



**WEST MERCIA
SUPPLIES
ANNUAL STATEMENT
OF ACCOUNTS 2007/08**

Treasurer
County Hall
WORCESTER

West Mercia Supplies is the Purchasing Consortium of the Councils of Herefordshire, Worcestershire, Shropshire and Telford & Wrekin.

WEST MERCIA SUPPLIES

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WEST MERCIA SUPPLIES

FOREWORD AND FINANCIAL SUMMARY FOR THE YEAR **2007-2008**

Introduction

This document is the Statement of Accounts for West Mercia Supplies (WMS). It covers the financial year 1 April 2007 to 31 March 2008 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.

WMS is a Purchasing Consortium established as a Joint Committee under s.101 of the Local Government Act 1972. Originally the central stores for Shropshire County Council, WMS was created in 1987 when Hereford and Worcester County Council joined forces with Shropshire and created a central office and warehousing operation. In 1998 the two councils reorganised in to four and joint ownership of WMS transferred to them. The four Member Authorities are:

- Herefordshire Council
- Shropshire County Council
- The Borough of Telford and Wrekin
- Worcestershire County Council

Each Member Authority appoints a number of their Elected Members to serve on the Joint Committee. The Joint Committee is delegated with the operation and management of WMS and is responsible for the discharge of the functions of the Member Authorities. Within the Joint Committee, each Member Authority has voting rights - two votes each for Herefordshire and Telford and Wrekin, and three votes each for Shropshire and Worcestershire.

Although predominantly established to trade with the Member Authorities, WMS also trades with other organisations outside the membership area.

Professional Advice

Certain professional services are provided for WMS including:

- **Financial Advice**
The Member Authorities have appointed Worcestershire County Council as Treasurer to the Joint Committee and West Mercia Supplies.
- **Legal Advice**
The Member Authorities have appointed The County of Herefordshire District Council as Secretary to the Joint Committee and West Mercia Supplies

The Treasurer and the Secretary shall 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 Statements

The Foreword and Financial Summary

This section contains a brief review of the year and other general information about the accounts.

Statement of Responsibilities and Joint Committee Approval

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

Annual Governance Statement

This statement confirms that WMS has sound governance arrangements and a sound system of internal control and also that a review of these arrangements has been conducted.

Statement of Accounting Policies

The accounting policies and procedures adopted by WMS are detailed in this section.

Income and Expenditure Account

This account summarises the annual income and expenditure of the Trading Operation to show the organisations net surplus for the year.

Statement of Movement on the General Fund Balance

This statement provides a reconciliation of the surplus or deficit on the Income and Expenditure Account to the balances held by WMS.

Statement of Total Recognised Gains and Losses

This statement brings together other gains and losses not recognised in the Income and Expenditure Account with the outturn on the Income and Expenditure Account to show the total movement in WMS' net worth for the year.

Balance Sheet

This sets out the financial position of WMS as at the year-end 31 March 2008.

The Cash Flow Statement

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

A Financial Summary - The Year 2007-2008

Trading Operation turnover during 2007-2008 was £31 million, a decrease of £1.7 million over the previous year. The net surplus realised from trading operations for the year was £3.1 million having reserved £0.25m for profit and performance related pay.

A General Fund balance of £3.261 million was brought forward from 2006-2007. Of this, £1.861 million was distributed to Member Authorities in March 2008. After adjusting for all distributions, the year-end General Fund balance at 31 March 2008 is £4.8 million.

The net assets of WMS stood at £4.4 million as at 31 March 2008 (£3.8 million at 31 March 2007)

Capital expenditure during the year 2007-2008 totalled £0.04 million and was funded entirely from revenue resources.

WMS' retirement benefits liability increased by £0.8 million from £2.2 million to £3.0 million during the financial year 2007-2008.

Further Information

For further information about WMS Statement of Accounts, please contact:

Mr A. Dipple, Representative of The Treasurer to the Joint Committee of West Mercia Supplies, Financial Services Directorate, Worcestershire County Council, Wildwood Way, Spetchley Road, Worcester, WR5 2NP
Tel:01905 766268

STATEMENT OF RESPONSIBILITIES AND JOINT COMMITTEE APPROVAL

Responsibilities of West Mercia Supplies

West Mercia Supplies 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 Head of Finance under the supervision of the Managing Director. The Head of Finance 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 Head of Finance, is responsible for the preparation of West Mercia Supplies Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Organisation at the accounting date and its income and expenditure for the year ended 31 March 2008.

