (years):		
Men	23	22.9
Women	25.1	25
Longevity at 65 for future pensioners (years):		
Men	24.3	24.2
Women	26.7	26.6
Rate of CPI Inflation	2.7%	2.1%
Rate of Increase in Salaries	3.95%	3.35%
Rate of Increase in Pensions	2.8%	2.2%
Rate for Discounting Scheme Liabilities	2.2%	2.3%

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)	2,593	2,451
Rate of inflation (increase or decrease by 0.1%)	2,598	2,446
Rate of increase in salaries (increase or decrease by 0.1%)	2,538	2,506
Rate of increase in pensions (increase or decrease by 0.1%)	2,598	2,446
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	2,449	2,595

\*The current Defined Benefit Obligation as at 31<sup>st</sup> March 2021 is £2,522 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 1<sup>st</sup> April 2020

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

The Joint Committee anticipates to pay £nil expected contributions to the scheme in 2021/2022

The weighted average duration of the defined benefit obligation for scheme members is 30 years, 2020/2021 (16 years 2019/2020).

## **19. Reserves**

An analysis of the reserves is shown below:

	Opening Balance 1 <sup>st</sup> April 2020 £000	Contributions		Closing Balance 31 <sup>st</sup> March 2021 £000
		To £000	From £000	
General Fund	1,744	6,323	-6,597	1,470
Pensions reserve	-6,928	6,971	-374	-331
Joint Committee capital adjustment account	14	7	-7	14
<b>Total reserves</b>	<b>-5,170</b>	<b>5,999</b>	<b>324</b>	<b>1,153</b>

## Comparative Analysis in 2019/20

	Opening Balance 1 <sup>st</sup> April 2019 £000	Contributions		Closing Balance 31 <sup>st</sup> March 2020 £000
		To £000	From £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
<b>Total reserves</b>	<b>-5,549</b>	<b>840</b>	<b>-461</b>	<b>-5,170</b>

## 20. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits as if in accordance with statutory provisions. The Joint Committee accounts for post employment benefits in the Comprehensive Income & Expenditure Statement as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. Statutory arrangements, however, require benefits earned to be financed as the Joint Committee makes employer's contributions to pension funds or pays any pension for which it is directly responsible. The 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.

	2020/21 £000	2019/20 £000
Opening Balance at 1 April	-6,928	-6,971
Remeasurement (Liabilities & Assets)	-173	203
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	-158	-400
Employer's pensions contributions & direct payments to pensioners payable in the year	-	240
Settlements and transfer out	6,928	-
<b>Closing Balance at 31 March</b>	<b>-331</b>	<b>-6,928</b>

## 21. Joint Committee Capital Adjustment Account

The Joint Committee Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets as if under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The Account is credited with the amounts set aside by the Joint Committee as finance for the costs of acquisition, construction and enhancement.

	31 March 2021 £000	31 March 2020 £000
Opening balance at 1 April	14	1
Fixed assets purchased from revenue resources	7	17
Depreciation of fixed assets	-7	-4
<b>Closing Balance at 31 March</b>	<b>14</b>	<b>14</b>



## 22. Note to the Cash Flow Statement

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

2019/20 £000	2020/21 £000
880 Net Operating Surplus on Comprehensive I&E Statement	919
Adjust net surplus on the provision of services for non cash movements	
4 Depreciation	7
322 Movements on Pension	-82
-1,285 (Increase) / decrease in debtors	1,731
2,370 Increase / (decrease) in creditors	-6,664
Adjust for items included in the net surplus on the provision of services	
-40 Interest and investment income	-30
<b>2,251 Net cash inflow from operating activities</b>	<b>-4,119</b>



## 22.2 Cash Flow Statement – Investing Activities

	31 March 2021 £000	31 March 2020 £000
Interest and investment income	-30	-40
Purchase of plant and equipment	7	17
<b>TOTAL</b>	<b>-23</b>	<b>-23</b>

## 22.3 Cash Flow Statement – Financing Activities

	31 March 2021 £000	31 March 2020 £000
Distribution to Member Authorities	1,111	704
<b>TOTAL</b>	<b>1,111</b>	<b>704</b>

## 22.4 Movement in Cash and Cash Equivalents

	Balance 31/03/20 £000	Balance 31/03/21 £000	Movement In Year £000
Cash in hand	7,371	2,164	-5,207

## 23. Purchase of Non-current Assets

Non-current assets to the value of £7,000 relating to office equipment and motor vehicles were financed from the General Fund Balance in 2020/21 (£17,000 2019/20).

