

**WEST MERCIA ENERGY  
JOINT COMMITTEE**

**STATEMENT OF ACCOUNTS  
FOR THE YEAR  
ENDING 31<sup>ST</sup> MARCH 2020**

Providing energy services  
for the public sector

A Local Authority owned purchasing organisation





## **WEST MERCIA ENERGY JOINT COMMITTEE**

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## **WEST MERCIA ENERGY JOINT COMMITTEE**

### **FINANCIAL SUMMARY** **FOR THE YEAR 2019/20**

#### **Introduction**

This document is the Statement of Accounts for West Mercia Energy Joint Committee. It covers the financial year 1 April 2019 to 31 March 2020 and shows the organisation's financial position at the year end together with the trading income and expenditure figures that have been produced throughout the period.

#### **The Statements**

##### **Narrative Report**

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

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

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

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

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

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

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

##### **Balance Sheet**

This sets out the financial position of the Joint Committee as at the year end 31 March 2020.

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

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

## **Narrative report 2019/20**

### Organisational Overview

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

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

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

### Governance

Certain professional services are provided for Joint Committee including:

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

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

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the officers within the organisation who have responsibility for the development and maintenance of the internal control environment. On the basis of the work undertaken and management responses received the Head of Audit at Shropshire Council was able to deliver a positive year end opinion on West Mercia Energy's internal control environment for 2019/20 confirming that the organisation's governance, risk management and internal control processes were sound and working effectively.

No significant governance issues were highlighted during 2019/20.

### Risks and Opportunities

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

## Performance and Outlook

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

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

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

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

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

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

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

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

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

### **Further Information**

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

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## **STATEMENT OF RESPONSIBILITIES AND JOINT COMMITTEE APPROVAL**

### **Responsibilities of West Mercia Energy Joint Committee**

West Mercia Energy Joint Committee is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this organisation, that officer is the Treasurer to the Joint Committee. Day to day financial management is the responsibility of the Director. The Director is also responsible for:
  - i. keeping proper accounting records, which are up to date.
  - ii. taking reasonable steps for the prevention and detection of fraud and other irregularities.
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets.
- to approve the Statement of Accounts.

### **Responsibilities of the Treasurer to the Joint Committee**

The Treasurer to the Joint Committee, with support from the Director, is responsible for the preparation of West Mercia Energy Joint Committee Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to provide a true and fair view of the financial position of the organisation at the accounting date and its income and expenditure for the year ended 31 March 2020.

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

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

The Treasurer to the Joint Committee has also to:

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

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

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

In accordance with the Accounts and Audit (England) Regulations 2015 I certify that the Committee's Statement of Accounts provides a true and fair view of the financial position of the West Mercia Energy Joint Committee at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

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

### **Joint Committee Approval**

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

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

**Date:**





## MOVEMENT IN RESERVES STATEMENT

### AS AT 31 MARCH 2020

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

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

#### Pensions Reserve

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

#### Joint Committee Capital Adjustment Account

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

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

## MOVEMENT IN RESERVES STATEMENT (CONTINUED)

### AS AT 31 MARCH 2019

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

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

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

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

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

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



## BALANCE SHEET AS AT 31 MARCH 2020

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

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

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



## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

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

2018/19		2019/20	
£000		£000	£000 Notes
<b>Operating activities</b>			
<u>Cash outflows</u>			
601	Cash paid to and on behalf of employees	640	
234	Other operating costs	272	
63,079	Cost of goods sold	66,515	
63,914			67,427
<u>Cash inflows</u>			
-67,225	Turnover	-68,961	
-647	Other trading operation income	-717	
-67,872			-69,678
-3,958	<b>Net cash inflow from operating activities</b>		-2,251 22.1
-31	<b>Investing activities</b>		-23 22.2
843	<b>Financing activities</b>		704 22.3
<b>-3,146</b>	<b>Net decrease (increase) in cash and cash equivalents</b>		<b>-1,570</b> 22.4
2,655	Cash and cash equivalents at 1st April		5,801
<b>5,801</b>	<b>Cash and cash equivalents at 31st March</b>		<b>7,371</b> 22.4

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



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

### **1. Accounting Policies**

#### **1.1 General Principles**

This Statement of Accounts for 2019/20 summarises the Joint Committee's transactions for the 2019/20 financial year and its position at 31 March 2020. The accounts have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code Board, as far as it is practicable and applicable to the Joint Committee, supported by International Financial Reporting Standards (IFRS). The nature of the Joint Committee as a purchasing consortium means that full compliance is not always possible for example the Comprehensive Income and Expenditure Statement layout shows the income first and then all the expenditure grouped by type of expense. This differs from Local Authority Accounting, but this layout does allow a reader to interpret the statement in relation to the industry the Joint Committee operates in. The Joint Committee has prepared an annual Statement of Accounts in line with the Accounts and Audit (England) Regulations 2015.