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 WMS' services will continue to operate for the foreseeable future.

APPROVAL OF THE STATEMENT OF ACCOUNTS

Treasurer to the Joint Committee

In accordance with Regulation 10(2) of the Accounts and Audit Regulations 2003, I certify that the Committee's Statement of Accounts presents fairly the financial position of the Joint Committee at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

**Treasurer to the Joint Committee....Signed by Mike Weaver on 29 September 2008
(Mike Weaver)**

Audit Committee Approval

In accordance with Regulation 10(3)b of the Accounts and Audit Regulations 2003 I certify that the West Mercia Supplies Audit Committee approved the Statement of Accounts for the year ended 31 March 2008 on 29 September 2008.

**Chairman of The
West Mercia Supplies Audit Committee...Signed by Peter Nutting on 29 September
2008**

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

West Mercia Supplies 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.

In discharging this overall responsibility, West Mercia Supplies 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.

West Mercia Supplies has an interlocking set of documents, protocols and procedures that provide assurance in corporate governance matters which are consistent with the CIPFA/SOLACE Framework Delivering Good Governance in Local Government code and meet the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture values, by which West Mercia Supplies is directed and controlled and reviews how its activities contribute to the strategic objectives of the Owing Authorities. It enables West Mercia Supplies 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 West Mercia Supplies' 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. West Mercia Supplies 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 or Health and Safety risks which inevitably form the largest sector of risk.

The Governance Framework

West Mercia Supplies is operated under the authority of a Joint Committee formed under the Local Government Act, the Member Authorities being Shropshire County Council, The County of Herefordshire District Council, Worcestershire County Council and Telford and Wrekin Council. A Joint Agreement between those Member Authorities determines the governance arrangements of West Mercia Supplies including the Scheme of Delegation.

The Joint Committee is the elected Member body responsible for the discharge of the functions of the Member Authorities delegated to West Mercia Supplies. The Joint Agreement determines a number of strategic policies that shall be maintained and provides Financial Regulations for West Mercia Supplies. It operates under a system of Standing Orders, annual budget and strategic policies. Many of the strategic policies are modelled on those adopted by Shropshire County Council.

Shropshire County 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 West Mercia Supplies Joint Committee are appointed from the officers of the Member Authorities. A Managing Director, appointed by the Joint Committee, operates and manages West Mercia Supplies.

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 Managers annually. Register of interests for Members and senior staff is maintained on behalf of West Mercia Supplies by Herefordshire Council.

Key decisions are made by West Mercia Supplies' 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 Managers, referred to the Managing Director.

Risk Management procedures have been formalised in a Risk Management Strategy, which shall be reviewed on an annual basis. A Business Continuity plan was drawn up in 2007 and 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 executive managers within WMS who have responsibility for the development and maintenance of the internal control environment.

A management team working group, comprising the Managing Director, the Head of Finance and a Group Procurement Manager, was established to prepare the Annual Governance Statement (AGS). A detailed report was presented to and considered by the Audit Committee.

A number of recommendations were raised by External Audit in their Annual Governance Report for 2005/06 and 2006/07. The Audit Committee endorsed the action plans in respect of these External Audit recommendations.

Detailed work has been undertaken with our utilities supplier to attempt to resolve technical and billing issues which have prevented payment of the supplier's invoices due to lack of certainty as to accuracy.

Significant Governance Issues

The review process has highlighted a number of issues regarding the governance and internal control environment and these are described briefly in the table below. For each one, detailed action plans have been determined by a responsible manager and all are being managed effectively. A summary of the key elements of these are included below.

	Issue	Actions
1	The governance accountability risk and reporting systems in respect of flexible energy procurement need to be enhanced to ensure that a robust system of decision making is maintained.	Re-drafted GARR Policy to be presented to June 2008 Joint Committee.
2	Risk Register actions to be followed up in accordance with identified priorities and timescales.	Risk Register actions to be issued to each responsible manager and Head of Performance Management to progress actions to agreed timetable and co-ordinate responses, updating the Risk Register as necessary.
3	Health and Safety systems need to be brought up to date and a comprehensive set of Risk Assessments completed.	A full Health and Safety audit has been completed. A new post of Health and Safety Officer has been created. Responsibility for implementing the audit recommendations has been given to the Health and Safety Officer against a scheduled timetable.