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 2020/21**

#### **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**

### **2020/21 Audit programme**

Five audits were performed during the year covering finance, debtors, procurement, corporate governance and risk management systems and Information Technology and five good assurance opinions were given. A total of six recommendations have been made over the five audit areas reviewed in the year. There are no fundamental or significant recommendations. An action plan is in place to address recommendations within an agreed timeframe.

The five significant recommendations identified in the 2019/20 IT audit review, covering 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 all been resolved.

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 2020/21.

## **Significant Governance Issues**

No significant governance issues were highlighted during 2020/21.

## **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 2020/21.

The COVID 19 Pandemic has resulted in the business implementing business continuity plans to ensure that services continued to be delivered to customers without interruption. 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 position in respect of the historic pension fund deficit has been addressed and has been removed from the West Mercia Energy balance sheet in the 2020/21 financial year.

## **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 Rae Evans)



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	7
28 <sup>th</sup> September 2021	<u>Public</u>

## EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2020/21

**Responsible Officer** Nigel Evans

e-mail: [nevans@westmerciaenergy.co.uk](mailto:nevans@westmerciaenergy.co.uk) Tel: 0333101 4353

### 1. Summary

- 1.1 WR Partners, the Joint Committee's external auditors, have substantially completed their audit work regarding the financial statements of the Joint Committee for the year ended 31<sup>st</sup> March 2021 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 WR Partners.

## 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 WR Partners' audit work was conducted in accordance with the International Standard on Auditing (UK).

### 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 1<sup>st</sup> 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 A procurement exercise was conducted in late 2020 with the winning tenderer WR Partners, an audit firm based in Shrewsbury. Our previous auditors, Grant Thornton, also submitted a bid but were unsuccessful.
- 5.2 WR Partners presented their audit plan for 2020/21 to the March Joint Committee which was considered and approved.
- 5.3 WR Partners 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 two of their report), they anticipate issuing an unqualified audit opinion following this Joint Committee meeting.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
Joint Committee 2 <sup>nd</sup> March 2021 – External Audit Plan 2020/21
Joint Committee 28 <sup>th</sup> September 2015 – Local Audit and Accountability Act
<b>Member</b> Councillor R Evans of Worcestershire County Council (chair of the Joint Committee)
<b>Appendices</b> WR Partners, Audit Close Memorandum for Year Ended 31 March 2021



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West Mercia Energy

Audit Close Memorandum – year ended 31 March 2021

28 September 2021



Service Team

**John Fletcher**  
Engagement Partner  
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Audit Manager  
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**Gwyn Davies**  
Audit in-charge  
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	<i>Page</i>	<b>To the Members of West Mercia Energy Joint Committee</b>
1. Status of the audit	2	The purpose of this memorandum is to highlight the key issues affecting the financial statements of West Mercia Energy for the year ended 31 March 2021. It is also used to report to management and those charged with governance in order to meet the mandatory requirements of International Standard on Auditing (UK) 260.
2. Summary of key audit findings	3	The matters raised in this and other reports that will flow from the audit are only those which will have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks in your business or all internal control weaknesses.
3. Going Concern	6	This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.
4. Completion matters	7	We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during the course of our audit.
Appendix A – Key audit findings		We would like to give our thanks to Nigel Evans, Jo Pugh and their finance team for their assistance and cooperation during the audit. Our team were able to complete the audit in an efficient manner due to the team’s support and understanding of the underlying records and processes of the organisation.
Appendix B – Design and operating effectiveness of controls		This has enabled us to not have to alter or change our approach to the audit that we communicated to you at the start of the audit within the Service Plan.

## 1.1 Matters outstanding

Our audit is complete, subject to the following:

### *Receipt of outstanding information*

- No outstanding information

### *Audit work to be completed*

- Final going concern confirmation

### *Completion procedures*

- Final subsequent events review; and
- Final review of statutory accounts as approved by the Joint Committee.

## 1.2 Audit Plan

In completing our work, we have not had to alter or change our approach to that we communicated to you at the start of the audit within the Service Plan.