#### **1.2 Concepts**

The Statement of Accounts have been prepared in accordance with all prevailing concepts of accrual and going concern together with relevance, reliability and comparability. The going concern concept assumes that the organisation will continue in operational existence for the foreseeable future. The management of WME are of this view due to the Joint Agreement that is in place and both supplier and customer contracts are in place beyond 31<sup>st</sup> March 2021.

#### **1.3 Legislation**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Recognition**

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

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

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

### Initial Measurement

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

### Measurement After Recognition

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

### Derecognition

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

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

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

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

### Depreciation

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

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

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

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



## **Impairment**

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

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

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

## **1.7 Cash and Cash Equivalents**

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

## **1.8 Debtors and Creditors**

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

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

## **1.9 Financial Assets**

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

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

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

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

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

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

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

Instruments with quoted market prices – the market price

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

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

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

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

Level 3 inputs – unobservable inputs for the asset.

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

### **Expected Credit Loss Model**

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

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

## **1.10 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 2020/21.

### **Pensions Reserve**

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

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

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

## **1.12 Employee Benefits**

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

### **Benefits Payable During Employment**

Where the accumulating short-term absences (eg annual leave and flexi time earned by employees but not taken at 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 2.3% (based on the indicative rate of return on high quality corporate bonds of appropriate duration).

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

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

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

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

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

### **1.13 Interest**

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

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

### **1.14 Foreign Currency**

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

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

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

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

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

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

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

### **1.16 Provisions**

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

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

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

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

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

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2019/20 Code:

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

Annual improvements to IFRS Standards 2015 – 2017 cycle

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

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

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

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

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

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

## 4. Expenditure and funding analysis

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

2019/20					
	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	785	45	830		830
Services/Support services	112	-62	50	-39	11
Net cost of Services	897	-17	880	-39	841
Other Income and Expenditure			203		203
Distribution of Surplus to Member Authorities			-704		-704
Surplus or (Deficit)			379	-39	340
Opening General Fund					1,421
Capital Purchases funded from General Fund					-17
Add Surplus on General Fund					340
<b>Closing General Fund</b>					<b>1,744</b>



2018/19					
	As Reported to Management	Adjustment to arrive at the net amount chargeable to the General Fund	Net Expenditure in the Comprehensive Income and Expenditure Statement	Adjustments between the Funding and Accounting Basis	Net Expenditure Chargeable to the General Fund Balance
	£'000	£'000	£'000	£'000	£'000
Energy	955	67	1,022		1,022
Services/Support services	-244	-46	-290	601	311
Net cost of Services	711	21	732	601	1,333
Other Income and Expenditure			-541		-541
Distribution of Surplus to Member Authorities			-843		-843
Surplus or (Deficit)			-652	601	-51
Opening General Fund					1,473
Capital Purchases funded from General Fund					-1
Less Deficit on General Fund					-51
<b>Closing General Fund</b>					<b>1,421</b>



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

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

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

2018/19				
	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Net Cost of Services	2	599		601
Other income and expenditure from the Expenditure and Funding Analysis		-541		-541
Capital Purchases funded from General Fund	-1			-1
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	1	58	-	59

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

Income received on a segmental basis is analysed below:

	2019/20 Income from Services	2018/19 Income from Services
	£000	£000
Energy Sales	69,443	65,949
Other Income	803	328
<b>Total income analysed on a segmental basis</b>	<b>70,246</b>	<b>66,277</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 2020 for which there is a risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
<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 £445,000. However the assumptions interact in complex ways. During 2019/20 the actuaries advised that the net pensions liability had decreased by £43,000.

## 6. Turnover and other income

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

## 7. Financing and Investment Income and Expenditure

### Interest and Investment Income

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

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

## 8. Staff Remuneration

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

Band	Number of Employees	
	2019/20	2018/19
£ 65,000 to £ 69,999	-	1
£ 70,000 to £ 74,999	1	-

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

There are no staff members receiving remuneration between £50,000 and £64,999 so the staff remuneration table above has been adjusted accordingly.