Certification

To the best of our knowledge, the governance arrangements as defined above have been operating effectively during the year with the exception of those areas identified in the table above. Steps will be taken over the coming year to address the above matters to further enhance governance arrangements. These steps will address the need for improvements that were identified in the review of effectiveness and their implementation and operation will be monitored as part of the next annual review.

Managing Director:
(Mike Phillips)

Signed by Mike Phillips

Treasurer:
(Mike Weaver)

Signed by Mike Weaver

Chairman of the West Mercia Supplies
Joint Committee:
(Cllr Adrian Lawrence)

Signed by Adrian Lawrence

STATEMENT OF ACCOUNTING POLICIES

1. General

This Statement of Accounts has been produced in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting A Statement of Recommended Practice (SORP) as far as it is practicable and applicable to WMS. The nature of the WMS organisation as a purchasing consortium means that full compliance is not always possible.

SORP 2007 requires a change in the presentation of capital financing /reserve accounts. Accounting Policy number 7 below provides more information.

2. Basis upon which Debtors and Creditors are included

Revenue transactions are recorded on a system of income and converted payments (accruals) basis. This means that all income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

Sums owed to WMS as at 31 March are included as Debtors. Sums still owed by WMS at 31 March are included as Creditors.

3. Consistency

Consistent accounting policies have been applied both within the year and between years. Where accounting policies have been changed, the reason and effect have been disclosed separately.

4. Primacy of Legislation

Where specific legislative requirements conflict with WMS' own accounting policies, legislative requirements shall apply.

5. Fixed Assets

The principles of accounting for the initial measurement, valuation and depreciation of tangible assets is prescribed in the Financial Reporting Standard (FRS) 15 "Tangible Fixed Assets".

Recognition

Expenditure on the acquisition and enhancement of fixed assets, with a value in excess of £500 is capitalised on an accruals basis in the accounts. To be capitalised, the expenditure must be for assets yielding benefits to WMS for a period of greater than one year.

Measurement

Fixed assets 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). Fixed assets are classified into the groupings required by the Local Authority SORP and are included in the Balance Sheet net of depreciation.

6. Depreciation

Depreciation is calculated by using the straight-line method for buildings, vehicles and equipment. Depreciation is charged over the finite useful life of each asset, these lives being as follows:

Buildings	50 years
Plant and Machinery	3 years
New Motor Vehicles	5 years
Second Hand Motor Vehicles	2 years
Fork Lift Trucks	5 years
Computer Equipment – PC's	3 years
Computer Equipment – mainframe	5 years
Racking	5 years

7. Reserves

From 1 April 2007 a Revaluation Reserve and a Capital Adjustment Account have replaced the Fixed Asset Restatement Account, the Capital Financing Account and the Capital Assets Financed from Revenue Account.

In compliance with the SORP 2007, the 2006/07 comparative figures for the two new accounts have been restated. The Revaluation Reserve has been shown as having a zero value at 31 March 2007. The balance on the Capital Adjustment Account at that date has been shown as the combined total of the Fixed Asset Restatement Account, the Capital financing Account and the Capital Assets Financed from Revenue Account.

In addition to the newly created Revaluation Reserve and the Capital Adjustment Account, the Balance sheet also includes sums for both the General Fund and the Pensions Reserve.

The General Fund shows the total unused accumulated net surplus for West Mercia Supplies carried forward to 2008-09.

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

8. Stocks

All stocks are shown at cost price. This is a departure from the requirements of the Local Authority SORP and SSAP 9 which requires stocks to be shown at actual cost or net realisable value, whichever is lower. The effect of this departure is not material.

9. Interest

Interest receivable from investments is recognised in the Financial Statements during the period in which it became due to WMS.

10. Leases

Rentals paid under operating leases are recognised in the Financial Statements in the period that they are owed by WMS

11. Bad Debt Provision

The bad debt provision is made up of a general provision for all debts over 12 months old plus any specific debts which are less than 12 months old.

12. Accounting Policy Changes for 2007-2008

Profit and Performance Related Pay have been treated as an operating expense and charged to the Income and Expenditure Account for the year 2007-08. The accounts for 2006-07 have been represented accordingly.

Other than stated, there have been no significant changes in the estimation techniques used to deliver accounting policies during the year.