## 1.3 Completion and Submission timetable

Based on the outcome from today's audit close meeting we expect that the schedule to completion will be as detailed below:

	Date
Audit close meeting with management	5 August 2021
Joint Committee meeting to approve financial statements	28 September 2021
Audit report approval	28 September 2021

## 2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Audit of significant and elevated risks (Pages 9-11)	<p>Significant and elevated audit risks as identified at the planning stage of the audit have been addressed:</p> <ul style="list-style-type: none"> <li>▪ Fraud - Management override of control (Significant)</li> <li>▪ Fraud - Revenue recognition (Significant)</li> <li>▪ Going concern (Elevated)</li> <li>▪ Covid-19 Fraud risk (Elevated)</li> <li>▪ De-recognition of Pension Scheme (Elevated)</li> </ul>	<p>No issues to report</p>
	<p>Matters for Discussion</p> <p>Notes from discussion with management</p>	<p>Matters Identified for discussion :</p> <ul style="list-style-type: none"> <li>▪ Derecognition of Pension Liability as exceptional cost <ul style="list-style-type: none"> <li>• Split on I&amp;E Account</li> <li>• Currently disclosed within note 18 (page 36)</li> </ul> <p>Agreed to leave disclosure as currently shown within the accounts with current disclosure within note 18 considered to be transparent.</p> </li> <li>▪ Recovery of trade debtor balances <ul style="list-style-type: none"> <li>• North Bromsgrove high School £11,341</li> </ul> <p>Confirmed that balances have now been recovered.</p> </li> <li>▪ Trading risk provision <ul style="list-style-type: none"> <li>• Exposure to future price increases</li> <li>• Recognition in line with CIPFA code</li> </ul> <p>We understand the basis of the provision to be in relation to potential future price movements in the supply of energy which may result in future additional costs being incurred by WME. The basis of the provision is not considered to be in accordance with the CIPFA Code and therefore an uncorrected adjustment has been identified. This is not considered to be material.</p> </li> <li>▪ Outlook for 2022 <ul style="list-style-type: none"> <li>• Current trading position</li> <li>• Risks/opportunities</li> </ul> </li> </ul>	<p>Matters discussed with management with no material impact to note</p>

## 2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Key estimates (Page 12)	We have reviewed the key estimates which are included in the financial statements.	No issues to report
	Accounting policies (Page 12)	We have not noted any accounting policy changes to bring to your attention.	No issues to report
	Related parties (Page 12)	We have reviewed the related party transactions disclosure provided in Note 10 to the accounts.	No issues to report
	Laws and regulations (Page 13)	We have reviewed the compliance with key laws & regulations applicable to the organisation.	No issues to report

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## 2. Summary of key audit findings

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Area

Key audit findings (continued) (Appendix A)

Summary of corrected and uncorrected misstatements (Page 14)

Summary of audit findings

There have been no correcting journals which impact the recorded profit/loss.

	2021 £'000
Surplus per Draft Accounts	7,607
Corrected misstatements:	£nil
Surplus per Audited Accounts	7,607

We have identified one uncorrected misstatement during the course of the audit in relation to the recognition of the trading risk provision. If this provision was released to the income and expenditure account the net operating surplus would increase by £373k.

Matters to note

No issues to report

No issues to report

Uncorrected adjustment identified. Not material to the financial statements.

Design and operating effectiveness of controls (Appendix B)

Recommendations made during the audit (Pages 15-16)

Control recommendations identified during the audit are detailed in Appendix B.

No high risk control matters noted

## 3. Going Concern

### 3.1 Going Concern Assessment

The financial statements have been prepared on a going concern basis and no material uncertainties in relation to the organisation's ability to continue as a going concern for the foreseeable future have been disclosed.

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	Next Year (Forecast) 31/03/2022 £'000	Current Year (Draft) 31/03/2021 £'000	Prior year 31/03/2020 £'000	2 Years Ago 31/03/2019 £'000
Turnover	69,829	60,646	70,246	66,277
Gross Profit %	2.3%	2.59%	2.97%	2.65%
Net Operating Surplus	805	7,607*	880	732
Current Ratio		1.14 : 1	1.10 : 1	1.08 : 1
Cash at bank		2,164	7,371	5,801

\*2021 net operating surplus includes a one off transaction in connection with the derecognition of the pension liability relating to WMS for the total of £6,928k. Excluding the transfer of the pension scheme liability, a normalised net operating surplus of £679k was generated.

