



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

Date: 16<sup>th</sup> September 2022

**Committee:**  
**West Mercia Energy Joint Committee**

**Date:** Tuesday, 27 September 2022  
**Time:** 11.00 am (at the conclusion of the WMS Pensions Joint Committee)  
**Venue:** Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

If you wish to attend the meeting please email [democracy@shropshire.gov.uk](mailto:democracy@shropshire.gov.uk) to check that a seat will be available for you.

Please click [here](#) to view the livestream of the meeting on the date and time stated above

The recording of the meeting will also be made available shortly after the meeting on the Shropshire Council Youtube Channel: [Here](#)

You are requested to attend the above meeting. The Agenda is attached  
Tim Collard  
Assistant Director - Legal and Governance

**Members of West Mercia Energy Joint Committee**

Herefordshire Council	L Harvey G Davies
Shropshire Council	G Butler E Potter
Telford & Wrekin Council	L Carter R Evans
Worcestershire County Council	A Kent A Hardman

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 - 6)**

To receive the minutes of the Joint Committee meeting held on 15<sup>th</sup> March 2022.

### **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 22<sup>nd</sup> September 2022.

### **4 Disclosable Interests**

Members are reminded that they must declare their disclosable pecuniary interests and other registrable or non-registrable interests in any matter being considered at the meeting as set out in Appendix B of the Members' Code of Conduct and consider if they should leave the room prior to the item being considered. Further advice can be sought from the Monitoring Officer in advance of the meeting.

### **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 2021/22 and Annual Governance Statement 2021/22 (Pages 7 - 64)**

Report of Treasurer  
Contact: James Walton (01743 258915)

### **7 External Audit - Audit findings report 2021/22 (Pages 65 - 82)**

Report of the Director of West Mercia Energy.  
Contact: Nigel Evans (0333 101 4424)

**8 Internal Audit Annual Report 2021/22** (Pages 83 - 90)

Report of the Audit Services Manger  
Contract: Ceri Pilawski (01743 257739)

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

Report of Treasurer  
Contact: James Walton (01743 258915)

**10 Risk management update** (Pages 95 - 98)

Report of the Director of West Mercia Energy  
Contact: Nigel Evans (0333 101 4353)

**11 Standing Orders** (Pages 99 - 114)

Report of the Director of West Mercia Energy  
Contact: Nigel Evans (0333 101 4353)

**12 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.

**13 Exempt Minutes** (Pages 115 - 118)

To approve the exempt Minutes of the meeting held on 15<sup>th</sup> March 2022.

**14 Update on Business Plan and Trading to Date 2022/23** (Pages 119 - 136)

Report of the Director of West Mercia Energy  
Contact: Nigel Evans (0333 101 4353)

**15 Use Cleaner Use Less update** (Pages 137 - 146)

Report of the Director of West Mercia Energy  
Contact: Nigel Evans (0333 101 4353)

**16      Date of Next Meeting**

To note the date of the next meeting.



## Committee and Date

West Mercia Energy Joint  
Committee

27<sup>th</sup> September 2022

### **WEST MERCIA ENERGY JOINT COMMITTEE**

**Minutes of the meeting held on 15 March 2022**

**In the Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate, Shrewsbury,  
Shropshire, SY2 6ND**

**10.00 am - 12.40 pm**

**Responsible Officer:** Emily Marshall

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

### **Present**

Councillors Evans, Hardman, Kent, Davies, Harvey, Ed Potter and Gwilym Butler (joined remotely as a non voting member)

#### **1 Election of Chairman**

##### **RESOLVED:**

That Councillor Liz Harvey be appointed Chairman for the ensuing year.

#### **2 Apologies for Absence**

Apologies for absence were received from Councillor Lee Carter.

#### **3 Appointment of Vice-Chairman**

##### **RESOLVED:**

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

#### **4 Minutes**

##### **RESOLVED:**

That the Minutes of the West Mercia Energy Joint Committee held on 29<sup>th</sup> November 2021 be approved as a correct record and signed by the Chairman.

#### **5 Public Questions**

One question was received from Slawomir Adam Fejfer. A full copy of the question and response provided is attached to the web page for the meeting and also attached to the signed minutes.

#### **6 Disclosable Pecuniary Interests**

None declared.

#### **7 Supplier Contracts**

The Director of WME confirmed that there were no entries to report.

## **8 External Audit Plan 2021/2022**

The Director introduced, John Fletcher (Partner) and Alex Riley (Audit Manager) from W R Partners. Alex Riley provided an overview of the audit plan and invited questions.

Clarification was sought in relation to page 11 relating to fraud and the disruption in world economy and how this impacted contracts. In response John Fletcher explained that this linked in with going concern. Reverse stress testing was performed, and this is linked into commercial contracts.

In response to a question relating to cyber fraud, John Fletcher explained that there was an increased risk due to the pandemic, due individuals working from home and receiving authorisation through emails and linked in with the fraud assessment and looking closely at the IT controls within an organisation. This was an area that was being focused on as part of the audit and they would report back. The Director of WME also confirmed that the business was working closely with Shropshire Council's Internal audit ICT Teams and WME was currently looking to review their Cyber Essentials Accreditation.

### **RESOLVED:**

1. That the draft audit plan for 2021/22 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.

## **9 Internal Audit Performance Report to March 2022**

Ceri Pilawski, Head of Internal Audit presented the report, which outlined the Internal Audit Performance reports to March 2022.

The Chairman thanked the Head of Internal Audit for the excellent report and good assurance.

### **RESOLVED:**

That the performance to date against the 2021/22 Audit Plan as set out in this report be endorsed.

## **10 Internal Audit Strategic Plan 2022**

Ceri Pilawski, Head of Internal Audit presented the report, which outlined the Internal Audit Strategic Plan 2022/2023.

### **RESOLVED:**

That the proposed programme of audits for 2022/23 be endorsed.

## 11 **Anti-Slavery and Human Trafficking Statement - 2021/2022**

The Director of West Mercia Energy presented the Anti-Slavery and Human Trafficking Statement Transparency Statement for 2021/22 for approval.

### **RESOLVED:**

1. That the draft WME Transparency Statement for 2021/22 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.

## 12 **Risk Management Update**

The Director presented a report which provided a review of the WME Risk Management Strategy, including new risks and those upgraded, several of which were related to extreme and challenging market conditions and high prices currently being experienced.

It was questioned whether the commercial market had been affected by those suppliers who had ceased trading and how this had affected the scope in terms of the options available from different companies. In response the Director explained that the number of fixed price tenders that WME run were limited and Total, WME's flexible procurement framework provider, did not have a footprint in the domestic market and so there had been no impact there, it was added that recently many supplies have been reluctant to quote but overall there has been no significant effect on our supplier base.

In response to a question relating to risks associated with key staff, the Director was pleased to report that a new Head of Energy Procurement and Risk Management had been appointed.

In response to a question relating to climate change and how academics could be worked with to save energy and reduce over consumption, the Director confirmed that WME was looking to engage with partner organisations to gain the relevant expertise.

### **RESOLVED:**

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

## 13 **Distribution of Surplus**

The Treasurer presented the report which recommend the level of distribution of the surplus held on 31st March 2021 to the Member Authorities. The Treasurer explained that the new distribution method had been approved by the Cabinet's of Herefordshire Council, Shropshire Council and Telford & Wrekin Council but approval from Worcestershire County Council had not yet been secured. It was confirmed that for a distribution to be made, uniform agreement of the method is required by all four Member Authorities, if agreement from Worcestershire County Council was not secured an alternative approach would need to be found.

**RESOLVED:**

1. That the retention of a minimum accumulated surplus of £0.894 million be approved
2. That authority be delegated to the Treasurer, following a review of the updated forecasted positions and final volumes for March 2022, to increase the retained amount of the accumulated surplus in Recommendation 2.1 in order to ensure prudent cashflow for the 21/22 financial year.
3. That once the Treasurer has exercised the delegation in Recommendation 2.1(b), the distribution of any remaining accumulated surplus up to a maximum of £0.576 million following the deduction of the retained amount, in accordance with the revised distribution method under the amended provisions of the Joint Agreement. This is subject to the formal approval of the revised distribution method by Worcestershire County Council, the remaining Member Authority to do so.

**14 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.

**15 Exempt Minutes**

**RESOLVED:**

That the Exempt Minutes of the meeting held on 29th November 2021 be approved as a correct record.

**16 Annual Business Plan and Budget 2022/23 including review of 2021/22**

The Director presented an exempt report for approval.

**RESOLVED:**

That the recommendations contained within the exempt report be approved.

**17 Date of Next Meeting**



It was noted that the next meeting would take place on Tuesday, 27<sup>th</sup> September 2022 at 10.00 a.m. in the Shrewsbury Room, Shirehall, Shrewsbury.

Signed ..... (Chairman)

Date: .....

This page is intentionally left blank



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	
27 <sup>th</sup> September 2022	
	<u>Public</u>

## **Statement of Accounts 2021/22 and Annual Governance Statement 2021/22**

**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 2021/22 and the Annual Governance Statement 2021/22.

### **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 2021/22 to be signed by the Chairman and the Treasurer.
  - c) To consider the Annual Governance Statement 2021/22.

## **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 2022.
- 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 2021/22, which details processes and procedures in place to enable WME to carry out its' functions effectively. See Appendix 3.

## 6 Publication of Accounts

- 6.1 Once signed, the annual Statement of Accounts 2021/22 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 L Harvey of Herefordshire Council (Chair of the Joint Committee)
<b>Appendices</b> 1 - The Letter of Representation 2 - Statement of Accounts 2021/22 3 - Annual Governance Statement 2021/22

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

27<sup>th</sup> September 2022

Dear Sirs

**West Mercia Energy Joint Committee  
Financial Statements for the Year Ended 31 March 2022**

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 2022. 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, as set out in the terms of your engagement letter dated 8<sup>th</sup> March 2022 under the Companies Act 2006, 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 shareholder meetings.
4. The financial statements are free from material misstatements including omissions.