## Disclosure of Remuneration for Senior Employees

### 2019/20

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

### 2018/19

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

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

## 9. Audit Costs

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

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

## 10. Related Party Transactions

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

### Members and Officers

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

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

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

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

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

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

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

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

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

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

First, the employee's expenses line in the Income and Expenditure Statement accrues for the profit related pay due to employees. Second, adjustment is made for the distribution of retained surplus in 2019/20 that has been charged to the Income and Expenditure Statement.

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

The calculation is shown in the table below:

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

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

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



## 12. Plant & Equipment

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

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

## 13. Contractual Commitments

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

There were no capital commitments for the year ended 31<sup>st</sup> March 2020.

## 14. Financial Instruments

### Categories of Financial Instruments

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

### Financial Assets

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



## Financial Liabilities

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

## Income, Expense, Gains and Losses

	2019/20					2018/19				
	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through Profit and Loss £000	Total £000
Interest expense	-	-	-	-	-	-	-	-	-	-
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	-	-	-	-	-	-	-	-	-	-
Interest income	-	40	-	-	40	-	32	-	-	32
<b>Total income in Surplus or Deficit on the Provision of Services</b>	-	40	-	-	40	-	32	-	-	32
Gains/losses on revaluation	-	-	-	-	-	-	-	-	-	-
<b>Net gain for the year</b>	-	40	-	-	40	-	32	-	-	32

## Fair Values of Assets and Liabilities

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

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

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

## Nature and Extent of Risks Arising from Financial Instruments

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

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

### Credit Risk

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

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

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

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

	2019/20	2018/19
	£'000	£'000
Less than 3 months overdue	291	862
3 to 6 months overdue	-8	-3
6 months to 1 year overdue	-4	-9
More than 1 year overdue	-15	-12
<b>Total income</b>	<b>264</b>	<b>838</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 2020 £000	31 March 2019 £000
Member Authorities	1,841	1,467
Other Local Authorities	8,747	9,023
Bodies external to general government	1,206	19
	<b>11,794</b>	<b>10,509</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 2020 £000	31 March 2019 £000
Herefordshire Council	216	214
Shropshire Council	772	369
Telford & Wrekin Council	296	324
Worcestershire County Council	557	560
	<b>1,841</b>	<b>1,467</b>

## 16. Cash and Cash Equivalents

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

## 17. Short Term Creditors

	31 March 2020 £000	31 March 2019 £000
Member Authorities	473	394
Other Local Authorities	2,220	1,245
Bodies external to general government	14,728	13,412
	<b>17,421</b>	<b>15,051</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, following the legal process and feedback from auditors it has been suggested that some allowance is built into the accounting figures.

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

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

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



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

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

### Reconciliation of Pension Reserve to Pension Liabilities

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



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

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

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

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

## Pension Scheme Assets

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

All scheme assets have quoted prices in active markets

## COVID-19

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



## Basis for Estimating Assets and Liabilities

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

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

The significant assumptions used by the actuary have been:

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

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

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

\*The current Defined Benefit Obligation as at 31<sup>st</sup> March 2020 is £16,273 million

## **Techniques Employed to Manage Risk**

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

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

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 19 years. Funding levels are monitored on an annual basis. A triennial valuation was completed as at 31 March 2019 with the next one due to be completed as at 31 March 2022. Revised contribution rates from the 2019 actuarial valuation will take effect on 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 £175,000 expected contributions to the scheme in 2020/2021

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

## **19. Reserves**

An analysis of the reserves is shown below:

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

## Comparative Analysis in 2018/19

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

	2019/20 £000	2018/19 £000
Opening Balance at 1 April	-6,971	-6,372
Remeasurement (Liabilities & Assets)	203	-541
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income & Expenditure Statement	-400	-287
Employer's pensions contributions & direct payments to pensioners payable in the year	240	229
<b>Closing Balance at 31 March</b>	<b>-6,928</b>	<b>-6,971</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 2020 £000	31 March 2019 £000
Opening balance at 1 April	1	2
Fixed assets purchased from revenue resources	17	1
Depreciation of fixed assets	-4	-2
<b>Closing Balance at 31 March</b>	<b>14</b>	<b>1</b>



## 22. Note to the Cash Flow Statement

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

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

## 22.2 Cash Flow Statement – Investing Activities

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

## 22.3 Cash Flow Statement – Financing Activities

	31 March 2020 £000	31 March 2019 £000
Distribution to Member Authorities	704	843
<b>TOTAL</b>	<b>704</b>	<b>843</b>

## 22.4 Movement in Cash and Cash Equivalents

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

## 23. Purchase of Non-current Assets

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

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



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