Management have confirmed their assessment that the entity is expected to continue trading for a period in excess of twelve months from the date of approval of the financial statements.

**Our discussions with management and our audit work to date in relation to going concern has not highlighted any material uncertainties that we consider require disclosure in the audit report or any reason not to prepare the accounts on a going concern basis.**

### 4.1 Management Representation

We require management to provide the following specific representations in respect of the financial statements:

- Trading risk provision
- Fair Value of Pension Scheme Assets

### 4.2 Subsequent Events

Under International Standard on Auditing 560 we are required to confirm whether there have been any subsequent events since the organisation's year end. We understand that there are no such matters.

### 4.3 Auditors' Report

Subject to all of the matters discussed within this document being cleared, we anticipate being able to issue an unqualified opinion following approval of the accounts by the Joint Committee.

### 4.4 Independence

We can confirm that we have re-evaluated our firm's independence in connection with the audit and we are not aware of any factors affecting our independence or objectivity and thus our ability to continue to act as auditors.

Informed Management:

- Nigel Evans, Director

### 4.5 Audit Debrief

As part of our priority to provide you with the best possible service and to achieve a successful long-term working relationship, we welcome any comments that you or any of your team may have.

- What went well?
- What could have been done better?

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## Appendix A – Key Audit Findings

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## App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<b>Fraud – Management override of controls</b> Risk of material misstatement in the financial statements due to management override of controls	<b>Significant</b>	We have: <ul style="list-style-type: none"> <li>Inspected a sample of cashbook transactions throughout the year and post year end</li> <li>Reviewed accounting estimates with particular focus on the assumptions used and the retrospective adequacy and accuracy</li> <li>Inspected a sample of manual journals posted during the year</li> <li>Reviewed unusual transactions outside the usual course of business</li> <li>Reviewed credit notes post year end</li> </ul>	We have performed the planned testing and have concluded satisfactorily in this area.  Completed – no issues noted
<b>Fraud – Revenue recognition</b> Risk of material misstatement of revenue as a result of fraud	<b>Significant</b>	We have: <ul style="list-style-type: none"> <li>Tested the operating effectiveness of key controls in the revenue cycle to ensure they are operating as expected during the year</li> <li>Inspected on a target basis, a sample of manual journals posted to revenue during the year</li> <li>Performed specific analytical procedures including substantive test of detail</li> <li>Reviewed contract terms with customers</li> <li>Reviewed sales made immediately before and after the year end to ensure correct cut-off</li> </ul>	We have performed the planned testing and have concluded satisfactorily in this area.  Completed – no issues noted

## App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<b>Going Concern</b> The risk that the entity will be unable to continue to operate for the foreseeable future	<b>Elevated</b>	We have: <ul style="list-style-type: none"> <li>Reviewed management going concern assessment</li> <li>Reviewed budgets/forecasts, challenging the assumptions used</li> <li>Considered the financial position and recent performance of the entity in reviewing the adoption of the going concern principal</li> <li>Compared actual results to forecasted results pre- and post-year end</li> <li>Discussed with management</li> <li>Assessed the impact of Covid-19 on the organisation and their operations going forward</li> </ul>	We have performed the planned testing and have concluded satisfactorily in this area. <div>Completed – no issues noted. Final confirmation to be obtained on date of signing</div>
<b>Covid-19 Fraud Risk</b> There is a risk that Covid-19 opportunities have been inappropriately exploited	<b>Elevated</b>	We have: <ul style="list-style-type: none"> <li>Considered the controls and processes that were in place whilst staff were working remotely for robustness</li> <li>Assessed audit procedures and perform additional or enhanced audit procedures where deemed necessary.</li> </ul>	We have performed the planned testing and have concluded satisfactorily in this area. <div>Completed – no issues noted</div>

## App A.1 Audit of significant and elevated risks

Our audit findings in relation to the significant risks and elevated risks identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Audit Risk	Risk Assessment	Work performed	Audit Findings
<b>De-recognition of Pension Scheme (WMS element only)</b> There is a risk that the pension scheme has not been disclosed or accounted for correctly	<b>Elevated</b>	We have: <ul style="list-style-type: none"> <li>Agreed derecognition of the pension scheme to approved council meeting minutes</li> <li>Review accounts disclosures to ensure the removal of pension scheme is appropriately disclosed and the movement through the I&amp;E statement appropriately classified</li> <li>Agreed values used within the derecognition of the pension scheme as at 1 April 2020 to the valuation as at 31 March 2020</li> </ul>	We have performed the planned testing and have concluded satisfactorily in this area. <div>Completed – no issues noted</div>