**INTERNAL CONTROL AND FRAUD**

5. 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.
6. 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.

7. 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**

8. 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.
9. All actual liabilities, contingent liabilities and guarantees given to third parties have been recorded or disclosed as appropriate.
10. 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.

### **ACCOUNTING ESTIMATES**

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

### **LOANS AND ARRANGEMENTS**

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

### **LEGAL CLAIMS**

13. 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**

14. 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**

15. 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 of accounting standards.

### **SUBSEQUENT EVENTS**

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

## GOING CONCERN

17. 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 director has taken all the steps that they ought to have taken as a director 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**

This page is intentionally left blank



**WEST MERCIA ENERGY  
JOINT COMMITTEE**

**STATEMENT OF ACCOUNTS  
FOR THE YEAR  
ENDED 31<sup>ST</sup> MARCH 2022**

Providing energy services  
for the public sector

A Local Authority owned purchasing organisation





## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **CONTENTS**

	<b>Page Number</b>
<b>Financial Summary for the Year 2021/22</b>	<b>2</b>
<b>Introductory Statements:</b>	
Statement of Responsibilities and Joint Committee Approval	6
<b>Core Financial Statements and Explanatory Notes:</b>	
Movement in Reserves Statement	8
Comprehensive Income and Expenditure Statement	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Core Financial Statements	13
<b>Auditors' Report</b>	



## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **FINANCIAL SUMMARY** **FOR THE YEAR 2021/22**

#### **Introduction**

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2021 to 31 March 2022 and shows the organisation's financial position at the year end together with the trading income and expenditure figures that have been produced throughout the period.

#### **The Statements**

##### **Narrative Report**

This provides an effective guide to the most significant matters reported in the accounts, including an explanation of the financial position and details the performance during the financial year.

##### **Statement of Responsibilities and Joint Committee Approval**

This section deals with the financial responsibilities of the Joint Committee and the Treasurer to the Joint Committee and confirms the date when the Joint Committee approved the accounts.

##### **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Joint Committee.

##### **Comprehensive Income and Expenditure Statement**

This account summarises the annual income and expenditure of the trading operations to show the organisation's net surplus for the year.

##### **Balance Sheet**

This sets out the financial position of the Joint Committee as at the year end 31 March 2022.

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

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

## **Narrative report 2021/22**

### Organisational Overview

West Mercia Energy Joint Committee is a purchasing consortium established as a Joint Committee under s.101 of the Local Government Act 1972 and comprises of four Member Authorities:

- Herefordshire Council
- Shropshire Council
- Telford & Wrekin Council
- Worcestershire County Council

Each Member Authority appoints two of their Elected Members to serve on the Joint Committee, each with voting rights. The Joint Committee is delegated with the operation and management of the organisation and is responsible for the discharge of the functions of the Member Authorities.

### Governance

Certain professional services are provided for Joint Committee including:

- Financial Advice  
The Member Authorities have appointed Shropshire Council as Treasurer.
- Legal Advice  
The Member Authorities have appointed Shropshire Council as Secretary.

The Treasurer and the Secretary liaise with officers of Member Authorities so that they comply with their responsibilities under s.5 of the Local Government and Housing Act 1989 and s.151 of the Local Government Act 1972.

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the officers within the organisation who have responsibility for the development and maintenance of the internal control environment. On the basis of the work undertaken and management responses received the Head of Audit at Shropshire Council was able to deliver a substantial year end opinion on West Mercia Energy's internal control environment for 2021/22 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2021/22.

### Risks and Opportunities

A WME Risk Management Strategy is approved annually by the Joint Committee and a detailed risk register is maintained. The risk register is kept under constant review and all risks which have been classified as medium or high are reported to the Joint Committee at each meeting. With energy market prices being at unprecedented levels within the year the rank of a number of risks were increased. These risks include those associated with operating the trading strategy within these extraordinary market conditions and the impact on customer pricing particularly where the customer delayed contractual commitment. Controls are in place to mitigate these risks as far as possible to ensure the longevity of the business.

## Performance and Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Further Information**

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

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 2022.

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

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

The Treasurer to the Joint Committee has also to:

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

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

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

I certify that the Committee's Statement of Accounts provides a true and fair view of the financial position of the West Mercia Energy Joint Committee at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

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

### **Joint Committee Approval**

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

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

**Date:**



## MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2022

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

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

### Pensions Reserve

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

### Joint Committee Capital Adjustment Account

The Joint Committee Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets as if in accordance with statutory provisions.

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



## MOVEMENT IN RESERVES STATEMENT (CONTINUED)

### AS AT 31 MARCH 2021

	General fund	Pensions reserve	Joint Committee capital adjustment account	Total reserves
		Note 20	Note 21	
	£000	£000	£000	£000
<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	-	<b>0</b>
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>

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

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

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

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

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

## BALANCE SHEET AS AT 31 MARCH 2022

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

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

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

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2022

The Cash Flow Statement shows the changes in cash and cash equivalents of the Joint Committee during the reporting period. The statement shows how the Joint Committee generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Joint Committee's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Joint Committee.

2020/21	2021/22	
£000	£000	£000 Notes
<b>Operating activities</b>		
<u>Cash outflows</u>		
554 Cash paid to and on behalf of employees	595	
206 Other operating costs	237	
66,403 Cost of goods sold	65,619	
<hr/> 67,163	<hr/>	66,451
<u>Cash inflows</u>		
-62,377 Turnover	-66,870	
-667 Other trading operation income	-717	
<hr/> -63,044	<hr/>	-67,587
4,119 <b>Net cash inflow from operating activities</b>		-1,136 22.1
-23 <b>Investing activities</b>		-6 22.2
1,111 <b>Financing activities</b>		- 22.3
<b>5,207 Net decrease (increase) in cash and cash equivalents</b>		<b>-1,142 22.4</b>
7,371 Cash and cash equivalents at 1st April		2,164
<b>2,164 Cash and cash equivalents at 31st March</b>		<b>3,306 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 2021/22 summarises the Joint Committee's transactions for the 2021/22 financial year and its position at 31 March 2022. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, as far as it is practicable and applicable to the Joint Committee, supported by International Financial Reporting Standards (IFRS). The nature of the Joint Committee as a purchasing consortium means that full compliance is not always possible. The only departure relates to the the Comprehensive Income and Expenditure Statement layout which shows the income first and then all the expenditure grouped by type of expense. This differs from Local Authority Accounting, but this layout does allow a reader to interpret the statement in relation to the industry the Joint Committee operates in.

#### **1.2 Concepts**

The Statement of Accounts have been prepared in accordance with all prevailing concepts of accrual and going concern together with relevance, reliability and comparability. The going concern concept assumes that the organisation will continue in operational existence for a minimum of 12 months from the date of the approval of the financial statements. The management of WME are of this view due to the Joint Agreement that is in place and both supplier and customer contracts are in place beyond 30<sup>th</sup> September 2023.

#### **1.3 Legislation**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Recognition**

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

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

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

## Initial Measurement

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

## Measurement After Recognition

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

## Derecognition

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

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

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

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

## Depreciation

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

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

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



## **Impairment**

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

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

## **1.7 Cash and Cash Equivalents**

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

## **1.8 Debtors and Creditors**

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

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

## **1.9 Financial Assets**

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

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

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

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

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

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

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

Instruments with quoted market prices – the market price

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

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

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

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

Level 3 inputs – unobservable inputs for the asset.

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

### **Expected Credit Loss Model**

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

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

## **1.10 Financial Liabilities**

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

## **1.11 Reserves**

### **General Fund Balance**

The Balance Sheet includes a sum for the General Fund Balance. This shows the total unused accumulated net surplus for the Joint Committee carried forward to 2022/23.

### **Pensions Reserve**

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

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

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

## **1.12 Employee Benefits**

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

### **Benefits Payable During Employment**

Where the accumulating short-term absences (eg annual leave and flexi time earned by employees but not taken at 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 2.7% (2020/21: 2.2%) based on the indicative rate of return on high quality corporate bonds of appropriate duration.

The assets of Shropshire County Pension Fund attributable to the Joint Committee are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the service expenditure
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on Services in the Comprehensive Income and Expenditure Statement
  - net interest on the net defined benefit liability (asset), ie net interest expense for West Mercia Energy Joint Committee – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Contributions paid to the Shropshire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, the General Fund Balance is to be charged with the amount payable by the Joint Committee to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **1.13 Interest**

Interest receivable from investments is recognised in the financial statements during the period in which it became due to the Joint Committee.

Interest payable to Member Authorities is recognised in the financial statements during the period in which it became due by Joint Committee.

## **1.14 Foreign Currency**

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

## **1.15 Events After the Balance Sheet Date**

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

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

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

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

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

## **1.16 Provisions**

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

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

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

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

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

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2022/23 Code:

- IFRS 16 Leases (but only for those that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
  - • IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
  - • IAS 37 (Onerous contracts) – clarifies the intention of the standard
  - • IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
  - • IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply in limited circumstances.

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

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

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

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

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

There are no other critical judgements made in the Statement of Accounts.

## 4. Expenditure and funding analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2021/22					
	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	62	439	501	-	501
Services/Support services	-119	-209	-328	-59	-387
Net cost of Services	-57	230	173	-59	114
Other Income and Expenditure			279		279
Distribution of Surplus to Member Authorities			-		-
Surplus or (Deficit)			452	-59	393
Opening General Fund					1,470
Capital Purchases funded from General Fund					-1
Less deficit on General Fund					393
<b>Closing General Fund</b>					<b>1,862</b>



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

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

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

2021/22				
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Net Cost of Services	8	-67		-59
Other income and expenditure from the Expenditure and Funding Analysis		279		279
Capital Purchases funded from General Fund	-1			-1
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	7	212	-	219

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

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

Income received on a segmental basis is analysed below:

	2021/22 Income from Services	2020/21 Income from Services
	£000	£000
Energy Sales	67,320	60,316
Other Income	285	330
<b>Total income analysed on a segmental basis</b>	<b>67,605</b>	<b>60,646</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 2022 for which there is a risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
<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 £73,000. However the assumptions interact in complex ways. During 2021/22 the actuaries advised that the net pensions liability had decreased by £67,000.