M Weaver
Treasurer to West Mercia Supplies

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2008

	Notes	2007-2008	2006-2007
		£000	£000
INCOME			
Turnover	1.	-31,182	-32,901
Less cost of goods sold		24,208	26,755
Gross profit on issues		<u>-6,974</u>	<u>-6,146</u>
Other Trading Operation Income		<u>-288</u>	<u>-217</u>
Gross Profit		<u>-7,262</u>	<u>-6,363</u>
OPERATING EXPENSES			
Employees	2.	2,672	2,562
Premises		206	184
Supplies & services	3.	461	519
Transport related expenses	5.	372	380
Central Departmental & Technical Support	4. 7.	137	130
Interest to authorities on surplus	6.	263	208
Provision for bad debts		3	10
Depreciation		110	154
		<u>4,224</u>	<u>4,147</u>
Gain on Disposal of Fixed Asset		-4	-2
Interest and Investment Income	6.	-177	-115
Pensions Interest Cost	13.	382	339
Expected Return on Pensions Assets	13.	-306	-260
Net Operating Expenditure		<u>4,119</u>	<u>4,109</u>
NET SURPLUS FOR THE YEAR	8.	<u><u>-3,143</u></u>	<u><u>-2,254</u></u>

STATEMENT OF MOVEMENT ON THE GENERAL FUND AS AT 31 MARCH 2008

	Notes	2007-2008	2006-2007
		£000	£000
Net Surplus for year on the Income and Expenditure Account		-3,143	-2,254
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	9.	1,606	1,881
Increase in the General Fund Balance for the year		-1,537	-373
General Fund Balance brought forward		-3,261	-2,888
General Fund Balance carried forward		-4,798	-3,261

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AS AT 31 MARCH 2008

	Notes	2007-2008	2006-2007
		£000	£000
Net Surplus for year on the Income and Expenditure Account		-3,143	-2,254
Surplus arising on revaluation of fixed assets	10.	0	0
Actuarial (gains)/ losses on pension fund assets and liabilities	14.	614	-386
Any other (gains)/ losses required to be included in the Statement of Recognised Gains and Losses:			
Distribution of surplus to Member Authorities	8.	1,861	2,085
Total recognised (gains)/ losses for the year		-668	-555

BALANCE SHEET

AS AT 31 MARCH 2008

31 March 2007 £000		31 March 2008 £000	Notes
	<u>Fixed Assets</u>		
2,565	Warehouse net of depreciation	2,523	
113	Vehicles & Equipment net of depreciation	85	
<u>2,678</u>		<u>2,608</u>	10.
	<u>Current assets</u>		
2,772	Stock	2,950	
3,828	Debtors	5,118	11.
3,396	Cash	1,016	
<u>9,996</u>		<u>9,084</u>	
	<u>Current Liabilities</u>		
-6,733	Creditors	-4,284	12.
-2,173	Liability Related to Defined Benefit Scheme	-2,972	14.
<u>-8,906</u>		<u>-7,256</u>	
<u>3,768</u>	Total Assets Less Liabilities	<u>4,436</u>	
	<u>Financed by:</u>		
-3,261	General Fund	-4,798	
0	Revaluation Reserve	0	15.
-2,680	Capital Adjustment Account	-2,610	16.
2,173	Pensions Reserve	2,972	14.
<u>-3,768</u>		<u>-4,436</u>	

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2008

2006-2007		2007-2008
£000		£000 £000 Notes
Operating Activities		
<u>Cash Outflows</u>		
2,575 Cash Paid to and on Behalf of Employees		2,506
1,450 Other Operating Costs		1,442
25,967 Cost of Goods Sold		26,714
29,992		30,662
<u>Cash Inflows</u>		
-31,803 Turnover		-29,714
-217 Other Trading Operation Income		-288
-32,020		-30,002
-2,028 Net Cash Outflow/(Inflow) from Operating Activities		660 18
 Returns on Investments & Servicing of Finance		
-115 Interest and Investment Income		-177
 Distribution of Surplus		
2,085 Distribution to Member Authorities		1,861
-58		2,344
Capital Activities		
<u>Cash Outflows</u>		
38 Purchase of Fixed Assets		40
<u>Cash Inflows</u>		
-3 Proceeds from Sale of Fixed Assets		-4
-23 Net Decrease/(Increase) in Cash and Cash Equivalents		2,380 18

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Turnover

Turnover is the VAT exclusive total of invoiced sales for goods supplied from warehouse stock, by direct supply arrangements and by utility sales.