## App A.2 Key estimates

We have reviewed the key estimates within the financial statements which we consider to be as follows:

Accounting estimate	Audit work performed	Impact on financial statements
Bad debt provision	<ul style="list-style-type: none"> <li>A review of year end debtors undertaken, together with after date cash testing. Consideration given to the debtor age profile.</li> </ul>	<div>Completed – no issues noted</div>
Pension assumptions	<ul style="list-style-type: none"> <li>Reviewed assumptions used in the valuation of the pension scheme comparing to industry averages and benchmarks to ensure reasonable.</li> </ul>	
Prepayments	<ul style="list-style-type: none"> <li>Prepayments reviewed for reasonableness. Substantive testing completed.</li> </ul>	
Accruals & deferred income	<ul style="list-style-type: none"> <li>Accruals and deferred income reviewed for reasonableness. Substantive testing completed.</li> </ul>	
Risk provision	<ul style="list-style-type: none"> <li>Review of basis for risk provision and agreement of key prices to external data and contracts</li> </ul>	<ul style="list-style-type: none"> <li>Point for discussion identified</li> </ul>

## App A.3 Accounting policies

We have reviewed the accounting policies, particularly those involving any key judgements and have no matters to bring to your attention.

## App A.4 Related Parties

Related party transactions and disclosures as identified by you are set out in note 10 to the accounts. These have been reviewed and no other issues identified.

## App A.5 Laws and regulations

Our audit findings in relation to the significant laws and regulations identified at the planning stage of our audit, and communicated in the Service Plan, are detailed below:

Law or regulation	Audit work performed	Impact on financial statements
CIPFA Code	<ul style="list-style-type: none"> <li>Financial statements to be reviewed to ensure all relevant disclosures are included</li> </ul>	<div>Completed – no issues noted</div>
Employment Law	<ul style="list-style-type: none"> <li>Employment contracts reviewed within our audit procedures, together with procedures in place in relation to employment matters. Discussions held with key management.</li> </ul>	
Health and Safety regulations	<ul style="list-style-type: none"> <li>Discussions held with management and confirmation gained of there being no incidents in the year. Board minutes and the procedures in place in relation to health and safety regulations reviewed.</li> </ul>	
Data Protection (GDPR)	<ul style="list-style-type: none"> <li>Discussions to be held with management and review of GDPR compliance to be performed including review of privacy policy.</li> <li>Review of policy implemented across the firm.</li> </ul>	

## App A.6 Summary of Corrected and Uncorrected Misstatements

We set out below details of the :

- Adjustments noted and made to the accounts during the course of the audit following discussion and agreement with you; and
- Details of potential adjustments identified during the course of our audit work.

Management should consider the misstatements identified during the course of our audit work in conjunction with the above findings.

### *Corrected misstatements*

There have been no adjustments identified during the course of the audit that require reflection in the accounts.

### *Uncorrected misstatements*

We have identified one uncorrected misstatement during the course of the audit in relation to the release of the trading risk provision which totals £373,493.




The impact of this uncorrected adjustment is not considered to be material to the financial statements.

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## Appendix B – Design and Operating Effectiveness of Controls

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This section of our report includes recommendations for improvements in systems or controls that were identified during the course of our audit work:

	High Risk – Matters that are considered fundamental against which management should take action as soon as possible				
	Medium Risk – Matters that are considered significant that should be addressed within 3 – 6 months				
	Low Risk – Matters that are not considered fundamental but where improvements can be made				
	Observation		Implication	Recommendation	Management Response
1	<i>No control recommendations have been identified during the course of the audit.</i>				

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<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	8
28 <sup>th</sup> September 2021	<u>Public</u>

## WEST MERCIA ENERGY INTERNAL AUDIT ANNUAL REPORT 2020/21

**Responsible Officer** Ceri Pilawski

e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk) Telephone: 01743 257739

### 1. Summary

- 1.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2021. 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 Five good assurance opinions were given in 2020/21 for the finance, debtors, procurement, corporate governance and risk management systems and the IT system. A total of six recommendations have been made over the five audit areas reviewed in the year. There are no significant or fundamental recommendations to bring to the Committee's attention. A management action plan is in place to address the recommendations 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 substantial year end opinion on West Mercia Energy's internal control environment for 2020/21.***

## **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 2021.
- 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 2020/21.
- c) The Head of Audit's reasonable year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2020/21 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**

- 4.1 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. Climate Change Appraisal**

- 5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. Therefore, no effect.