## 6. Turnover and other income

Turnover is the VAT exclusive total of invoiced sales for energy and related income.

## 7. Financing and Investment Income and Expenditure

### Interest and Investment Income

The Joint Committee's daily bank balances are invested with Shropshire Council balances. Interest is debited or credited to the Joint Committee because of the level of daily bank balances invested.

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

## 8. Staff Remuneration

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

Band	Number of Employees	
	2021/22	2020/21
£ 75,000 to £ 79,999	-	1
£ 100,000 to £ 104,999	1	-

Remuneration for these purposes includes all sums paid to an employee by way of salary, expenses, profit related pay and the money value of any other benefits received other than cash.

There are no staff members receiving remuneration between £50,000 and £74,999 or between £80,000 and £99,999, so the staff remuneration table above has been adjusted accordingly.

## Disclosure of Remuneration for Senior Employees

### 2021/22

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

### 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>

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

## 9. Audit Costs

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

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

## 10. Related Party Transactions

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

### Members and Officers

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

The Joint Committee Members are also members of other local organisations (for example county councils). One of the members of the Joint Committee owns a small number of shares in WME's current energy supplier but this member does not have any control or influence over the awarding of energy contracts. No other personal or prejudicial interest in the material transactions of the Joint Committee has been disclosed by any of the Joint Committee Members or by any of the senior management. The Joint Committee is owned by four Member Authorities. Membership entitles the authorities to a share of any surplus generated by the Joint Committee. For clarity, the turnover with each Member Authority was:

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

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

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

## 11. Net Surplus Adjustment for PRP/ Distribution Purposes

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

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

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

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

The calculation is shown in the table below:

	2021/22 £000	2020/21 £000
Net Profit for the Year – Per Comprehensive Income and Expenditure Statement	-173	-6,496
Profit Related Pay	-19	-33
Distribution of Surplus Member Authorities	-	-1,111
Pensions Movement included in Operating Expenses	-212	6,770
<b>Net Surplus for PRP/Distribution Purposes</b>	<b>-404</b>	<b>-870</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 do not include the distribution from the General Fund to Member Authorities of £576k as payment was deferred to 2022/23. This payment distributes part of the General Fund brought forward at the end of year 2020/21 between Member Authorities in accordance with the formula determined in the Joint Agreement.

## 12. Plant & Equipment

	Plant, Equipment and Motor Vehicles 2021/22	Plant, Equipment and Motor Vehicles 2020/21
	£000	£000
<b>Cost / Valuation</b>		
As at 1 April	78	79
Additions	1	7
Disposals	-	-8
As at 31 March	79	78
<b>Accumulated Depreciation</b>		
As at 1 April	64	65
Charge	8	7
Relating to disposals	-	-8
As at 31 March	72	64
<b>Net Book Value</b>		
<b>As at 31 March</b>	<b>7</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 2022.



## 14. Financial Instruments

### Categories of Financial Instruments

The Joint Committee has the following categories of financial instruments carried in the Balance Sheet. These categories are all classified as having insignificant risk.

### Financial Assets

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

## Financial Liabilities

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

## Income, Expense, Gains and Losses

	2021/22					2020/21				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-	-	-	-	-	-
Interest income	-	7	-	-	7	-	30	-	-	30
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	7	-	-	7	-	30	-	-	30
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain for the year</b>	-	7	-	-	7	-	30	-	-	30

## Fair Values of Assets and Liabilities

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

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

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

## Nature and Extent of Risks Arising from Financial Instruments

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

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

### Credit Risk

Credit risks arise from deposits with banks and from credit exposures to the organisation's customers. Deposits are made managed by Shropshire Council and are made with banks which satisfy criteria as outlined in Shropshire Council's creditworthiness policy.

Customer debt is managed in accordance with the Joint Committee Credit Management Policy.

The level of debt written off each financial year in previous years is negligible, with the net position of write offs over the last three financial years being less 0.03% of turnover.

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

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

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

### **Liquidity Risk**

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

### **Market Risk**

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

## **15. Short Term Debtors**

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

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

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

## 16. Cash and Cash Equivalents

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

## 17. Short Term Creditors

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

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

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

The Settlements and Transfer of £6.928m in 2020/21 related to the Member Authorities agreeing to transfer the pension deficit liability to a new Joint Committee from 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.

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

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

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

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

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

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



## Pension Scheme Assets

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

All scheme assets have quoted prices in active markets

## COVID-19 / Ukraine

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

from 2030. CPIH is generally lower than RPI, meaning RPI inflation will be lower from 2030. The long term average to CPI and CPIH to be similar.

## Basis for Estimating Assets and Liabilities

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

The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Limited who are independent actuaries.

The significant assumptions used by the actuary have been:

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme*		
	Increase in Assumption £000	Decrease in assumption £000
Longevity (increase or decrease in 1 year)	2,717	2,571
Rate of inflation (increase or decrease by 0.1%)	2,723	2,565
Rate of increase in salaries (increase or decrease by 0.1%)	2,659	2,629
Rate of increase in pensions (increase or decrease by 0.1%)	2,723	2,565
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	2,567	2,721

\*The current Defined Benefit Obligation as at 31<sup>st</sup> March 2022 is £2,644 million

### **Techniques Employed to Manage Risk**

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

### **Impact on the Joint Committee's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. A triennial valuation was completed as at 31 March 2019 with the next one due to be completed as at 31 March 2022. Revised contribution rates from the 2019 actuarial valuation took effect on 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 2022/2023

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

## 19. Reserves

An analysis of the reserves is shown below:

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

## Comparative Analysis in 2020/21

	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>13,301</b>	<b>-6,978</b>	<b>1,153</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.

	2021/22 £000	2020/21 £000
Opening Balance at 1 April	-331	-6,928
Remeasurement (Liabilities & Assets)	279	-173
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	-212	-158
Employer's pensions contributions & direct payments to pensioners payable in the year		-
Settlements and transfer out	-	6,928
<b>Closing Balance at 31 March</b>	<b>-264</b>	<b>-331</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 2022 £000	31 March 2021 £000
Opening balance at 1 April	14	14
Fixed assets purchased from revenue resources	1	7
Depreciation of fixed assets	-8	-7
<b>Closing Balance at 31 March</b>	<b>7</b>	<b>14</b>



## 22. Note to the Cash Flow Statement

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

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

## 22.2 Cash Flow Statement – Investing Activities

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

## 22.3 Cash Flow Statement – Financing Activities

	31 March 2022 £000	31 March 2021 £000
Distribution to Member Authorities	-	1,111
<b>TOTAL</b>	<b>-</b>	<b>1,111</b>

## 22.4 Movement in Cash and Cash Equivalents

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

## 23. Purchase of Non-current Assets

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

As the purchase of assets is a charge to the General Fund Balance, the expenditure did not constitute a cash outflow from the Income and Expenditure Statement.



**Chapter House South  
Abbey Lawn  
Abbey Foregate  
Shrewsbury  
Shropshire  
SY2 5DE**

**0333 101 4424**

**customerservices@westmerciaenergy.co.uk**

**[www.westmerciaenergy.co.uk](http://www.westmerciaenergy.co.uk)**

**Providing energy services  
for the public sector**

A Local Authority owned purchasing organisation





## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **ANNUAL GOVERNANCE STATEMENT 2021/22**

#### **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.

#### **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**

### **2021/22 Audit programme**

Four audits were performed during the year covering finance, debtors and income systems, corporate governance and risk management systems and Information Technology. Good assurance opinions were given for the audits with the exception of Information Technology, where a reasonable assurance level was provided. A total of eight recommendations have been made over the four audit areas reviewed in the year. There are no fundamental or significant recommendations

demonstrating a strong internal control environment. An action plan is in place to address recommendations within an agreed timeframe.

Based on the work undertaken and management responses received; the organisation's governance, risk management and internal control processes are sound and working effectively and the Head of Audit can deliver a substantial year end opinion on West Mercia Energy's internal control environment for 2021/22.

### **Significant Governance Issues**

No significant governance issues were highlighted during 2021/22.

### **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.

The unprecedented conditions within the energy markets over the year resulted in three high risks being identified. Two risks were closely linked, being the breach of product tolerance levels and breach of trading risk levels. Both related specifically to the gas contract and were closely monitored and managed through the year by management with the necessary input from the Member Authorities through a Key Officer Group (comprising of senior financial officers). Internal Audit conducted a review of this area and concluded that all parties responded quickly to the changing market with adequate information provided to the Key Officer Group for guidance and direction to be given to WME. Steps have been taken from April 2022 to mitigate the risks using an alternative trading product.

The third risk related to customers experiencing substantial year on year price rises due to delays in the customers completing their procurement exercises and/or signing new contracts. This occurred despite regular prompting from WME. Such delays in previous years, whilst creating operational challenges, would not have resulted in such increases but the customer delays have this year adversely affected prices due to the prevailing market conditions. WME will continue to liaise closely with customers ahead of contract end dates.