2. Staff Remuneration

In 2007-08, the number of employees who received remuneration in excess of £50,000 fell into the following bands:

Band	Number of Employees	
	2007-2008	2006-2007
£50,000 to £60,000	2	1
£60,001 to £70,000	1	
£70,001 to £80,000		1
£80,001 to £90,000		
£90,001 to £100,000	1	

3. Publicity Expenditure

Expenditure on Publicity for 2007-2008, as defined in the Local Government Act 1986 comprises £13,388 for recruitment advertising (2006-2007 £2,987)

4. Audit Costs

During 2007-2008 WMS incurred the following fees in respect of external audit and statutory inspection.

	2007-2008	2006-2007
	£000	£000
Fees payable to the Audit Commission with regard to external audit services	32	40
Fees payable to the Audit commission in respect of statutory inspection	0	0
Fees payable in respect of other services provided by the Audit Commission	0	0
Total	32	40

5. Leasing Payments

Operating lease payments were charged in the Year as follows:

	2007-2008	2006-2007
	£000	£000
Motor Vehicles	0	0
Plant and Machinery	12	12
Total	<u>12</u>	<u>12</u>

West Mercia Supplies has commitments under operating lease agreements due in the financial year to 31 March 2009 as follows:

Expiry	Within 1 Year	From 2-5 Years	Over 5 Years
	£000	£000	£000
Motor Vehicles	0	0	0
Plant and Machinery	0	12	0
Total	<u>0</u>	<u>12</u>	<u>0</u>

6. Interest

There are two interest lines shown in the Income and Expenditure Account account:

Interest and Investment Income

West Mercia Supplies' daily bank balances are invested with Shropshire County Council balances. Interest is debited or credited to West Mercia Supplies on the basis of the level of daily bank balances invested.

Interest to Authorities on Surplus

In accordance with the Joint Agreement WMS pay interest to member authorities on the retained surplus held or invested at 1st April 1998 together with interest on the General Fund held in hand at the beginning of the relevant financial year.

7. Related Party Transactions

Material transactions with related parties, not disclosed elsewhere in the Statement of Accounts, are required to be disclosed as a note to the Core Statements.

The WMS Joint Committee members are also members of other local organisations (for example county councils). No other personal or prejudicial interest in the material transactions of WMS has been disclosed by any of the Joint Committee members or by any of the Senior Management. WMS is owned by four Member Authorities. Membership entitles the authorities to a share of any surplus generated by WMS. For clarity, the turnover with each member authority was:

	2007-2008	2006-2007
	£000	£000
Herefordshire Council	3,283	3,538
Shropshire County Council	6,702	7,172
The Borough of Telford and Wrekin	4,393	4,860
Worcestershire County Council	9,950	10,551

Included within Central Departmental Costs are the following amounts for Services provided by the Member Authorities during the year:

	2007-2008	2006-2007
	£000	£000
Herefordshire Council – Committee Services	8	9
Herefordshire Council – Secretary Services	3	3
Herefordshire Council – Legal Services	2	6
Shropshire County Council – Payroll Services	4	4
Shropshire County Council – Personnel Services	26	24
Shropshire County Council – Treasury Services	4	4
Worcestershire County Council – Financial Advice	11	11
Worcestershire County Council – Internal Audit	13	12

8. Net Surplus Adjustment for PRP/ Distribution Purposes

The Income and Expenditure Account shows the net surplus for the year calculated in compliance with the SORP 2007 guidance.

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

First, the employees expenses line in the Income and Expenditure Account accrues for the amount of profit and performance related pay due to employees arising from their performance throughout the year.

Second, the effects of FRS 17 pensions adjustments (see Note 13) have to be neutralised by adjusting for the pension reserve movement.

The calculation is shown in the table below:

	2007-2008	2006-2007
	£000	£000
Net Surplus for the Year – Per Income and Expenditure Account	-3,143	-2,254
Profit/ Performance Related Pay	-250	-193
Pensions Reserve Movement	-185	-88
Net Surplus for PRP/ Distribution Purposes	-3,578	-2,535

A proportion of 6.0% of the total Net Surplus for PRP/ Distributions as shown above is to be distributed to staff of West Mercia Supplies (other than Directors) as profit related pay. A further 1% of this Net Surplus total has been allocated to a Performance Related Pay Fund for the Managing Director of West Mercia Supplies.