## 6. Background

- 6.1 This report is the culmination of the work of the Internal Audit team during 2020/21 and seeks to:
- Provide an opinion on the adequacy of the risk management, control and governance arrangements;
  - 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
  - Inform the review of an effective Internal Audit by providing performance data against the plan.
  - Confirm to the Joint Committee that the Audit service has been delivered free from interference throughout the year.
- 6.2 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”.
- 6.3 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 July 2021, 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.
- 6.4 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 2020/21**

- 6.5 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.
- 6.6 The results of individual audits, when combined, form the basis for the overall opinion on the adequacy of the Company's internal control systems. 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:
- The work undertaken on the fundamental financial systems.
  - IT audit work undertaken during the year; the significant issues identified in the previous year's audit have all been addressed in line with the agreed action plan.

Whilst there are a small number of weakness and areas identified for improvement, none that could result in material misstatement in the Company's accounts and reliance can be placed upon the control environment. Plans have been adopted to manage outstanding concerns.

- 6.7 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 substantial year end opinion on West Mercia Energy's internal control environment for 2020/21.***

There was no reduction in planned Internal Audit work in 2020/21, as the Coronavirus situation evolved.

### **Key Assurances provided during 2020/21**

- 6.8 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:

<b>Good</b>	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.
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<b>Reasonable</b>	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.
<b>Limited</b>	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
<b>Unsatisfactory</b>	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

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

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

- 6.10 Recommendations are rated in relation to the audit area rather than the company'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 2020/21**

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Debtors/Income System	Good	0	2	0	0	2
Finance System	Good	0	0	0	0	0
Corporate Governance and Risk Management	Good	0	0	0	0	0
Procurement	Good	0	1	0	0	1
IT	Good	0	3	0	0	3
<b>Total to date</b>						
• numbers		0	6	0	0	6
• percentage		0%	100%	0%	0%	100%

- 6.11 The Internal Audit team has achieved 100% of the plan which is in line with its target. Five good assurance levels were issued during the financial year with assurance in the IT audit of the Utility Billing system moving from Limited in 2019/20 to Good in 2020/21 as the recommendations raised in the previous audit were addressed in line with the agreed action plan. No recommendations have been rejected in the year by management.

### **Audit Performance**

- 6.12 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**

- 6.13 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.
- 6.14 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**

- 6.15 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.

- 6.16 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	2020/21 (%)
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	80
Professionalism of approach	100
Communication skills	100
Timeliness of audit to your business	100
Number of forms returned	5

- 6.17 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)**

- Proposed 2020/21 Internal Audit Programme - Audit Committee on 25<sup>th</sup> February 2020.
- Public Sector Internal Audit Standards.

<ul style="list-style-type: none"> <li>Accounts and Audit Regulations 2015.</li> </ul>
<b>Member</b> Councillor Rae Evans of Telford and Wrekin Council
<b>Appendices: None</b>



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	9
28 September 2021	<u>Public</u>

## Distribution of Surplus

**Responsible Officer** James Walton - Treasurer

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### 1. Summary

- 1.1 The purpose of this report is to request the Joint Committee to defer the distribution of surplus to the Member Authorities due to exceptional circumstances.

### 2. Recommendations

- 2.1 It is recommended that the Joint Committee approve the deferral of the distribution of surplus until the next Joint Committee in February.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Due to unprecedented trading conditions and gas prices being at a historically high level, the implications of this on the 2021/22 financial period are not yet known. Delaying the distribution will assist in managing the risks associated with this.
- 3.2 There is a risk to the Member Authorities and the business of WME if a distribution is made to the Member Authorities without retaining sufficient funds for the proper operation of the business, to maintain a contingency fund and general reserves or provide for future investment. This risk is mitigated as the amount recommended for retention has been calculated taking into account future capital commitments and energy trading reserves (Capital at Risk for gas and electricity).
- 3.3 There are no direct environmental, equalities or climate change consequences arising from this report.

### 4. Financial Implications

- 4.1 By deferring the distribution until February it means the General Fund reserve within WME is maintained at a higher level until this time to support the trading conditions within 2021/22. The General Fund as of 31<sup>st</sup> March 2021 stands at £1.47m.

## 5 Background & report

- 5.1 Following the completion of the annual accounts and the external audit, it is usual at this meeting to consider the distribution to the Member Authorities of the surplus held at the year end as described in the Joint Agreement. The distribution is conducted in line with the provisions set out in the Joint Agreement.
- 5.2 It is being recommended that the distribution is deferred for consideration until the February Joint Committee for two reasons.
- 5.3 The primary reason for the deferral until February is that this would allow a greater view of the trading for the current financial year 2021/22 to enable a better insight to the level of retentions to be made within the distribution in light of the current unprecedented market conditions.
- 5.4 The second reason is due to a change in the distribution formula which is ongoing at this time. A change in distribution formula was discussed and initially agreed with the Member Authority Key Officer Group (s151 officers) in January 2020 and reconfirmed in February 2021. The amended formula allows an equitable distribution for the scenario of Member Authorities adopting differing pricing approaches.
- 5.5 It was agreed that the next distribution would be under the updated arrangement and by deferring to February this allows all of the Member Authorities to ensure that the updated Joint Agreement be considered and agreed by their Cabinet/Executive.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
Statement of Accounts 2020/21
Joint Committee 29 <sup>th</sup> September 2020 – Distribution of Surplus
<b>Member</b> Councillor Rae Evans of Telford & Wrekin Council (Chair of the Joint Committee)
<b>Appendices</b> None



<u>Committee and Date</u>
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West Mercia Energy Joint Committee
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28 <sup>th</sup> September 2021
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<u>Item</u>
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10
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<u>Public</u>
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## RISK MANAGEMENT UPDATE

**Responsible Officer** Nigel Evans

e-mail: [nevens@westmerciaenergy.co.uk](mailto:nevens@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 six 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 six current high and medium risks, the one medium risk from the last meeting that now has a lower rank and the change in rank levels from the last meeting.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change
<b>Current High and Medium Risks</b>							
1	Market conditions leading to less competitive prices / high year on year price rises	Gareth Maude	4	3	12	Medium	Increase
2	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	3	15	Medium	Increase
3	Breach of product tolerance levels	Gareth Maude	4	5	20	High	Increase
4	Breach of trading risk levels	Gareth Maude	1	5	5	Medium	No change
5	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No change
6	Loss of key staff	Nigel Evans	2	4	8	Medium	No change
<b>Previous Medium Risk</b>							
1	Loss of external customer contracts due to natural competition	Nigel Evans	3	3	9	Low	Decrease

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

- 5.5 The key driver affecting the increase in rank levels of the first three identified risks is the energy commodity market conditions we have experienced over recent months. Gas and electricity prices have increased significantly since March and are now trading at unprecedented levels. For example , gas prices for the forthcoming winter have increased by 175%, and electricity prices by 116%.
- 5.6 In addition, Day Ahead gas prices (the price of gas for delivery tomorrow) traded consistently above £1 per therm throughout August having only traded at the levels for six separate days since 2011, all of which were during periods of winter demand. In addition we have seen record price levels at a number of European gas hubs, with month-ahead gas prices (the price of gas for delivery in the following month) at the Dutch gas hub (TTF) continuing to hit new highs, all the more remarkable when again taking into account the fact that we are in summer and comparing prices with the most severe of winters.
- 5.7 With the gas Day Ahead prices currently so high, the rank of the risk associated with the gas cash out (Ref 3 in the table above) has been increased. Should

consumed volumes be greater than those procured (e.g. where the winter is colder than the norm) then these additional volumes would be bought at the Day Ahead rates leading to additional costs.

- 5.8 The risk related to external customer contract retention has been reduced due to the positive work conducted over recent months.
- 5.9 Providing customers with the necessary products and support as they progress with their carbon zero ambitions continues to be key focus for the business. The risk associated with not doing so is considered in the risk register and is currently classified as a low risk due to the positive work done in this area to date which will develop further over the coming year.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
Joint Committee 2 <sup>nd</sup> March 2021 – Risk Management Update
<b>Member</b> Councillor Rae Evans of Telford & Wrekin Council (Chair of the Joint Committee)
<b>Appendices</b> None

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