### **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 Liz Harvey)

This page is intentionally left blank



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	
27 <sup>th</sup> September 2022	
	<u>Public</u>

## EXTERNAL AUDIT – AUDIT FINDINGS REPORT 2021/22

**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 completed their audit work regarding the financial statements of the Joint Committee for the year ended 31<sup>st</sup> March 2022 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 WR Partners presented their audit plan for 2021/22 to the March Joint Committee which was considered and approved.
- 5.3 WR Partners have completed their audit work of the WME financial statements and 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 15 <sup>th</sup> March 2022 – External Audit Plan 2021/22
Joint Committee 28 <sup>th</sup> September 2015 – Local Audit and Accountability Act
<b>Member</b> Councillor L Harvey of Herefordshire Council (chair of the Joint Committee)
<b>Appendices</b> WR Partners, Audit Close Memorandum for Year Ended 31 March 2022



## West Mercia Energy

Audit Close Memorandum – year ended 31 March 2022

*27 September 2022*



### Service Team

John Fletcher  
Engagement Partner  
E: [jfletcher@wrpartners.co.uk](mailto:jfletcher@wrpartners.co.uk)

Alex Riley  
Audit Manager  
E: [ariley@wrpartners.co.uk](mailto:ariley@wrpartners.co.uk)

Patrick Henderson  
Audit in-charge  
E: [phenderson@wrpartners.co.uk](mailto:phenderson@wrpartners.co.uk)

	<i>Page</i>	<b>To the Joint Committee Members of West Mercia Energy</b>
1. Status of the audit	2	The purpose of this memorandum is to highlight the key issues affecting the financial statements of WME for the year ended 31 March 2022. 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	9	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 Joint Committee.
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 further outstanding information

### *Audit work to be completed*

- Final Subsequent events review

### *Completion procedures*

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

## 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	8 August 2022
Joint Committee meeting to approve financial statements	27 <sup>th</sup> September 2022
Audit report approval	27 <sup>th</sup> September 2022

## 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 11-12)	<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> </ul>	No issues to report
	Matters for Discussion	<p>Matters arising for further discussion:</p> <ul style="list-style-type: none"> <li>Current performance update and business plan <ul style="list-style-type: none"> <li>Impact of change of product from Cash Out (Gas)</li> <li>Customer communication and retention</li> <li>Electricity supply contract – renewal 1 April 2024</li> <li>Current market risk and volatility</li> <li>Outlook for 2023 and beyond</li> </ul> </li> <li>Gross Margin and contract provisions <ul style="list-style-type: none"> <li>Reduction in Gross Margin from 2.65 to 1.8%</li> <li>To consider any loss making contracts in place which may require providing for</li> </ul> </li> <li>Distribution disclosure (note 1.15) <ul style="list-style-type: none"> <li>Distribution of 2021 balance scheduled for payment post year end</li> <li>Distribution in relation to the 2022 year end</li> </ul> </li> </ul>	<p>Items discussed with management at the audit close meeting.</p> <p>No issues identified which would impact on the audit report.</p>

## 2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (Appendix A)	Key estimates (Page 11)	We have reviewed the key estimates which are included in the financial statements.	No issues to report
	Accounting policies (Page 11)	We have not noted any accounting policy changes to bring to your attention.	No issues to report
	Related parties (Page 11)	We have reviewed the related party transactions disclosure provided in Note 10 to the accounts.	No issues to report
	Laws and regulations (Page 12)	We have reviewed the compliance with key laws & regulations applicable to the Joint Committee.	No issues to report

## 2. Summary of key audit findings

Area		Summary of audit findings	Matters to note
Key audit findings (continued) (Appendix A)	Summary of corrected and uncorrected misstatements (Page 13)	<p>There have been no correcting journals which impact the recorded surplus of £173k.</p> <p>We have not identified any uncorrected misstatements as part of our audit testing.</p>	<p>No issues to report</p> <p>No issues to report</p>
Design and operating effectiveness of controls (Appendix B)	Recommendations made during the audit (Pages 14-15)	No Control recommendations identified during the audit work performed.	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.

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. Management have included the assessment of longer term forecasts within their assessment including

Key points arising from our review of management going concern assessment include:

Future Forecasts:

- Change from 'Cash Out' product
- Fully locked positions for 2023

Key Assumptions & Sensitivity analysis

- Customer retention and new customer wins
- Ongoing energy usage reductions
- Market gains/losses
- Gas volume forecasts
- Weather conditions

**Our discussions with management and our audit work 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. Other matters

### 4.1 Management Representation

We do not require management to provide any specific representations in respect of the financial statements.

### 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 Board.

### 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. The self review and management threats arising from our assistance in the provision of non-audit services, have been sufficiently addressed by appropriate safeguards including independent internal reviews, the existence of informed management, and the involvement of other relevant individuals who are required to approve all adjustments impacting the financial statements.

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?

---

## Appendix A – Key Audit Findings

---

## 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 issued 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 tests 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 Joint Committee will be unable to continue to operate for the foreseeable future	<b>Elevated</b>	We have: <ul style="list-style-type: none"> <li>Reviewed the Joint Committee members' going concern assessment</li> <li>Reviewed budgets/forecasts, challenging the assumptions used</li> <li>Considered the financial position and recent performance of the Joint Committee in reviewing the adoption of the going concern principal</li> <li>Reviewed cash facilities to ensure they meet the forecasted cash flow requirements</li> <li>Compared actual results to forecasted results pre- and post-year end</li> <li>Discussed with management</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>	
Accruals & Deferred income	<ul style="list-style-type: none"> <li>Accruals and deferred income reviewed for reasonableness. Substantive testing completed.</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
<b>Code of Practice on Local Authority Accounting</b> Financial statements must be prepared in line with the IPFA code	<ul style="list-style-type: none"> <li>Financial statements have been reviewed to ensure all relevant disclosures are included</li> </ul>	<div>                     Completed – no issues noted                 </div>
<b>Employment Law</b> Contracts held with employees must be in line with 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>	
<b>Health and Safety regulations</b> Regulations must be complied with in respect of employees and visitors	<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>	
<b>GDPR</b> Regulations must be complied with in respect of data held	<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*

There have been no uncorrected misstatements noted during the course of the audit.

The impact of uncorrected adjustments is considered to be nil to the current year financial statements.




---

## Appendix B – Design and Operating Effectiveness of Controls

---

# Appendix B – Control Recommendations

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	No control recommendations have been identified during the course of the audit				

Page 82



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	<u>Public</u>
27 <sup>th</sup> September 2022	

## **WEST MERCIA ENERGY INTERNAL AUDIT ANNUAL REPORT 2021/22**

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

Telephone: 01743 257739

### **1. Synopsis**

- 1.1 This report provides a summary of Internal Audit's work for 2021/22. Based on the controls evidenced across all areas examined, the Head of Audit's year end opinion on the Company's internal control environment is substantial.

### **2. Executive Summary**

- 2.1 This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2022. 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.
- 2.2 Final performance has been good with 100% of the plan being delivered. The work has been undertaken on a remote basis because of the continuing impact of the Coronavirus pandemic and we thank the staff of West Mercia Energy for their assistance in ensuring all work could be delivered as planned
- 2.3 Three good and one reasonable assurance opinions were given in 2021/22. Good assurance was provided in respect of the finance, debtors, corporate governance and risk management systems with reasonable assurance given on the IT system. A total of eight recommendations have been made over the four 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.
- 2.4 In addition to planned activity, consultancy work was undertaken to review the energy procurement arrangements with the respective owning authorities as part

of the response to the volatility in the energy market. No formal assurance was provided but the review found a robust approach and no recommendations were raised.

- 2.5 ***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 2021/22.***

### **3. Recommendations**

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

- a) Performance against the Audit Plan for the year ended 31 March 2022.
- 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 2021/22.
- c) The Head of Audit's substantial year end opinion on West Mercia Energy's governance, risk management and internal control environment for 2021/22 based on the work undertaken and management responses received.

## **REPORT**

### **4. Risk Assessment and Opportunities Appraisal**

- 4.1 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.
- 4.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 4.3 There are no direct environmental or equalities consequences of this proposal.
- 4.4 Internal Audit customers are consulted on the service that they receive, feedback from which is included in this report and continues to be positive.

### **5. Financial Implications**

- 5.1 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.

## **6. Climate Change Appraisal**

- 6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

## **7. Background**

- 7.1 This report is the culmination of the work of the Internal Audit team during 2021/22 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.
  - 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.
- 7.2 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”.
- 7.3 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. In February 2022, a report to Shropshire Council Audit Committee confirmed that following an external review by Chartered Institute of Public Finance Accountants (CIPFA), it was concluded that Shropshire Council Internal Audit Services fully conforms to the requirements of the PSIAS. In addition to the external review, in June 2022 an annual paper will 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 assurance from both reports.
- 7.4 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 2021/22**

- 7.5 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.
- 7.6 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.

- 7.7 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 2021/22.***

There was no reduction in planned Internal Audit work in 2021/22, as the Coronavirus situation evolved.

## Key Assurances provided during 2021/22

- 7.8 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.
<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 addressed and there is evidence of non-compliance with
<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

- 7.9 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.

- 7.10 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 2021/22

Audit Area	Assurance level	No. of Recommendations made				
		Best Practice	Requires Attention	Significant	Fundamental	Total
Debtors/Income System	Good	1	1	0	0	2
Finance System	Good	0	1	0	0	1
Corporate Governance and Risk Management	Good	0	1	0	0	1
IT	Reasonable	0	4	0	0	4
Energy Procurement <sup>1</sup>						
<b>Total to date</b>						
• numbers		1	7	0	0	8
• percentage		12.5%	87.5%	0%	0%	100%

7.11 The Internal Audit team has achieved 100% of the plan which is in line with its target. Three good and one reasonable assurance levels were issued during the financial year. No recommendations have been rejected in the year by management.

7.12 As reported to the Committee previously, a review of the Energy Procurement processes given the volatility of the market were conducted and sound processes and high levels of communication between all key parties were evidenced. An assurance level was not provided in this instance, and no immediate concerns were identified or raised.