These statements include distribution from the General Fund to member authorities of £1,861,000. This payment distributes part of the General Fund brought forward at the end of year 2006-2007 between member authorities in accordance with the formula determined in the Joint Agreement.

9. The Significance of the Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the income receivable and the expenditure incurred in operating WMS for the year. This accounting basis is, however, currently out of line with statutory provisions that specify the net expenditure that local authorities should take in to account when setting local taxation (as a Purchasing Consortium jointly owned by four local authorities, WMS must similarly comply with the statutory provisions).

To allow a full presentation of the financial performance of WMS during the year and the actual spending power carried forward to future years, the Income and Expenditure Account must be reconciled to the balance established by the relevant statutory provisions.

The Statement of Movement on the General Fund Balance provides the necessary reconciliation. A detailed breakdown of the reconciling items in the Statement of Movement on the General Fund Balance is shown overleaf:

Breakdown of Reconciling Items in the Statement of Movement on the General Fund Balance

	2007-2008	2006-2007
	£000	£000
Amounts to be included in the Income and Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance for the year		
Depreciation and impairment of fixed assets	-110	-154
Net charges made for retirement benefits in accordance with FRS17	-409	-358
Amounts not included in the Income and Expenditure Account but required by statute to be included when determining the movement on the General Fund Balance for the year		
Minimum Revenue Provision	0	0
Capital expenditure charged in year to the General Fund Balance	40	38
Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	224	270
Transfers to or from the General Fund Balance that are required to be taken in to account when determining the movement on the General Fund Balance for the year		
Distribution of surplus to Member Authorities	1,861	2,085
Net additional amount to be debited to the General Fund Balance for the year	<u><u>1,606</u></u>	<u><u>1,881</u></u>

10. Fixed Assets

All Fixed Assets except Land and Buildings are valued at cost depreciated over their anticipated useful life, commencing in the year of acquisition. Land and Buildings (which comprise the West Mercia Supplies Warehouse/ Office Buildings) were independently valued at a market value of £2,650,000 on 7th July 2006 by David Perrin FRCS, of Knock Deighton, surveyors. The Land and Buildings are shown at this valuation, less depreciation on Buildings over an estimated useful life of 50 years, commencing in the year of valuation.

	Land and Buildings £000	Vehicles, Plant And Equipment £000	Total £000
<u>Cost / Valuation</u>			
As at 1 st April 2007:	2,650	850	3,500
Additions	0	40	40
Disposals	0	-37	-37
Restatement	0	0	0
Revaluation	0	0	0
Transfers	0	0	0
As at 31 st March 2008	<u>2,650</u>	<u>853</u>	<u>3,503</u>
<u>Accumulated Depreciation</u>			
As at 1 st April 2007:	85	737	822
Charge for the year	42	68	110
Disposals	0	-37	-37
Revaluation	0	0	0
Transfers	0	0	0
As at 31 st March 2008:	<u>127</u>	<u>768</u>	<u>895</u>
<u>Net Book Value</u>			
As at 1 st April 2007:	<u>2,565</u>	<u>113</u>	<u>2,678</u>
As at 31 st March 2008:	<u>2,523</u>	<u>85</u>	<u>2,608</u>

11. Debtors (amounts falling due within one year)

	31 March 2008 £000	31 March 2007 £000
Trade Debtors – Member Authorities	3,303	2,132
Trade Debtors – Other Customers	1,507	1,454
	<u>4,810</u>	<u>3,586</u>
Prepayments	56	49
Payments on Account	83	38
Other Debtors	169	155
	<u>5,118</u>	<u>3,828</u>

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

	31 March 2008 £000	31 March 2007 £000
Herefordshire Council	391	332
Shropshire County Council	1,216	955
The Borough of Telford and Wrekin	650	429
Worcestershire County Council	1,046	416
	<u>3,303</u>	<u>2,132</u>

12. Creditors (amounts falling due within one year)

	31 March 2008 £000	31 March 2007 £000
Trade Creditors	1,449	2,233
Accruals	2,135	1,500
Other Creditors	700	3,000
	<u>4,284</u>	<u>6,733</u>

Other Creditors includes £0 due to the Member Authorities (2006/07 - £2,085,000) and £613 due to Shropshire County Council (2006/07 – £58,000)

13. FRS 17 Retirement Benefits Transactions

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

WMS participates in the Shropshire County Council Pension Fund, which is a funded Defined Benefit scheme. This means that retirement benefits are determined independently of the investments of the fund and WMS has an obligation to make contributions where assets are insufficient to meet employee benefits. WMS and its employees pay contributions into the fund which are calculated at a level intended to balance pensions liabilities with investment assets. WMS 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 real cost of retirement benefits is reversed out of the Income and Expenditure Account.