### **Audit Performance**

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

### **Reporting**

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

7.15 All audit assignments are subject to formal feedback to management. Draft reports are issued to the managers responsible for the area under review for agreement to the factual accuracy of findings and recommendations. After

<sup>1</sup> Assurance level not provided

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**

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

- Pre-auditing arrangements;
- Post audit briefings;
- Audit coverage/scope of the audit;
- Timeliness of production of report;
- Accuracy and clarity of the report;
- Practicality of recommendations;
- Professionalism of approach;
- Communication skills and
- Timeliness of audit to your business.

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

### **Customer Feedback Survey Forms - percentage of excellent and good responses**

<b>Item Being Scored</b>	<b>2021/22 (%)</b>
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	100
Professionalism of approach	100
Communication skills	100
Timeliness of audit to your business	100
Number of forms returned	2

7.18 In all cases customers considered audit to be a positive support. Overall, the results are pleasing, showing services delivered consistently at a high level. There remains an open communication between Management and the Internal Audit Team so that feedback and comments can be provided at any time. 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.

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

- |   |
|---|
| <ul style="list-style-type: none"><li>• 2021/22 Internal Audit Programme - Audit Committee on 2<sup>nd</sup> March 2021.</li><li>• Public Sector Internal Audit Standards.</li><li>• Accounts and Audit Regulations 2015.</li></ul> |
|---|

<b>Member</b>
---------------

Councillor Liz Harvey of Herefordshire Council
--

<b>Appendices: None</b>
-------------------------



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	
27 <sup>th</sup> September 2022	
	<u>Public</u>

## Distribution of Surplus

**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 recommend the level of distribution of surplus held on 31 March 2022 to the Member Authorities.

### 2. Recommendations

- 2.1 It is recommended that the Joint Committee;
- a) Approve the retention of accumulated surplus of £0.890 million
  - b) Approve the distribution of accumulated surplus of £0.396 million, in accordance with the provisions of the Joint Agreement.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 There is a risk to the Member Authorities and the business of WME if a distribution is made to the Member Authorities without retaining sufficient funds for the proper operation of the business, to maintain a contingency fund and general reserves or provide for future investment. This risk is mitigated as the amount recommended for retention has been calculated taking into account future capital commitments and energy trading reserves (Capital at Risk for gas and electricity).
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

#### 4. Financial Implications

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

**Table 1: General Fund balance**

	(£'000)
General Fund Balances as at 1 April 2022	1,862
2020/21 distribution - paid June 2022	576
Recommended Surplus distribution	<u>396</u>
General Fund balance after distribution	890

#### 5 Background

- 5.1 Following on from the completion of the Statement of Accounts 2021/22 and the External Auditor's finalised Audit Findings Report 2021/22, it is appropriate to consider distribution to the Member Authorities of the surplus held at the year end as described in the Joint Agreement;

Paragraph 7.3.

- a) The Joint Committee shall determine the level of accumulated surplus that shall be retained for contingency, for future investment or for other reserve purposes, having considered the recommendations of the Treasurer and Director and
- b) The whole or any part of any remaining accumulated surplus balance (not otherwise retained for contingency, future investment or reserve purposes) shall be distributed to the Member Authorities in the manner described in clause 8 hereto.'

- 5.2 The Joint Agreement following the agreement of the new distribution formula provides:

The amount of the accumulated surplus to be distributed to each Member Authority in a Financial Year shall be calculated in accordance with the following formula:

$$DA = A + B - C (+ \text{ or } -) D (+ \text{ or } -) E$$

Where:

- DA is the distribution amount from the accumulated surplus to be paid to an individual Member Authority in a Financial Year;
- A is the gross profit contribution generated by that Member Authority's transactions with WME during the previous Financial Year;



- B is 25% of the gross profit generated by non-Member Authority customers during the previous Financial Year;
- C is 25% of the expenditure incurred by WME during the previous Financial Year;
- D is 25% of the amount allocated in WME's accounts for movement in the retention sum during the previous Financial Year, which may be a positive or negative figure;
- E is 25% of the amount allocated in WME's accounts for other movements in WME's General Fund during the previous Financial Year, which may be a positive or negative figure.

## 6 Retention of Surplus

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

**Table 2: Retention 2022**

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

## 7 Distribution of Surplus

- 7.1 The accumulated surplus at 31 March 2022 was £1.862 million. In June 2022 the deferred 2020/21 distribution of £0.576 million was paid leaving a remaining accumulated surplus of £1.286 million. Should the Joint Committee agree with the recommendation in this report as to the amount to be retained as surplus, consequentially £0.396 million is available for distribution to the Member Authorities.
- 7.2 If the amount for the distribution of surplus is agreed the amounts to be distributed to each Member Authority are:

**Table 3: Owners element of distribution**

	£
Herefordshire	62,037
Shropshire	111,185
Telford & Wrekin	80,075
Worcestershire	142,264

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

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Statement of Accounts 2021/22</p>
<p><b>Member</b> Councillor L Harvey of Herefordshire Council (Chair of the Joint Committee)</p>
<p><b>Appendices</b> None</p>



<u>Committee and Date</u>	<u>Item</u>
West Mercia Energy Joint Committee	
27 <sup>th</sup> September 2022	
	<u>Public</u>

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

## **RISK MANAGEMENT UPDATE**

**Responsible Officer** Nigel Evans

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

Tel: 0333101 4353

### **1. Summary**

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

### **2. Recommendations**

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

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2 There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3 Given the subject matter of this report, the assessment of risk forms a fundamental part of the risk strategy.

### **4. Financial Implications**

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

## 5. Background

- 5.1 The WME Risk Management Strategy is reviewed and presented to the Joint Committee on an annual basis. This was presented and endorsed by the Joint Committee in March. 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 eighty-three highlighted risks.
- 5.3 The majority of the risks within the risk register are operational with controls in place which mitigate the impact of the risks to an acceptable risk level.
- 5.4 The table below identifies the seven current high and medium risks as well as three medium and high risks from the last meeting where the risk status has reduced.

Ref	Risk	Risk Owner	L	I	Status	Rank	Rank Change & comment
<b>Current High and Medium Risks</b>							
1	Market conditions pre-pricing leading to less competitive prices / high year on year price rises	Lee Tucker	4	3	12	Medium	No Change
2	Delays in customers completing new contracts resulting in high year on year price rises.	Nigel Evans	5	2	10	Medium	Decrease (impact score reduced)
3	Breach of trading risk levels.	Lee Tucker	2	5	10	High	No Change (likelihood score reduced)
4	Central government policy or Regulative initiative	Nigel Evans	1	5	5	Medium	No Change
5	Loss of key staff	Nigel Evans	2	4	8	Medium	No Change (likelihood score reduced)
6	Bad debts / delayed payment	Nigel Evans	3	4	12	Medium	No Change (likelihood score increased)
7	Dealing with suppliers that have ownership or investments within Russia or Belarus	Nigel Evans	5	2	10	Medium	No Change (impact score reduced)

<b>Previous medium and high risks now decreased:</b>							
1	Market conditions within year leading to less competitive prices and lost opportunities	Lee Tucker	2	3	6	Low	Decrease
2	Breach of product tolerance levels	Lee Tucker	Risk removed				
3	Member Authority contracting energy outside of WME arrangements	Nigel Evans / Gavin Owen	2	2	4	Low	Decrease

*L – likelihood of the risk*

*I – impact of the risk*

- 5.5 As is being reported in the press on a daily basis, the energy markets have continued to be extreme and volatile since our last meeting in March. As an example since this last meeting gas and power prices for the 23/24 delivery period increased by some 390% and 330% respectively to the end of August and this is on top of the large rises seen up to 15<sup>th</sup> March.

- 5.6 Through our trading strategy we have locked out our volumes/positions to the end of March 2024 and at the time of writing this report have a significant advantage against the market but despite this advantage, customers are looking at large rises for 23/24. These rises are likely to be much more substantial where customers have not yet renewed their contracts from April 23 unless the recent government announcement of support gets extended to this period in the coming months. These comments link to Risk Ref 1 and 2 in the table above.
- 5.7 Risk Ref 3 relates breaching trading risk levels. For the current financial year our volumes are fully locked so the only exposure here is if our supplier proposes a reforecast to volumes for the back end of the year which results in us having to procure additional volumes at the inflated market rates. There has been no suggestion of a reforecast to date. In addition we are closely monitoring our consumed volumes and based on current data do not envisage the need for an upward reforecast.
- 5.8 The risk relating to the loss of key staff has been decreased in terms of its overall status, but rank remains at medium. A restructure of the business has been completed and four new posts have been created to help mitigate this risk, build in greater resilience, support the current challenges faced within the landscape in which we operate and to strengthen for further growth. Three of these posts have been filled with the fourth one close to being so also.
- 5.9 Risk Ref 6 relates to the concerns around delayed or non-payment of bills by WME customers. With the conversion of two large customers from our Procurement Only service to Fully Managed this risk was increased prior to the last Joint Committee meeting. Since this conversion/last meeting, one of these customers has paid effectively within term but some issues/delays have been experienced with the other. Whilst this has not significantly affected our cash flows to date, this has been problematic and this is being escalated with the client in question.
- 5.10 Furthermore, linked to the price rises which are likely to be seen from April 23 despite our significant market advantage, customer budgets will be squeezed even more. As a consequence we have increased the likelihood score for this risk. This area has been recently discussed with the s151 Officers of the Member Authorities and an action plan has been agreed in order to mitigate this risk even further.
- 5.11 This regards our fixed price DPS framework, Gazprom have now been removed from our supplier list.
- 5.12 With regards the three risks presented at the last meeting which have been now decreased to below a medium level:
1. Given our current advantage against the market within the year, this risk has been decreased to low.
  2. With a new gas product effective from April 23, this risk has been removed.
  3. Both the likelihood and impact of this risk has been reduced resulting in rank of low.

<p><b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b></p> <p>Joint Committee 15<sup>th</sup> March 2023 – Risk Management Update</p>
<p><b>Member</b></p> <p>Councillor L Harvey of Herefordshire Council (Chair of the Joint Committee)</p>
<p><b>Appendices</b></p> <p>None</p>

<u>Committee and Date</u>  West Mercia Energy Joint Committee  27 <sup>th</sup> September 2022	<u>Item</u>        <u>Public</u>
---	--

## STANDING ORDERS

**Responsible Officer**      Nigel Evans

e-mail: [nevans@westmerciaenergy.co.uk](mailto:nevans@westmerciaenergy.co.uk) Tel: 01743 231101

## 1. Summary

- 1.1 This report is to present to the Joint Committee the updated Standing Orders for WME for approval.

## 2. Recommendations

- 2.1 The Joint Committee are asked to approve the updated WME Standing Orders.

## 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.

## 4. Financial Implications

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

## 5. Background

- 5.1 The current Standing Orders of WME were approved by the Joint Committee on 26<sup>th</sup> September 2016.

5.2 The current WME Standing Orders have remained largely unchanged since WME was formed and included the following paragraph:

*Where there is a matter relating to the regulation of contracts which is not covered by WME's Standing Orders, the Director shall follow any relevant standing orders relating to the matter adopted by Shropshire Council, as Lead Authority, or any replacement Lead Authority.*

5.3 This paragraph is difficult to implement because it requires the familiarity with Shropshire Council Standing Orders. After discussions with Internal Audit it was agreed that a better approach would be to incorporate into the WME Standing Orders any key areas within Shropshire's Standing Orders not already covered, to remove the necessity of considering more than one document.

5.4 Initial review work was undertaken by WME and then the WME legal support at Shropshire Council in the wider context of Shropshire Council's regulations and an amended version proposed. This version has largely been adopted and this forms the document for which approval is sought.

5.5 The key changes to the document are as follows:

- Inclusion of section to identify the Responsibility of Officers (section 4).
- Inclusion of sections to improve the identification of the pre-tender stage of procurement requirements (sections 6 to 9).
- Bringing into line procedures for opening, evaluating and accepting tenders with Shropshire Council's Standing Orders, and expanding the procedures to include quotations in addition to tenders.
- Overall review of WME Standing Orders to align with those of Shropshire Council.

<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 26 <sup>th</sup> September 2016 – Standing Orders
<b>Member</b> Councillor L Harvey of Herefordshire Council (chair of the Joint Committee)
<b>Appendices</b> Standing Orders





# STANDING ORDERS

September 2022

Contents	Page
Standing Orders for the Regulation of Contracts.....	3
Introduction.....	3
Application of these Standing Orders.....	3
Definitions of terms used in these Standing Orders.....	3
Responsibilities of Officers .....	6
Extent of Contract Standing Orders.....	8
Starting the Procurement Process.....	9
Establishing a Business Case:.....	9
Over Threshold Tender Procurement Procedures .....	10
Under Threshold Tenders.....	10
Submitting and Opening Tenders.....	12
Evaluation of Quotations and Tenders .....	12
Accepting Quotes and Tenders.....	12
The Register.....	13
Forms of Contract.....	14
Corruption: Cancelling Contracts .....	14
Compliance with Standing Orders.....	14
Review and Changes to these Standing Orders .....	14

# STANDING ORDERS FOR THE REGULATION OF CONTRACTS

## Introduction

- 1.1 The aims of these Standing Orders for the Regulation of Contracts are to:
- i ensure compliance with all legal requirements, including that contracts are awarded fairly and that all potential bidders are treated equally
  - ii achieve value for money
  - iii ensure transparency, openness, non-discrimination and fair competition
  - iv demonstrate probity, consistency, accountability and integrity
  - v support the WME and its Member Authorities aims
  - vi protect Officers.
- 1.2 WME (as a Joint Committee of its four member Local Authorities) is a 'Contracting Authority' for the purposes of the Procurement Regulations and is thereby legally bound to comply with certain practices and procedures in the award of its contracts.

## Application of these Standing Orders

- 2.1 These Standing Orders apply to contracts being let by WME for the purchase of goods, works and services, including the establishment of Frameworks or Dynamic Purchasing Systems for use by WME customers. They do not apply to contracts of employment or for the acquisition of land.
- 2.2 Where WME is purchasing on behalf of itself or a customer from a Framework or Dynamic Purchasing System established by another organisation, provided that Framework or DPS is established in accordance with the Public Contracts Regulations 2015, a purchase using that procurement facility will be deemed to comply with the procurement processes within these Standing Orders.
- 2.3 WME customers will need to comply with their own governance arrangements or standing orders when entering into contracts for the purchase of goods, works and services.

## Definitions of terms used in these Standing Orders

In these Standing Orders:

**"Acceptance Letter"** means the letter advising a Tenderer that their bid has been accepted and that WME wishes to enter into contractual relations based on the bid submitted by the Tenderer, subject to those contract terms being agreed.

**"Aggregated Value"** means the total value of a series of purchases made of similar items or groups of items during the term of the contract or over a period of at least 12 months or the relevant definition as set out in the Procurement Regulations, Statutory Instruments or amendments thereto.

**"Concessions Regulations"** means the Concessions Contracts Regulations 2016.

**"Consideration Payable"** means the total value of consideration payable by or to WME under the contract or any series of contracts of which it forms a part.

**“Contract”** means any contract in writing or otherwise for the supply of goods, materials or services but shall exclude contracts of employment or contracts for the sale or purchase of any interest in land.

**“Contractor”** means any person or organisation awarded a Contract. This includes any consultant appointed by WME to advise on any project.

**“Contracts Finder”** means the UK’s e-notification service used to search for contract opportunities.

**“Estimated Value”** means the estimated value of the contract over the whole intended period of the contract to be let (including any anticipated extension periods).

**“Find a Tender Service (FTS)”** means the UK’s e-notification service used to post and view public sector procurement notices.

**“Framework Agreement”** means an agreement or other arrangement with one or more suppliers which establishes the terms (in particular the terms as to price and, where appropriate, quantity) governing contracts to be awarded by WME with the supplier in the period during which the framework agreement applies. A framework agreement does not generally give rise to a binding obligation on a supplier to supply, or on a contracting authority (or other public purchaser for whose benefit the framework agreement has been set up) to buy.

**“Invitation to Tender”** means the document(s) containing the specification, proposed terms and conditions and other appropriate information as issued to Tenderers to solicit Tenders as part of a Procurement Exercise.

**“Most Financially Favourable”** means the lowest financial sum if the payment is made by WME and the highest financial sum if payment is made to WME.

**“Negotiation”** means any alteration in the terms of a tender offered to WME and shall include any variation in the terms of a tender whether by deletion of any requirement or provision or the rectification of any error or omission or otherwise.

**“Over Threshold Tender”** means a formal written offer to execute works or supply goods, materials or services following an advertisement in the Find a Tender or other relevant publications, the value of which meets or exceeds the relevant Procurement Threshold as set from time to time.

**“Person”** includes a partnership, body corporate or unincorporated association.

**“Post Tender Negotiations”** means the ability to negotiate with a Tenderer after a Tender has been opened and evaluated in accordance with the published evaluation criteria for the purposes of securing an improvement in the delivery of the contract including but not limited to improvements in price.

**“Procuring Officer”** means any Officer, acting under the delegated powers of the Director, who is responsible for the procurement of goods and services.

**“Procurement Exercise”** means any process conducted by WME by which goods, services and/or works are to be procured.

**“Procurement Regulations”** means the Public Contracts Regulations and/or the Concessions Regulations as applicable.

**“Public Contracts Regulations”** means the Public Contracts Regulations 2015.

**“Procurement Regulations Threshold”** means the Estimated Value thresholds set within the Procurement Regulations above which compulsory compliance with the Procurement Regulations is triggered. As of 1st January 2022, the published thresholds are inclusive of VAT, however they are listed below net of 20% VAT as follows:

- i. Public Contracts Regulations
  - Supplies and Services - £170,781.60 (net of VAT)
  - Works - £4,269,549.60 (net of VAT)
- ii. Concessions Regulations
  - £4,269,549.60 (net of VAT)

but as may be amended from time to time (threshold amounts are updated every 2 years).

**“Quote/Quotation”** means a formal written offer to execute works or supply goods, materials or services the value of which is below £50,000.

**“Tender”** means the formal offer from a Tenderer, which is capable of acceptance by WME, which is a response to an Invitation to Tender. It shall include all documents comprising the submission including pricing, technical specification and method statements as well as information about the Tenderer.

**“Tenderer”** or **“Tenderers”** means the person or persons invited to participate in a Procurement Exercise.

**“The Register”** means the register referred to in section 13 containing records of action taken under these Standing Orders.

**“Under Threshold Tender”** means a formal written offer to execute works or supply goods, materials or services the value of which is above £50,000 but falls below the relevant Procurement Threshold as set from time to time.

**“WME Member Authority”** means the owning Authorities who combine to form the WME Joint Committee

“WME Thresholds” are the thresholds adopted internally by WME and detailed in the table below.

Value of Order	Process
<b>£0 - £10,000</b>	Obtain at least two verbal/written quotes where practical and retain a written record of details of verbal quotes and retain on file. (If two quotations cannot be obtained a record of the reasons for this must be maintained.)
<b>Between £10,000 and £50,000</b>	Obtain at least three written quotations (noting that for contracts of £25,000 and over, if advertised by another means other than obtaining quotes, the ‘below-threshold’ requirements set out in paragraph 9 below must be followed)
<b>Between £50,000 and Procurement Regulations Thresholds</b>	Competitive tendering (noting that the ‘below-threshold’ requirements set out in paragraph 9 below must be followed)
<b>Above Procurement Regulations Thresholds</b>	Procedure compliant with the Procurement Regulations

## Responsibilities of Officers

All WME Officers are responsible for complying with these Standing Orders. This Section 4 outlines the responsibilities of all Officers as follows:

### 4.1 Director:

- 4.1.1 To keep these Standing Orders up to date and under review;
- 4.1.2 To approve and sign as applicable contracts in accordance with the WME Scheme of Delegation;
- 4.1.3 To act in accordance with the WME Scheme of Delegation;
- 4.1.4 To ensure that Procuring Officers receive appropriate training before exercising powers to negotiate/agree contracts;
- 4.1.5 to ensure that contracts and tendering processes follow these Standing Orders and WME’s Financial Regulations.