The Following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Fund Balance during 2007-2008.

	2007-2008	2006-2007
	£000	£000
Employees		
Current Service Cost	270	279
Past Service Cost (Gain)	63	0
Net Operating Expenditure		
Interest cost	382	339
Expected Return on Assets in the Scheme	-306	-260
Statement of Movement on the General Fund		
Movement on Pensions Reserve	-185	-88
Actual Amount Charged for Pensions in the Year		
Employers Contributions Payable to the Scheme	224	270

14. Liability related to Defined Benefit Pension Schemes

The date of the last completed actuarial valuation was 31 March 2007. Changes to the contribution rates as a result of the review took effect from 1 April 2008. WMS share of the assets and liabilities of the Pension Fund at 31 March 2008 was as follows:

	31 March	31 March
	2008	2007
	£000	£000
Market Value of Assets	4,553	4,786
Liabilities	-7,525	-6,959
Net Pensions Liability	-2,972	-2,173

The net liability of £2.972 million has a substantial impact upon the net worth of WMS as recorded in the Balance Sheet and is a measure of the extent to which the Pension Fund's existing assets do not meet accumulated future liabilities. The liability excludes any future employee or employer contributions that will be made to fund fully all liabilities.

The liabilities 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 the future number of pensioners and salary levels.

The Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Limited who are independent actuaries. The main assumptions used in their calculations are as follows:

	2007-08	2006-067
	%	%
Rate of Inflation	3.60	3.10
Rate of Increase in Salaries	5.35	4.85
Rate of Increase in Pensions	3.60	3.10
Rate for Discounting Scheme Liabilities	6.10	5.40

The actuary has advised that the appropriate discount rate used for discounting the pension scheme liabilities for 2007/08 was 2.50%.

The actual discounting rate used of 6.10% is the total of the real discounting rate (2.50%) and the inflation rate (3.60%). Assets in the Pension Fund are valued at fair value, principally market value for investments, and are analysed below together with the assumed rate of return for each type of asset.

	Type of Asset	Expected Rate of Return	Type of Asset	Expected Rate of Return
	2007-2008	2007-2008	2006-2007	2006-2007
	%	%	%	%
Equity Investments	65.20	7.50	67.90	7.50
Government Bonds	13.60	4.60	12.40	4.70
Other Bonds	12.00	6.10	11.50	5.40
Property	4.80	6.50	4.90	6.50
Cash/Liquidity	1.90	5.25	1.70	5.25
Other	2.50	7.50	1.60	7.50
	<u>100.00</u>		<u>100.00</u>	

The movement in the net pensions liability for the year to 31 March 2008 is as follows:

	£000
Net Pensions Liability as at 1 st April 2007	-2,173
Current Service Cost	-270
Employer Contributions	224
Past Service Loss	-63
Interest on Pensions Liabilities	-382
Expected Return on Assets	306
Actuarial Loss	-614
Net Pensions Liability as at 31st March 2008	<u>-2,972</u>

The actuarial loss of £614,000 can be further analysed into the following categories, measured by amount and as a percentage of assets or liabilities at 31st March 2008:

	£000	%
Difference between expected and actual return on Assets (The Asset Loss)	-422	9.3% of Assets
Difference between actuarial assumptions about liabilities and actual experience (The Liability Gain)	129	1.7% of Liabilities
Changes in the demographic and financial assumptions used to estimate liabilities	-321	4.3% of Liabilities
Actuarial Loss	<u>-614</u>	8.2% of Liabilities

15. Revaluation Reserve

	2007-08	2006-07
	£000	£000
Opening Balance at 1 st April	0	0
Revaluation of Assets	0	0
Disposal of Revalued Assets	0	0
Impairment of Revalued Assets	0	0
Closing Balance at 31st March	<u>0</u>	<u>0</u>

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006-07 to accommodate the implementation of the Revaluation Reserve. This Reserve replaces the Fixed Asset Restatement Account (FARA). The credit balance of £0.832m on the FARA at 31 March 2007 has been written off to the Capital Financing Account to form the new Capital Adjustment Account (See Note 16).

The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore shows only revaluation gains accumulated since 1 April 2007.

The purpose of the Revaluation Reserve is to represent a store of gains on the revaluation of fixed assets not yet realised through sales.

16. Capital Adjustment Account

	2007-08	2006-07
	£000	£000
Opening Balance at 1 st April	-2,680	0
Transfer Balance from Capital Assets Financed from Revenue Account		-2,602
Transfer Balance from Capital Financing Account		754
Transfer Balance from Fixed Asset Restatement Account		-832
Fixed Assets Purchased form Revenue Resources	-40	
Depreciation of Fixed Assets	110	
Closing Balance at 31st March	-2,610	-2,680

The Capital Adjustment Account was created on 31 March 2007 by the amalgamation of the balances on three accounts previously used:

- The Capital Financing Account
- The Capital Assets Financed from Revenue Account
- The Fixed Asset Restatement Account

The opening balance on the Capital Adjustment Account at that date effectively consolidated revaluation gains accumulated up to that date (as shown in the Fixed Asset Restatement Account) and the 'capital financing versus consumption' of assets surplus/deficit (as shown in the Capital Financing and the Capital Assets Financed from Revenue Accounts).

The purpose of the Capital Adjustment Account is to provide a store of capital resources set aside to meet past capital expenditure.

17. Capital Commitment

At the Balance Sheet date, WMS had committed to spend £27,750 on the replacement of its server. The replacement was complete by the end of April 2008

18. Note to Cashflow Statement

i). Reconciliation of Income and Expenditure Account to Net Cashflow

2006-2007	2007-2008
£000	£000
2,342 Surplus on Account	3,328
Non Cash Transactions:	
154 Depreciation	110
Movements in Items on an Accruals Basis:	
-77 (Increase) / Decrease in Stocks	-178
-1,021 (Increase) / Decrease in Debtors	-1,290
747 Increase / (Decrease) in Creditors	-2,449
Returns on Investments & Servicing of Finance:	
-115 Interest and Investment Income	-177
Capital Expenditure and Financial Investment:	
-2 Sale of Motor Vehicles	-4
2,028 Net Cash inflow / (outflow) from Operating Activities	-660

ii). Movement in Cash and Cash Equivalents

	Balance 31/03/07 £'000	Balance 31/03/08 £'000	Movement in the Year £'000
Cash In Hand	3,396	1,016	-2,380

iii). Purchase of Fixed Assets

Fixed assets to the value of £39,767 were financed from the General Fund Balance in 2007/08.

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 Account and is not included in Note i) above.

Independent auditor's report to the Members of West Mercia Supplies Joint Committee

Opinion on the financial statements

I have audited the Committee accounting statements and related notes of West Mercia Supplies Joint Committee for the year ended 31 March 2008 under the Audit Commission Act 1998. The Committee accounting statements comprise the Committee Income and Expenditure Account, the Committee Statement of Movement of the General Fund Balance, the Committee Statement of Recognised Gains and Losses, the Committee Balance Sheet, the Committee Cash Flow Statement and the related notes. These accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to West Mercia Supplies Joint Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared and published by the Audit Commission in March 2005.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly the financial position of the Joint Committee in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Committee's corporate governance procedures or its risk and control procedures.

I read other information published with the Committee accounting statements, and consider whether it is consistent with the audited Committee accounting statements. This other information comprises the Explanatory Foreword and the Financial Summary for the year 2007/08. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Committee accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Committee accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Committee in the preparation of the Committee accounting statements and related notes, and of whether the accounting policies are appropriate to the Committee's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Committee accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Committee accounting statements and related notes.

Opinion

In my opinion:

- The Committee accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of West Mercia Supplies Joint Committee as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Joint Committee's responsibilities

The Joint Committee is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Joint Committee for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Joint Committee has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the

Joint Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, West Mercia Supplies Joint Committee made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signed by Grant Patterson on 29 September 2008

Grant Patterson

(Officer of the Audit Commission)

Audit Commission
Opus House
Priestly Court
Staffordshire Technology Park
Beaconside
Staffordshire
ST18 0LQ

29 September 2008

This is an electronic copy of the opinion and certificate without an electronic signature. The original was signed as dated above and a copy can be obtained from the Treasurer.