### 4.2 Procuring Officers:

- 4.2.1 Must ensure they understand these Standing Orders and their obligations under them before commencing a Procurement Exercise.
- 4.2.2 Must ensure that all procurement processes undertaken are carried out in accordance with these Standing Orders and the Procurement Regulations and other applicable legislation in force at the relevant time and that any actions taken are within their level of authorisation in accordance with any delegations in place.

- 4.2.3 Must ensure that there is a suitable WME Joint Committee or Director approval for each contract for which they are responsible.
- 4.2.4 Must work with WME's procurement advisors at the commencement of any procurement process to which the Public Contracts Regulations apply to ensure:
  - contracts over the relevant value can be published on Contracts Finder in accordance with the requirements of the Public Contracts Regulations and
  - notify the procurement advisors of the contract award, to enable the publication of relevant awards to be added to Contracts Finder and to enable details of all contracts to be made available for publication in accordance with Central Government's transparency requirements
- 4.2.5 Should prepare and document an estimate of the whole life cost of the contract including, where appropriate, any maintenance and on-going costs for the purposes of correctly assessing the value of a contract and to ensure that there is sufficient budget for the Contract.
- 4.2.6 Must ensure that discussions/correspondence with suppliers do not inadvertently commit WME to contractual relationships.
- 4.2.7 Subject to the nature and value of the intended contract, where there are any concerns arising, consult with the Director to arrange advice from WME's procurement and legal advisors as appropriate for guidance as early as possible in the procurement process.
- 4.2.8 Identify and allow a sufficient timescale for a procurement process to be undertaken prior to the anticipated commencement of a contract.

#### 4.3 All Officers must:

- 4.3.1 Understand these Standing Orders and the processes they must follow when agreeing contracts or ordering goods, work or services.
- 4.3.2 Follow the national and local code of conduct for local government employees, a copy of which is included in the WME Staff Handbook.
- 4.3.3 Declare to the Director any interest which could influence their judgement in contracting matters. Legal advice must be obtained by Officers where any conflict has potential to impact on contractual relationships.
- 4.3.4 Make sure that WME obtains value for money.
- 4.3.5 Follow these Standing Orders and any codes of practice, guidance or instructions provided by the Director.
- 4.3.6 Follow all relevant laws.
- 4.3.7 Follow WME's Financial Regulations to follow the systems and procedures that are in place to control budgets properly.

#### 4.4 General Points to Note by all Officers:

- 4.4.1 Third parties acting on behalf of the WME (e.g. consultants) must also comply with these Standing Orders. Officers instructing third parties to procure contracts must supply them with a copy of these Standing Orders and ensure that they are followed.
- 4.4.2 Corruption is a criminal offence. All Officers who let, manage or supervise contracts must ensure adequate records are kept and act in accordance with the highest standards of propriety and in accordance with the WME Employee Code of Conduct, particularly with regard to relationships between contractors and suppliers and the separation of roles during tendering processes.
- 4.4.3 The WME Director will be responsible for any interpretation of these Standing Orders.

- 4.4.4 In all instances, procurement shall be undertaken in accordance with the principles of obtaining value for money, and in a manner that is non-discriminatory, transparent and fair.
- 4.4.5 In accordance with Part 4 of the Public Contracts Regulations 2015 and guidance issued by the Cabinet Office and, The Local Government (Transparency Requirements) Regulations 2015:
  - All contract opportunities with a value of £25,000 and above must be published on 'Contracts Finder' where WME has advertised such opportunity in the form of a Contract Notice or public advertisement.
  - All contract opportunities for which a Contract Notice was sent to the Find a Tender Service for publication must also be published on 'Contracts Finder'.
  - Contracts awarded of £25,000 and above must be published on Contracts Finder. This includes awards made following a call-off/s from a Framework Agreement and contracts that may not have been openly advertised.
- 4.4.6 Contracts for goods, services and works shall be structured, where appropriate and within the legislative framework, to support and promote the policies and corporate priorities of WME and their Member Authorities. In particular, where appropriate and subject to procurement law, Procuring Officers, when procuring contracts of values up to £50,000 must invite at least one WME Member Authority based contractor to bid for - contracts. Invitations to tender should not be framed in such a way as to unnecessarily debar small and medium sized companies, the voluntary sector and social enterprises from bidding. Further details relating to offering tendering opportunities to local contractors and suppliers are set out in Section 9 of these Standing Orders.
- 4.4.7 All goods, services and works must comply with any relevant quality and safety standards or specifications, code of practice, British Standard Specifications or Codes of Practice applicable in the UK current at the date of the tender together with the WME's own Terms and Conditions (where applicable).

#### 4.5 Consequences of failing to comply with these Standing Orders:

- 4.5.1 It is an implied condition of employment of all staff of WME with responsibility for the administration of contracts that they should at all times observe the provisions and the spirit of these Standing Orders.
- 4.5.2 Failure to comply with any of these Standing Orders may result in disciplinary action and legal proceedings against the Officer or third parties concerned. Any Officer who fails to follow these Standing Orders may lose the protection of the indemnity given to Officers by the Council and therefore may have personal liability for a contract or any losses.
- 4.5.3 Where it becomes apparent that an Officer has failed to comply with these Standing Orders then the Director must compile a report outlining the reasons for the non-compliance and the steps taken to prevent a re-occurrence. The Director shall provide a copy of the report to the Joint Committee's Secretary and Treasurer (in their capacity as Shropshire Council's s151 Officer and Monitoring Officer) for them to consider and take action as appropriate.

### Extent of Contract Standing Orders

- 5.1 The Director's delegated authority to enter into energy purchase contracts on behalf of WME is set out in the Director's current Scheme of Delegation.
- 5.2 The objective of these Standing Orders is to ensure that any contract or series of aggregated purchases is properly regulated. In particular, it is to ensure that contracts for the supply of



goods, materials and services are obtained on the Most Financially Favourable terms having due regard to quality, service and fitness for purpose.

- 5.3 The Procurement Regulations apply to all public sector procurement where the value of a contract, or the Aggregated Value of a series of purchases within a contract or series of contracts, exceeds thresholds as set from time to time and published by the Cabinet Office. In such cases the requirement for a Procurement Regulations compliant procurement procedure shall apply in full to WME as set out in paragraph 8 of these Standing Orders.
- 5.4 Where the value of a contract, or the Aggregated Value of a contract, is deemed to be below the relevant Procurement Regulations thresholds, paragraph-9 of these Standing Orders shall apply.
- 5.5 Subject to the provision of paragraph 9.4 these Standing Orders must be observed on every occasion WME enters into a contract except where goods and services are being obtained on behalf of another public sector body when their Standing Orders will apply.
- 5.6 In addition to the obligations under the Procurement Regulations WME officer(s) undertaking the procurement should also have regard to other legislative obligations on contracting authorities when conducting procurement, such as the requirements of the Public Services (Social Value) Act 2012. This Act requires contracting authorities, at the pre-procurement stage, to consider how what they are proposing to procure may improve the economic, social and environmental well-being of their area (the areas of the Joint Committee's Member Authorities), and how it can act to secure that improvement in conducting the procurement process. This obligation applies to the procurement of service contracts (including those which may also involve goods) under the Public Contracts Regulations.

## Starting the Procurement Process

### 6.1 Introductory Note:

Before commencing a procurement activity all of the steps on the pages of these Standing Orders must be addressed or considered as appropriate. The requirements of this Section 6 apply to all procurement activity. Depending on the value of the contract to be awarded, the requirements that will need to be fulfilled with regard to each stage of a procurement process will vary.

### 6.2 There are effectively six stages to the procurement process:

- i preparation (pre-contract requirements) which may include Pre-Qualification Questionnaires
- ii invitation of tenders/quotations
- iii evaluation of tenders/quotations
- iv acceptance and award
- v finalisation of contract documents
- vi monitoring of performance

For every contract that is to be let, Officers must ensure that they can, as a minimum, comply with the requirements of Sections 7-16.

## Establishing a Business Case

- 7.1 The extent of the Business Case will depend on the value and associated risk of the procurement activity. The responsibility for preparing the Business Case lies with the

Procuring Officer. Procuring Officers must take the following into consideration when preparing the Business Case;

- i Identification of need
- ii What are the planned results/improved outcomes
- iii Identify the estimated cost and the budget available
- iv An options appraisal
- v An assessment of risks and how to manage them
- vi The preparation of a specification/brief and timetable
- vii Where the planned procurement is estimated to be over £50,000 in value, you must contact Shropshire Council's Procurement Team for assistance with the preparation of the criteria to assess tenders.

- 7.2 Once the Business Case has been prepared, the Procuring Officer should present it to the Director in order to obtain the necessary authority in accordance with section 8 and 9 below.

## Over Threshold Tender Procurement Procedures

- 8.1 Where the contract value or Aggregated Value of the contract is likely to exceed the relevant Threshold for the class of contract required the procedures set out in the relevant Procurement Regulations must be followed in full. The Procurement Officer MUST contact WME's procurement advisor at the beginning of the Procurement Exercise to obtain advice on the appropriate procurement process to be followed, and consult at each stage of the Procurement Exercise where required including contract evaluation and award.
- 8.2 It is very important that these Standing Orders are followed. The Procurement Regulations set out remedies available to Tenderers or "economic operators which, in consequence, suffers or risks suffering loss or damage" who wish to challenge the award of a contract above the relevant Threshold which has not been subject to a compliant procurement process under the Procurement Regulations. Remedies available include
- An order to set aside a decision of a contracting authority in the course of a tender procedure.
  - The award of damages to an operator which has suffered loss or damages as a result of a breach.
  - A declaration of ineffectiveness of the contract awarded where the relevant grounds are met (for example, failure to advertise an awarded contract, or breach of the procurement rules matched with a breach of the standstill or suspension provisions).
  - A financial penalty imposed on the contracting authority.
- 8.3 Before the award of any contract, financial checks must be carried out on the preferred bidder to ensure that they are of sufficient financial stability to undertake the contract.

## Under Threshold Tenders

- 9.1 Where contracts below the Procurement Threshold figures are being procured, WME officers shall follow the appropriate process for the value of the contract being let as set out in the WME Thresholds.

- 9.2 Where contracts below the Procurement Threshold figures are being procured the relevant Procurement Regulations should also be checked in order to comply with any 'below-threshold' requirements.
- 9.3 The Public Contracts Regulations require procurements with an Estimated Value below the Threshold, but with a value of £25,000 and over, to comply with the requirement of Part 8 of the Regulations (Below-Threshold Procurements) requiring:
  - 9.3.1 that where the contract opportunity is being advertised (i.e. put in the public domain or generally brought to the attention of suppliers, although this does not include obtaining quotes), an advert should also be included in Contracts Finder (Regulation 110);
  - 9.3.2 that the procurement process shall not include a pre-qualification stage, and any "suitability assessment questions" must be relevant to the subject matter of the procurement and proportionate" (Regulation 111);
  - 9.3.3 the publication of information about the contract award on Contracts Finder (Regulation 112);
  - 9.3.4 certain terms to be included in the contracts, including payment of undisputed invoices within 30 days, verification of invoices submitted by contractors in a timely fashion, and requiring any sub-contract awarded by the contractor to include such provisions and ensure they are passed on through the supply chain. (Public Contracts Regulation 113);
  - 9.3.5 In any procurement of a value not requiring a quotation or tender process, the spirit of these Standing Orders shall be followed and although not required, whenever practicable at least three quotes or prices should be obtained from potential suppliers to ensure value for money is obtained.
- 9.4 A contract may be entered into by WME other than in accordance with Standing Orders 9.1 to 9.3 above in the following circumstances:
  - i Where the Director is satisfied that there is only one supplier and no acceptable alternative;
  - ii Where the Director is satisfied that it is in the best interests of the business to standardise by buying from only one supplier;
  - iii For the extension addition to or maintenance of existing goods, materials or services where the Director is satisfied that this can only be done satisfactorily by the original contractor or supplier;
  - iv For the urgent supply of goods where the Director is satisfied that the tender process is likely to prevent the supply of goods or services within the required timescale;
  - v For the supply of used or second hand goods or materials where the market for such goods or materials is such that it would be unreasonable to obtain quotes or tender or where the time required to complete the tender process is likely to lead to the loss of the opportunity to purchase a used or second-hand item which, in the Director's opinion, represents value for money;
  - vi For the supply of used or second hand goods, materials or services in any other circumstances where the Director is satisfied that there are proper service reasons for not obtaining quotes or tendering for the supply of goods, materials or services and where the Director is satisfied that it represents value for money and there will be no financial disadvantage as a result of not going through a competitive process.

All contracts let in accordance with Standing Order 9.4 shall be recorded in the Register referred to in paragraph 13 which shall show the Standing Order under which action has been taken

## Submitting and Opening Tenders

- 10.1 All Procurement Exercises for contracts in excess of the WME Threshold of £50k shall be issued and submitted electronically via Shropshire Council's (as WME's procurement advisor) secure e-tendering system and overseen by Shropshire Council's Procurement Team in order to provide a full audit trail of the activity undertaken. Tenders will be opened in accordance with Shropshire Council's formal receipt and opening of tenders process within the e-tendering systems and be forwarded on to WME for analysis after the time for receipt of tenders has expired. Shropshire Council shall keep the tenders secure and unopened until the expiry of the allocated tender return date and time. The Director or his delegated representative shall be automatically notified by e-mail when the tender submissions are opened and available for viewing and analysis. Under no circumstances may a tender be opened prior to the allocated return date and time for that tender process. The use of Shropshire Council's e-tendering system does not allow tenders to be opened prior to this time.
- 10.2 The Director or his delegated representative must keep a record of these tenders which record shall be retained for a period of 5 years.
- 10.3 Late tenders must be recorded in the Register when they are received.
- 10.4 No tenders received after the time and date specified for its opening shall be accepted or considered by WME unless agreed by the Director in exceptional circumstances and in accordance with the procedure below.
- 10.5 In exceptional circumstances the Director, in consultation with WME procurement and legal advisors, may:
  - i extend the deadline for submission of tenders. All known potential Tenderers should be notified of the amended submission date and time as soon as possible following the decision to extend the deadline;
  - ii allow a late tender to be submitted after the deadline provided:
    - The Tenderer has contacted Shropshire Council's Procurement Manager and provided them with evidence that a genuine attempt to submit the tender prior to the deadline was made which was prevented by matters outside of their control, and
    - None of the tenders submitted in respect of the subject of the procurement have been opened at that time. If a submitted tender has already been opened, no later tenders shall be permitted.

The reasons for any extension of the tender deadline or for allowing a late tender to be submitted shall be recorded in the Register

## Evaluation of Quotations and Tenders

- 11.1 All Quotes and Tenders shall be evaluated in accordance with evaluation criteria notified in advance to those submitting quotes/tenders. Over Threshold Tenders shall be evaluated in accordance with the Procurement Regulations.

## Accepting Quotes and Tenders

- 12.1 Only those Quotes and Tenders that comply with the published evaluation criteria shall be considered for acceptance. The Director shall accept the Quote offering the best value to WME.

- 12.2 The Director may approve the amendment of a tender after it has been received and before it has been accepted only to enable the correction of an arithmetical or other error made in good faith (subject to the procedures for establishing explanation of abnormally low tenders as set out in the Procurement Regulations being followed for contracts so governed.)
- i In such circumstances the Tenderer shall be given details of the error or discrepancy found during the examination of the tender and shall be given the opportunity of confirming the tender with the amendment or withdrawing the tender.
  - ii A record of any such alteration must be kept in the register.
- 12.3 Where the Director considers it appropriate he may enter into Post Tender Negotiations with the lowest Tenderer (or the Tenderer whose tender is to be accepted under clause 12.6 below) with a view to reducing the Consideration Payable in cases where payment is being made by WME or secure other improvements for WME, subject always to the Procurement Regulations where applicable.
- 12.4 The Director may also negotiate if he considers it appropriate with the highest Tenderer, where payment is to be made to WME, with a view to increasing the Consideration Payable, subject always to the Procurement Regulations where applicable.
- 12.5 If any negotiation takes place under clauses 12.3 or 12.4 above then that fact and a statement of reasons shall be made in the Register.
- 12.6 In respect of quotes or Tenders which are not subject to the Procurement Regulations, the Director is not bound to accept the lowest price and may accept other than the lowest price where:
- i There is a material improvement in specification in contrast to the lowest priced offer and where the Director is of the opinion that by virtue of the improved specification an offer other than the lowest quotation or tender represents the best value for money and should be deemed the Most Financially Favourable.
  - ii The goods, materials or services tendered for are not available for immediate supply with the lowest offer and where in the opinion of the Director by reason of their non-availability another tender might reasonably be regarded as the Most Financially Favourable tender.
- All action taken under this Standing Order shall be recorded in the Register together with particulars and a statement of reasons.
- 12.7 For contracts subject to the Procurement Regulations, no negotiations will take place except as allowable under the relevant Procurement Regulations. In the case of all other contracts, no negotiations with Tenderers after the receipt of tenders shall take place except as authorised by the preceding paragraphs of this Standing Order without the prior approval of the Director and the fact that such negotiations have taken place shall be recorded in the Register with an indication of the reasons therefore.

## The Register

- 13.1 The Register shall be maintained by the Director and shall contain a record of any action under clauses 9.4, 10.5, 12.2, 12.3, 12.4 and 12.6
- 13.2 The Register shall be open for inspection at each meeting of the Joint Committee.
- 13.3 The Director will present a verbal update to the Joint Committee of any entries in the Register since the previous meeting.

## Forms of Contract

- 14.1 Every contract shall be made or confirmed in writing and signed in accordance with any authorisations included within the Scheme of Delegation.

## Corruption: Cancelling Contracts

- 15.1 Every contract must contain an appropriate Anti-Corruption and Bribery clause providing WME with the ability to cancel the contract and recover any resulting losses if the contractor or his/her employees or agents with or without his/her knowledge does anything improper to attempt to influence the award process.

## Compliance with Standing Orders

- 16.1 It shall be a condition of employment of the staff of WME that they should at all times observe the provisions of these Standing Orders. Failure to observe these Standing Orders will be regarded as a disciplinary matter.
- 16.2 When outside consultants or technical officers, excepting staff of WME, are employed to supervise contracts they must similarly follow these Standing Orders. Their contract for services must include this requirement.

## Review and Changes to these Standing Orders

- 17.1 These Contract Standing Orders shall be reviewed by the Director and updated on a regular basis. Save as set out below, amendments to these Standing Orders shall require approval of the WME Joint Committee and shall only be made after due consideration of a written report from the Secretary, the Treasurer and the Director.
- 17.2 The Director is permitted to make revisions to these Standing Orders to maintain compliance with and reflect changes to the Procurement Thresholds or legislation and is permitted to undertake such non-material amendments as a result of business changes from time to time.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank