

NOTICE OF MEETING

Monday, 10 February 2014 – Civic Centre, Dagenham - 09.30 am

Members

Councillor M McCarthy (Chairman), Councillor A Choudhury, Councillor H Collins, Councillor I Corbett, Councillor R Crawford, Councillor S Kelly, Councillor K Prince (Vice Chairman) and Councillor B Tebbutt,

Mark Ash
Acting Managing Director

31/01/2014

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AGENDA

1. Apologies for absence
2. Declaration of Members Interest

In accordance with the Constitution, Members are asked to declare any personal or prejudicial interest they may have in any matter which is to be considered at this meeting.

Items for decision

3. Minutes – To confirm as correct the minutes of the meeting held on 25 November 2013 (pages 1-4)
4. Treasury Management Strategy 2014/15 and Prudential Code Indicators 2014/15 to 2016/17 (pages 5-30)
5. Revenue & Capital Estimates and Levy 2014/15 (pages 31-44)

Items for information

6. Budgetary Control to 31 December 2013 (page 45-48)
7. Contract Monitoring to 31 December 2013 (pages 49-54)
8. Dates of next meeting:
23 June 2014 and 15 September 2014
9. Any other public items which the Chair decides are urgent.
10. To consider whether it would be appropriate to pass a resolution pursuant to Section 100A (4) of the Local Government Act 1972.

Confidential Business

The public and press have a legal right to attend ELWA meetings except where business is confidential or certain other sensitive information is to be discussed. The items below relate to the business affairs of third parties and are, therefore, exempt under paragraph 3 of Part I of Schedule 12A of the Local Government Act 1972 (as amended).

Confidential items for decision

11. Contract Renegotiation (pages 55-62)

This report has been restricted to Members and specific officers only.

Confidential items for information

12. ELWA Ltd 21/01/14 Board Agenda (pages 63-107)

This report has been restricted to Members and specific officers only.

13. Any other confidential or exempt items which the Chairman decides are urgent

AUTHORITY MINUTES: MONDAY 25 NOVEMBER 2013 (9.40AM – 10.42AM)

Present:

Councillor A Choudhury, Councillor H Collins, Councillor I Corbett, Councillor R Crawford, Councillor S Kelly, Councillor K Prince (Vice Chairman) and Councillor B Tebbutt.

31. Welcome & Apologies for Absence

In the absence of the Chairman, Councillor Prince (Vice Chairman) took the Chair. He welcomed Councillor H (Bert) Collins to his first meeting of the Authority.

An apology for absence was received from Councillor M McCarthy (Chairman).

32. Declaration of Members' Interests

There were none declared.

It was proposed and agreed that future Agenda be amended to show Declarations of Interest at Item 2. Officers would take this forward.

33. Minutes of previous meeting (09/09/13)

Members confirmed as correct the minutes of the Authority meeting held 09 September 2013.

34. Financial Projection and Budget Strategy 2014/15 to 2016/17

Members received the Finance Director's report. He confirmed that the main aim had been to smooth sharp increases over the next three years and reduce the levy to more acceptable sums bearing in mind the financial pressures on the four constituent councils. The projected under spend in 2013/14 had been partly used to offset the levy increases now projected at 2.1% year 2014/15, 5.3% year 2015/16 and 5.0% year 2016/17 having reduced from the projections set in February.

He confirmed that the levy will be based upon the updated tonnages figures provided by the four constituent councils and band D properties.

He stressed that future levy increases can only be mitigated if the Authority's savings programme delivered significant ongoing results.

Members raised the issue of non contract waste and officers have indicated that this will be reported transparently in future reports.

Members noted the report.

35. Programme of Meetings 2014/15

Members received the Office Manager's report setting agreed and suggested meeting dates to approve key matters in compliance with the Authority's legal or contractual obligations.

Members confirmed and agreed the following dates for future Authority meetings. 10/02/14 (Levy), 24/06/14 (AGM), 15/09/14 (Annual Governance & Statement of Accounts), 24/11/14 (Annual Budget & Service Delivery Plan), 09/02/15 (Levy) and 22/06/15 (AGM). Informal workshop: to be confirmed - between 6-17 October.

36. Annual Audit Letter 2012/13

Members have received and noted the Annual Audit Letter confirming the unqualified opinion and value for money conclusion of the Auditors. Members noted that officers would put in place arrangements in preparation for the revaluation of the MRF assets in 2014 and componentise all of ELWA's assets for the 2014/15 Statement of Accounts.

Members thanked the Finance Director and Acting Managing Director for securing a 'clean bill of health' for the Authority.

37. Budgetary Control to 31 October 2013

The Finance Director presented his regular budgetary control report comparing actual expenditure with the original revenue budget approved by Members in February 2013. He reported a net under spend of £545k to date with a year-end net expenditure projection of £924k under budget. This sum would be used as part of the levy setting process. The main variation was that waste tonnages were lower than expected. Income was expected to be in line with budget.

Members were reminded of the trial enforcement regime operating at the Reuse & Recycling Centres and the Acting Managing Director confirmed that this was contributing to reduced tonnages.

Members noted the report.

38. Treasury Management Mid Year Strategy Review 2013/14

The Finance Director presented his regular mid-year statutory report containing details of the current portfolio position, borrowing requirements/capital programme and prudential indicators. He confirmed that the Authority has managed its treasury management arrangements in accordance with the strategy set in February and had kept within boundaries. All investment was carried out in accordance with the approved creditworthiness criteria. He responded to a question about loan repayment and the cost of borrowing.

Members noted the report.

39. Review of the Corporate Risk Register

Members received the Acting Managing Director's report and appendix on the annual review of operational and strategic risks. In commentary he confirmed that two minor changes had been made to strategic risks. They were (1) upgrade to the likelihood of a breakdown in relationship with the contractor as a result of ongoing discussions in relation to the Annual Budget & Service Delivery Plan and (2) downgrade of viability of Aveley Methane Ltd because no changes were anticipated during the next twelve months. He added that this reflected the stable nature of operations at the closed landfill sites. Operational risks had remained unchanged.

Members noted the report.

40. Contract Monitoring to 30 September 2013

Members received the Contract Manager's positive report summarising the first half year's performance.

Downward trends included tonnages, green and contract waste (226,880t). Upward trends included Reuse & Recycling Centres' waste and kerbside collected household waste. Increases had remained within budget. Tonnage forecast for the year is 422,000t against a budgeted figure of around £428,000.

Diversion from landfill had been impressed upon the contractor at all levels and had resulted in a 10% improvement on last year. Slightly disappointing recycling figures (25.9%) are mitigated by increased diversion (75.1%). Diversion forecast for the year is 72%. Alternative off-takers for the Solid Recovered Fuel generated during the cement kilns' non operational periods were being sought.

Members were asked to note that the Board was conscious of keeping tonnage costs down but this had an effect on recycling performance results. The Board was trying to influence trends with new enforcement methods.

Members noted the report.

41. Dates of next meetings

Members noted the dates for the next two meetings as 10 February 2014 (Levy) and 23 June 2014 (AGM) with a possible additional meeting between now and February.

42. Private Business

Members resolved to exclude the public and press from the remainder of the meeting by reason of the nature of the business to be discussed which included information exempt from publication by virtue of paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended).

43. Contract Renegotiation and Options for Savings

The Acting Managing Director presented his confidential report and Appendices. He advised Members that the staff restructure had been implemented at 1st October, generating the expected savings (£115k).

He outlined progress for savings in the communications budget. A revised 3 years communications plan with Wastewatch/Keep Britain Tidy dated October 2013 would generate considerable savings. The new plan placed a primary focus on an education programme and campaign & business development support.

Members agreed recommendation (1): the implementation of the communications plan at a net cost of £50k.

Members discussed and agreed recommendation (2) to terminate the procurement of the consultant negotiator/negotiating team.

Members discussed the position relating to the Railhead variation and potential claim on some of the assets. The Acting Managing Director responded to questions about the cessation of the railhead operations and added that the funder's technical advisers were looking into the position and awaiting approval of the terms. On cessation, ELWA would receive an annual reduction in contact costs from the Contractor.

Members requested regular updates on the assets prior to the next meeting.

Members received commentary on investigations into alternative uses for the Aveley closed landfill sites. These consisted of alternative energy generation, utilization of the existing grid connection from Aveley Methane Ltd (AML) using either photovoltaic (PV) or other wind technology; use of fines materials from the BioMRFs to enhance the soils for further planting and restoration; and, using the site to generate revenue from activities such as growing biomass for fuel. The risks involved in pursuing these options were outlined as were planning consent timescales. Should the alternative uses not prove viable then sale of the land was still an option.

Terms of a revised sale offer were provided and the Acting Managing Director was **authorised** to take the matter forward as outlined in the report.

The Acting Managing Director updated Members on future liability clauses, insurance costs and limitations, potential savings and the possibility of improving Gerpins Lane with a fines/soil mix and the growing of short rotation crops.

The intricacies of the Defra review were discussed following additional commentary from the Acting Managing Director and Legal Adviser/Monitoring Officer and receipt of a tabled legal briefing note. It was considered that a second opinion would be advantageous.

Members rejected recommendation (3) and **agreed** that officers should bring another in-depth report to the Authority, by way of a special meeting before February if necessary, with the results of their further investigations.

Members noted the positions as set out in recommendations (4) and (5).

44. ELWA Limited 29/10/13 Board Agenda

Members noted the content of the Agenda pack.

45. Other Confidential Business

None.

Minutes agreed as a true record.

Chair:

Date:

AUTHORITY REPORT: TREASURY MANAGEMENT STRATEGY 2014/15 AND PRUDENTIAL CODE INDICATORS 2014/15 TO 2016/17

1. Confidential Report

1.1 No.

2. Recommendations

2.1 That Members agree:

- a) The Borrowing Strategy for 2014/15 as set out in Paragraph 8;
- b) The Minimum Revenue Provision Policy Statement for 2014/15 is set out in Paragraph 9;
- c) The Annual Investment Strategy for 2014/15 as set out in Paragraph 10;
- d) The Treasury Management Policy Statement as set out in Appendix A;
- e) The Prudential Indicators for Treasury Management as set out in Paragraph 18.

3. Purpose

3.1 This report sets out ELWA's Treasury Management Strategy for 2014/15 together with the Prudential Indicators for Treasury Management. The report encompasses new borrowing requirements and debt management arrangements, as well as a Minimum Revenue Provision Policy Statement. The report also looks at the annual investment strategy, the Treasury Management Policy Statement and the Prudential Indicators for Treasury Management.

4. Background

- 4.1 The Local Government Act 2003 requires the Authority to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in taking these decisions. The Prudential regime requires consideration of the Authority's borrowing and investment strategies within the decision making process for setting the Authority's spending plans.
- 4.2 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice on Treasury Management in the Public Services. The Authority has adopted this code of practice and subsequent revisions as part of its Financial Rules (D 2-27.1 & 27.2) by resolution of the Authority.
- 4.3 In 2014/15, the Authority's maximum borrowing requirement to meet new capital expenditure and debt redemptions/replacement is estimated to be £0.4 million. The borrowing strategy to meet this requirement is set out in paragraphs 5 to 8.
- 4.4 ELWA is required to prepare an Annual Minimum Revenue Provision Policy Statement setting out policy for the prudent repayment of debt. The Authority must have regard to statutory guidance issued by the Department for Communities and Local Government (CLG) when preparing this statement. The Authority's Minimum Revenue Provision Policy Statement is set out at paragraph 9.
- 4.5 Each year the Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to guidance issued by the Department for Communities and Local Government (CLG) which came into operation 1st April 2010. The Annual Investment Strategy is at paragraphs 10 -14.
- 4.6 Financial Rule D 2-27.6 requires that the Finance Director present to Members the Treasury Management Strategy for recommendation prior to the start of the Financial Year. The Prudential regime requires that the Prudential Indicators for Treasury Management be considered with the Treasury Management strategy and that ELWA set these limits. These are detailed at paragraph 18. This is an annual process.

4.7 It is a statutory requirement under Section 33 of the Local Government Act 1992 for the Authority to produce a balanced budget. In particular, the Authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level, which is affordable within the projected income of the Authority for the foreseeable future.

4.8 Inevitably, certain technical terms have been used in this report. Explanations are provided where possible and a glossary covering main terms is included at Appendix D.

5. Borrowing Requirements and Debt Management Arrangements for 2014/15

5.1 ELWA's estimated total borrowing of £1,250,000 at 31st March 2014 consists entirely of Public Works Loan Board (PWLB) loans. All of these loans are on a fixed rate.

5.2 The current fixed borrowing rate of 10.02% is the average rate of interest payable on all loans within the portfolio. All of these loans were taken out many years ago when interest rates were much higher than now. Early repayment of these loans would incur a large premium as rates are much lower now.

6. Prospects for Interest Rates

6.1 As part of the Treasury Management service provided by the London Borough of Redbridge, economic forecasting is provided to assist the Authority to formulate a view on interest rates. The London Borough of Redbridge's treasury management consultants Capita (formally known as Sector) have provided forecasts for medium term interest rates (as at November 2013) as shown in the table below.

Annual Average %	Bank Rate	Money Market Rates		PWLB Rates*		
		3 month	1 year	5 year	25 year	50 year
March 2014	0.50	0.50	0.80	2.50	4.40	4.40
June 2014	0.50	0.50	0.80	2.60	4.50	4.50
Sept 2014	0.50	0.50	0.80	2.70	4.50	4.50
Dec 2014	0.50	0.50	0.80	2.70	4.60	4.60
March 2015	0.50	0.50	0.80	2.80	4.60	4.70
June 2015	0.50	0.50	0.80	2.80	4.70	4.80
Sept 2015	0.50	0.50	1.00	2.90	4.80	4.90
Dec 2015	0.50	0.50	1.20	3.00	4.90	5.00
March 2016	0.50	0.50	1.40	3.10	5.00	5.10
June 2016	0.75	0.60	1.60	3.20	5.10	5.20
Sept 2016	1.00	0.70	1.80	3.30	5.10	5.20
Dec 2016	1.00	0.90	2.00	3.40	5.10	5.20
March 2017	1.25	1.30	2.30	3.40	5.10	5.20

* Borrowing Rates

6.2 Information received from Capita (December 2013) is that in the UK, economic growth rebounded strongly in 2013. The Bank of England has upgraded growth forecasts but recognises that there is still a long way to go before the aftermath of the financial crisis is cleared and economic conditions stabilise. This underpins the Monetary Policy Committee's (MPC) intention to maintain their stimulative stance on monetary policy until there has been a substantial reduction in the degree of economic slack.

- 6.3 During 2013 the base rate remained at 0.5% and quantitative easing remained unchanged. Inflation has fallen from a peak of 3.1% in June 2013 to 2.0% in December and is expected to remain around the 2% target level.
- 6.4 The Bank of England issued forward guidance in August 2013 which stated that the Bank would not start to consider raising interest rates until the jobless rate had fallen to 7% or below. This was forecast to take three years. Since this time the UK unemployment rate has fallen much more quickly than anticipated, to 7.1% in the three months to November 2013.
- 6.5 This big fall in the number of unemployed has heightened concerns that interest rates will now rise much earlier than expected. In January, the MPC minutes recorded that reaching the unemployment threshold will not trigger an automatic rate rise, particularly whilst cost pressures remained subdued and inflation has returned to the 2% target.
- 6.6 Whilst some market analysts are forecasting that rates could begin to rise by the end of this year, there is also an argument that the economy still needs ongoing stimulus via low rates so interest rates may remain low for a while. Therefore until such time as the Governor of the Bank of England issues further commentary, the timing of the upward movement of interest rates will remain uncertain and open to speculation. The Authority will therefore need to be mindful when making decisions on borrowing and investment.
- 6.7 With regard to PWLB borrowing rates going forward, these are based on UK gilt yields and are expected to rise due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.
- 6.8 This outlook has several key treasury management implications:
- Investment returns will continue to remain relatively low during 2014/15;
 - Borrowing rates have risen during 2013 and are on a rising trend.
 - Low investment returns and higher borrowing rates mean that consideration will be given to temporary internal borrowing should this be required to finance new capital expenditure. Further details are in paragraph 8.2.

7. New Borrowing Requirements

- 7.1 The Authority may need to make arrangements to finance expenditure during 2014/15 in respect of any possible capital works identified as a result of the ongoing review of landfill sites. Indicative estimates for production of Prudential Indicators are shown for 2014/15, 2015/16 and 2016/17:

Borrowing Requirement			2014/15 £'000	2015/16 £'000	2016/17 £'000
Potential Capital Spending			400	-	-
Maximum Requirement	Estimated	Borrowing	400	-	-

- 7.2 New Borrowing Requirements - The options available to ELWA to finance any future capital requirements include the temporary use of internal cash balances and to raise loans via PWLB.
- 7.3 Public Works Loan Board (PWLB) - The Public Works Loan Board is a statutory body operating within the United Kingdom Debt Management Office, an executive agency of HM Treasury. Their function is to lend money from the National Loans Fund to local authorities and other prescribed bodies and to collect repayments. Interest rates are calculated by the Treasury and are based on base rate and the government cost of borrowing (gilt yields) plus a margin of up to 1%. Loans can be taken at fixed rates for periods up to 50 years or variable rates for up to 10 years.

7.4 The Government announced in its 2012 Budget that it would introduce a 0.2% discount on loans from the PWLB under the prudential borrowing regime for those local authorities providing improved information and transparency on capital spending plans and associated long term borrowing. This is known as the 'Certainty Rate Discount'. Access is by application and the Authority has been included on the final list of qualifying local authorities. Access to borrowing from the PWLB at the discounted rate is available for a year commencing 1 November 2013.

7.5 It is recommended that £400,000 is set as the borrowing requirement for 2014/15. This will only be utilised if needed and members so agree.

8. Borrowing Strategy 2014/15

8.1 Paragraph 7 indicates a potential need to finance £400,000 of capital requirements in 2014/15. The Authority is free to borrow what it deems to be prudent, sustainable and affordable within the Authority's approved Authorised External Debt Limit. See further detail at Paragraph 18.

8.2 The need to undertake external borrowing can be reduced by the temporary application of internal balances held for provisions and reserves within ELWA's accounts and cashflow movements on a day-to-day basis. The option of postponing borrowing and running down investment balances will reduce investment risk and provide some protection against low investment returns. The use of internal balances however must be monitored in order to mitigate the risks arising from the need to externally refinance when rates are unfavourable.

8.3 Regard must be given to the maturity profile of the loan portfolio. All borrowing undertaken will be in accordance with the objectives set out in the Authority's Treasury Management Policy Statement.

8.4 A view has to be taken on the balance between variable rate borrowing and fixed rate borrowing. To give ELWA maximum flexibility, it is suggested that the upper limit for fixed rate borrowing be set at 100% of its outstanding principal sums, and the upper limit for variable rate borrowing be set at 25% of its outstanding principal sums.

8.5 It is good practice to evaluate the borrowing portfolio on a periodic basis to see if it could be structured more efficiently. Treasury management consultants, Capita, provide information on potential restructuring opportunities as part of their service.

8.6 The uncertainty over the future movement of interest rates increases the risks associated with treasury activity. Therefore all borrowing options will be carefully evaluated, and advice sought where appropriate.

8.7 In summary, considering the factors set out above, the recommended Borrowing Strategy is:

- a) That cash balances are used to finance capital expenditure on a temporary basis, pending permanent funding at a time when rates are deemed favourable;
- b) All available sources of finance are evaluated when undertaking decisions for long term borrowing and advice sought as appropriate;
- c) The repayment spread period of the long-term debt portfolio is set at a maximum period of 50 years;
- d) That the maturity schedule is maintained so that no more than 35% of total borrowing is due for renewal in any one year.
- e) That the upper limit for fixed rate borrowing be set at 100% and the upper limit for variable rate borrowing be set at 25%.

9. Minimum Revenue Provision

9.1 In accordance with the Local Government Act 2003, the Authority is required to pay off an element of accumulated capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). MRP was originally calculated in accordance with the detailed methodology set out in the regulations. Amendment to these regulations has now replaced the detailed statutory calculation to one that gives Local Authorities more flexibility provided the outcome is prudent.

- 9.2 In conjunction with the regulatory amendment, the CLG have issued statutory guidance on the options available for making prudent provision for the repayment of debt. These options relate to existing and supported debt, whereby the Authority receives government support towards capital financing costs, and unsupported (Prudential) borrowing whereby financing costs are met wholly by the Authority. Authorities must have regard to this guidance with effect from the 1 April 2008.
- 9.3 Secretary of State guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Members for approval.
- 9.4 Annual Minimum Revenue Provision Statement
- a) For capital expenditure incurred before 1 April 2008, or any new capital expenditure incurred in the future up to the limit of the Authority's supported borrowing, minimum revenue provision will be provided for in accordance with existing practice outlined in the former regulations, which is based on a 4% charge.
 - b) Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements is to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.
 - c) Minimum revenue provision in respect of Finance Leases and on balance sheet Private Finance Initiative (PFI) contracts will be regarded as being met by a charge equal to the element of the rent/charges that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off balance sheet, the minimum revenue provision requirement will be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.
 - d) Minimum revenue provision in respect of unsupported (Prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.
 - e) The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.
- 10. Annual Investment Strategy 2014-2015**
- 10.1 The Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to the CIPFA Code of Practice on Treasury Management and the "Guidance on Local Government Investments" issued by the CLG which came into operation on 1st April 2010.
- 10.2 The key intention of the Guidance is to maintain the requirement for Authorities to invest prudently, and that priority is given to the security and liquidity of investments before yield. The Guidance requires the Authority to set out within its Annual Investment Strategy:
- a) Security, creditworthiness criteria, risk assessment and monitoring arrangements for investments;
 - b) The liquidity of investments and the minimum amount to be held in short-term investments (i.e. one which the Authority may require to be repaid or redeemed within 12 months of making the Investment) and those that are available to be lent for a longer period;
 - c) Which investments the Authority may use for the prudent management of its treasury balances and limits for each class of investment;

- d) The classification of each investment instrument for use by either the Authority's in-house officers and/or external fund managers, and the circumstances where prior professional advice is to be sought from the Authority's treasury management advisers.

11. Investment Objectives

- 11.1 The Authority's investment strategy gives priority to:
- the **security** of the investments it makes;
 - the **liquidity** of its investments to meet known liabilities.
- 11.2 The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity.
- 11.3 Within the prudent management of its financial affairs, the Authority may temporarily invest funds, borrowed for the purpose of expenditure expected to incur in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Authority will not engage in such activity.

12. Security of Capital

- 12.1 ELWA seeks to maintain the security of its investments by investing in high credit quality institutions. These institutions comprise the Authority's lending list. In order to establish the credit quality of the institutions and investment schemes in which the Authority invests, the Authority primarily makes use of credit ratings, both country (sovereign) ratings, and institution ratings provided by the three main ratings agencies, Fitch Rating Ltd, Moody's and Standard & Poors.
- 12.2 The rating criteria are used to apply the "lowest common denominator" method, of selecting country and counterparties and applying limits. This means that the Authority's criteria will apply to the lowest available rating for any given country or institution. The major benefit of using this approach is to further enhance the risk control process of the Authority, as credit ratings are opinions, not statements of fact or a guarantee. There may be some slight differences between the ratings provided by each agency. By using the lowest set of ratings the Authority is making a conscious effort to analyse all rating information available and adopting a prudent risk-averse policy on limits. Those institutions that have no ratings from a particular agency will still be considered as appropriate.
- 12.3 Credit Risk Assessment: As set out above, security of counterparties is evidenced by the application of minimum credit quality criteria, primarily through the use of credit ratings from the three main ratings agencies. These ratings are used to formulate a credit matrix to determine prudent investment periods and monetary limits and the need for diversification.
- 12.4 In formulating the matrix, consideration has been given to the levels of historic default against the minimum criteria used in the Authority's investment strategy. The table below, produced by Fitch Ratings, shows average defaults as at 31 March 2013 of investment grade products for each long term rating category.

Long Term Rating	Historical experience of default %
AAA	0.00
AA	0.02
A	0.09
BBB	0.21

- 12.5 The Authority's credit matrix minimum long term rating for investments is "A". The Authority's investment strategy is therefore considered low risk.

- 12.6 Other Counterparties and Investment Schemes that may be included on the approved lending list are:
- UK Part Nationalised Banks;
 - AAA rated Money Market Funds;
 - The UK Government (Debt Management Office and Gilts);
 - Building Societies with assets in excess of £3 billion;
 - Enhanced Cash Funds;
 - Other Local Authorities; and
 - Non UK Government and Supranational Institutions.
- 12.7 All counterparties must meet the Authority's Creditworthiness Criteria as set out at Appendix B.
- 12.8 Credit Quality Monitoring: The London Borough of Redbridge's treasury management advisers, Capita, provide credit rating information as and when ratings change and these are acted upon when received. An institution's credit quality is reviewed before any investment is made.
- 12.9 On occasion credit ratings may be downgraded when an investment has already been made. The creditworthiness criteria used are such that minor downgrading should not affect the full receipt of the principal and interest. Any counterparty whose ratings fall to the extent that they no longer meet the approved credit quality criteria is immediately removed from the lending list. If an institution or investment scheme is upgraded so that it fulfils the Authority's criteria, its inclusion will be considered. The inclusion of institutions and investment schemes that meet the agreed credit criteria is delegated to the Finance Director.
- 12.10 Reliance is not placed on credit ratings alone. Regard is also given to other sources of information such as:
- Publicity from sources such as the quality financial press and internet sites and from ratings alerts from the credit rating agencies;
 - Investment rates being paid, and whether they are out of line with the market as this could indicate that the investment is of a higher risk.
 - Where available, price movements of Credit Default Swaps, which are a financial instrument for swapping the risk of debt default, can be plotted to give an indicator of relative confidence about credit risk.
 - All information received is acted upon promptly as appropriate.
- 12.11 Investments and Diversification across Asset Classes - Additional security of capital is also achieved through diversification and the specifying of the type of investment that the Authority is prepared to invest in.
- 12.12 "Guidance on Local Government Investments" requires the Authority to set out the investments in which it is prepared to invest under the headings of Specified Investments and Non-Specified Investments.
- 12.13 Specified Investments are those investments that meet the Authority's high credit quality as set out in this section and also meet the following criteria;
- Are due to be repaid within twelve months of the date in which the investment was made;
 - Are denominated in sterling and all repayments in respect of the investment are only payable in sterling;
 - The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended]
- 12.14 Specified investments are therefore deemed to be of low risk.

12.15 Non-Specified Investments are all other investments that do not satisfy the Specified criteria and are deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during the year. The Authority's creditworthiness criteria for selecting non-specified investments is set out at Appendix B and Specified and Non Specified Investment categories are detailed at Appendix C.

12.16 Asset class limits - In accordance with current practice and the investment limits contained within the Authority's Treasury Management Practices, the maximum percentages of the portfolio which may be invested in each asset class are as follows: -

	%
UK Government	100
Local Authorities	100
UK Banks- Specified	100
Money Market Funds	75
Building Societies - Specified	50
Total Unspecified Investments	50
Non UK Banks – Specified (subject to group limit)	35
Non UK Government and Supranational Bonds (subject to group limit)	35
Total Group Non UK Investments	35
Corporate Bonds	15

12.17 These limits have been set to ensure that the Authority retains maximum flexibility and can react quickly to changing market conditions. The actual balance between the above asset classes will depend, at any one time, on the relative levels of risk, return and the overall balance of the portfolio.

13. Investment of Cash Balances and the Liquidity of Investments

13.1 Cashflow Management - In order to assist in managing the Authority's finances, a cashflow model is produced. The model details all known major items of income and expenditure of both a revenue and capital nature, based on Capital and Revenue budget proposals, detailed elsewhere on your agenda. Cash balances can fluctuate significantly during the course of the year due to timing differences between the receipt of cash such as grants and capital receipts and the corresponding expenditure. It is estimated that over the course of the year cash balances will vary between £3.7 million and £21 million. The initial cashflow estimates provide an indication of cash receipts and outgoings on a month-by-month basis.

13.2 Liquidity: The Authority is required to have available, or access to adequate resources to enable it at all times to have available the level of funds which are necessary for the achievement of its service objectives. The cashflow model provides the Authority with information on its cash requirements, detailing immediate cash requirements and indicates cash balances that are available for investment for longer periods. The liquidity of the investment portfolio is monitored regularly and reported at monthly treasury meetings with Senior Finance Officers. The minimum amount of cash balances required to support cashflow management on a monthly basis is £6 million.

13.3 The borrowing strategy set out at paragraph 8 recommends the use of internal balances to temporarily fund capital expenditure. Whilst this will help reduce the need for investing, this must be balanced against the future requirement to replace these balances, and ensure that sufficient cash is available to meet the ELWA's liquidity requirements.

- 13.4 For debt management purposes the Authority has in place overdraft facilities with the Council's banker's National Westminster Bank plc, and access to the PWLB and the money market to fund capital projects.
- 13.5 Borrowing in Advance of Need: The Authority has some flexibility to borrow funds this year for use in future years. The Finance Director may do this under delegated authority, where for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed rates will be economically beneficial to meet budgetary constraints.
- 13.6 The Finance Director will adopt a cautious approach to any such borrowing, and will only do so to fund the approved capital programme or future debt maturities where there is a clear business case. The investment of funds borrowed ahead of need, will be within the constraints of the approved investment strategy.
- 13.7 Interest Rates: As set out at paragraph 6, interest rates and therefore investment returns are expected to continue to remain low throughout the year, with the average investment return anticipated to be less than 1%. Low investment rates will continue to have a significant impact on investment receipts.
- 13.8 Yield - The Authority uses the 7 day LIBID rate as a benchmark for comparing the return on its investments.
- 13.9 Following the severe volatility in the banking sector, the Council, like most other local authorities, has taken a more cautious and prudent approach to investing by placing deposits with a more restricted lending list of Banks and Building Societies acceptable within the parameters of the overall investment strategy. This list currently comprises UK and some overseas banks, UK building societies, AAA rated sterling Money Market Funds, Local Authorities and the UK Government via the Debt Management Account Deposit Facility. The Council has followed the professional advice given by Capita, who has maintained a constant oversight of market conditions. Whilst Capita's view is of improved market stability they do not suggest that the problems within financial markets are fully resolved. This view will be taken into account in future investment decision. Investment periods have also been restricted to less than twelve months.
- 13.10 The creditworthiness criteria for choosing counterparties set out in this report provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria set out in this report, under exceptional market conditions institutions can face real and sudden difficulties with a time lag before the credit rating agencies reflect this. Therefore, it is vital that the Authority maintains a strategy of responding swiftly and the Finance Director will restrict further investment activity to those counterparties that are at any one time considered of the highest credit quality. Security of the Authority's money remains the main priority and this strategy will take precedence over yield.
- 13.11 Investments Longer than a Year: The code of practice requires the Authority to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Authority currently has no investments invested for longer than one year but a limit will still be set to provide flexibility.
- 13.12 Having given due consideration to the level of balances over the next three years, the need for liquidity, spending commitments and provisions for contingencies, it is determined that under "normal" market conditions up to £1 million of total fund balances could be prudently invested for longer than one year. However, in making such investments, consideration must be given to the uncertain economic outlook, and the prospect for continued market volatility in the Eurozone.
- 13.13 Therefore taking all of the foregoing into consideration and to allow the Authority flexibility for market improvement, it is recommended that the Authority set an upper limit for principal sums to be invested for longer than one year at £1 million for 2014/15, £1 million for 2015/16 and £0 million for 2016/17.

14. Provision for Credit-related Losses

- 14.1 If any of the Authority's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount. The Authority currently has no direct exposure to any banking failure, other than as set out below (para. 14.2)
- 14.2 The 2009/10 Financial Statements were adjusted to account for the impairment of the £1million investment to Heritable Bank. As at 31st December 2013, the Authority has so far received a total of £991,638 of the recoverable amount bringing the total repayment to 94% of the total claim for principal plus interest.

15. Treasury Management Consultants

- 15.1 Treasury Management support is provided by The London Borough of Redbridge as part of a Service Level Agreement. The Treasury Management Team use Capita as its treasury management consultants. The company provides a range of services which include:
- a) Economic and interest rate analysis;
 - b) Credit ratings/market information service comprising the three main credit rating agencies;
 - c) Generic investment advice on interest rates, timing and investment instruments;
 - d) Debt rescheduling advice;
 - e) Technical support on treasury matters and capital finance issues.
- 15.2 Whilst Capita provide support to the London Borough of Redbridge's (LBR) Treasury Management Team, the Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. The treasury consultancy service is subject to regular review.

16. Member and Officer Training

- 16.1 One of the main requirements of the Treasury Management Code of Practice requirements is the increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and keep their skills up to date. The Authority will address this important issue by:
- a) Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management, as appropriate.
 - b) Requiring all relevant LBR Officers to keep their skills up to date by utilising both external and internal training workshops and seminars, and by participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

17. Investment Strategy 2014/15

- 17.1 In summary – considering the factors set out in Paragraphs 12 and 13, the recommended Investment Strategy is:
- a) That cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cashflow model and current market and economic conditions;
 - b) That liquidity is maintained by the use of overnight deposits and call funds;
 - c) That the minimum amount of short-term cash balances required to support monthly cashflow management is £6 million;
 - d) That the upper limit for investments longer than one year is £1 million;
 - e) That the maximum period for longer term lending be 2 years;
 - f) That all investment with institutions and investment schemes is undertaken in accordance with the Authority's creditworthiness criteria as set out at Appendix B;
 - g) That more cautious investment criteria are maintained during times of market uncertainty;

- h) That all investment with institutions and investment schemes is limited to the types of investment set out under the Authority's approved "Specified" and "Non-Specified" Investments detailed in the appendix and that professional advice continues to be sought if appropriate;
- i) That all investment is managed within the Authority's approved asset class limits as set out at paragraph 12.16.

18. Prudential Indicators for Treasury Management

18.1 Overview - The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of Authorities are affordable, prudent and sustainable. Further, that Treasury Management decisions are taken in accordance with good professional practice. To demonstrate that Authorities have fulfilled these objectives, the revised Prudential Code of Practice and revised CIPFA Treasury Management Code set out the indicators that must be used, and the factors that must be taken into account.

Prudential Indicators for Treasury Management relate to:

- a) The adoption of the CIPFA Code of Practice for Treasury Management;
 - b) Limits for external debt;
 - c) Interest rate exposures;
 - d) Maturity structure of borrowings; and
 - e) Investment for periods of longer than one year.
- 18.2 The Treasury Management indicators are not targets to be aimed at, but are instead limits within which the Treasury Management policies of the Authority are deemed to be prudent.
- 18.3 The CIPFA Code of Practice in Treasury Management - The Authority adopted the CIPFA Code of Practice in Treasury Management in the Public Services and subsequent revisions, as part of its Financial Rules. The Authority's Treasury Management policies and practices fully comply with the CIPFA Code of Practice.
- 18.4 In accordance with the CIPFA Code of Practice in Treasury Management, the Authority has an approved Treasury Management Policy Statement. This is a short policy statement, which sets out core strategic issues. It is reviewed periodically and amended if policies change. This Treasury Management Policy Statement complies with the requirements of the Code of Practice and is attached as Appendix A for information.
- 18.5 Authorised limit for External Debt 2014/15 – 2016/17 - the authorised limit for external debt represents total external debt, gross of investments, and separately identifies borrowing from other long-term liabilities such as PFI Schemes and Finance leasing (see paragraph 18.6 below). The authorised limit is based on the Authority's spending plans, makes allowance for short-term cashflow movements and provides sufficient headroom for unusual cash movements.
- 18.6 As previously advised, changes in accounting treatment have resulted in ELWA PFI assets and liabilities now being included on the balance sheet. As a result of this the table below now includes a long term liability indicator of £92 million relating to the ELWA PFI liability.
- 18.7 In order to determine the authorised limit, a number of assumptions need to be made on the possible future use of borrowing. Borrowing can be used to finance capital expenditure over and above that supported by government grant, or to cover for slippage in the realisation of capital receipts, as an alternative form of financing e.g. instead of leasing, and for short-term treasury management purposes. The following table sets out limits that represent the maximum amount of gross debt:

	2014/15 £'m	2015/16 £'m	2016/17 £'m
Estimated borrowing b/f	1.3	1.7	1.7
Borrowing requirement	0.4	-	-
Less: Maturing debt	-	-	-
Less: Loan Replacement			
Short term/cashflow requirements	6.0	6.0	6.0
Unforeseen cash movements	6.0	6.0	6.0
Total Borrowing	13.7	13.7	13.7
Other long term liabilities	92.0	88.0	88.0
Total External Debt	105.7	101.7	101.7

- 18.8 It is therefore recommended that the total Authorised Limit for External Debt for 2014/15 set at £106 million, for 2015/16 £102 million, and for 2016/17 is £102 million.
- 18.9 Operational Boundary External Debt 2014/15 – 2016/17 - as with the authorised limit for external debt, the operational boundary represents total external debt, gross of investments, and separately identifies borrowing from other long term liabilities. The operational boundary is based on the same assumptions as the authorised limit but reflects the most likely estimate, i.e. a prudent but not the worst-case scenario of gross debt, as assumed in the authorised limit. This has resulted in a reduction of £2 million that is included in the authorised debt calculation for unforeseen cash movements.
- 18.10 The operational boundary is a key monitoring tool and whilst it may be breached temporarily due to cashflow variations, a sustained or regular trend above the operational boundary would be significant and lead to further investigation and action as appropriate. It is therefore recommended that the total operational boundary for external debt for 2014/15 be set at £104 million, for 2015/16 £100 million, and for 2016/17 £100 million.
- 18.11 Interest rate exposure 2014/15 – 2016/17 - the management of interest rate risk is a priority for the Authority. This is recognised in the Prudential Code, which requires the Authority to establish operational boundaries on net interest rate exposure. These are set by way of two Prudential Indicators, the upper limit on fixed interest rate exposure and the upper limit on variable rate interest exposure. The indicators are calculated by the netting of maximum borrowing and lending estimates as follows:

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Fixed Rate (borrowing)	7,700	7,700	7,700
Variable Rate (lending)	(24,000)	(24,000)	(24,000)

- 18.12 The net principal sums represent the annual upper exposure limit.
- 18.13 The limits indicate that all of the Authority's borrowing is fixed and interest costs are therefore certain. Investments, because they are invested mainly for less than one year, are classified as variable and income is therefore subject to movement in base rates. As cash balances fluctuate significantly throughout the year the figure for projected lending is based on the estimated maximum position.

18.14 The Authority's Treasury Management Practices require the setting of a local indicator for the percentage of borrowing at fixed and variable rates. The borrowing strategy recommends an upper limit of 100% for fixed rate borrowing, and in order to maintain flexibility should fixed term interest rates be unfavourable, that the percentage of variable rate borrowing be set at an upper limit of 25%. This would not breach the upper limit on variable rate exposure.

18.15 Maturity Structure of Borrowings – the Authority is required to set upper and lower limits with respect to the maturity structure of its fixed rate borrowings. These have been set to avoid the need to refinance a significant proportion of outstanding debt on an annual basis, and to provide the Authority with flexibility to manage the debt portfolio efficiently.

18.16

	Upper Limit %	Lower Limit %
Under 12 months	35	0
12 Months and within 2 years	45	0
2 years and within 5 years	60	0
5 years and within 10 years	80	0
10 years and within 20 years	100	0
20 years and within 35 years	100	0
35 years to 50 years	100	0

18.17 Investments for longer than 364 days – within the Annual Investment Strategy, paragraph 13.13, the following amounts have been identified as available for longer term investment : 2014/15 £1 million, 2015/16 £1 million and 2016/17 £0 million.

18.18 In Summary – the Prudential Indicators for Treasury Management are recommended as follows:

Authorised Limit for External Debt

	2014/15 £'m	2015/16 £'m	2016/17 £'m
Borrowing	14	14	14
Other Long Term Liabilities	92	88	88
TOTAL	106	102	102

Operational Boundary for External Debt

	2014/15 £'m	2015/16 £'m	2016/17 £'m
Borrowing	12	12	12
Other Long Term Liabilities	92	88	88
TOTAL	104	100	100

Upper Limits on Interest Rate Exposures

	2014/15 £'m	2015/16 £'m	2016/17 £'m
Fixed Rate	7.7	7.7	7.7
Variable Rate	(24.0)	(24.0)	(24.0)

Amount of Projected Fixed Rate Borrowing that is Maturing in each Period as a Percentage of Total Projected Borrowing that is Fixed Rate

	Upper Limit %	Lower Limit %
Under 12 months	35	0
12 Months and within 2 years	45	0
2 years and within 5 years	60	0
5 years and within 10 years	80	0
10 years and within 20 years	100	0
20 years and within 35 years	100	0
35 years to 50 years	100	0

Upper Limit for Total Principal Sums Invested for more than 364 days

2014/15 £'m	2015/16 £'m	2016/17 £'m
1	1	0

19. Relevant Officer

Geoff Pearce, Finance Director / e-mail finance@eastlondonwaste.gov.uk 020 8708 3588

20. Appendix Attached

Appendix A Treasury Management Policy Statement

Appendix B Creditworthiness Criteria

Appendix C Approved list of specified and non-specified investments

Appendix D Glossary

21. Background Papers

CIPFA Code of Practice on Treasury Management – 2011 Edition

The Prudential Code for Capital Finance in Local Authorities – 2011 Edition

CLG Guidance on Local Government Investments – April 2010

Guidance on Minimum Revenue Provision issued by CLG February 2008

22. Legal Consideration

22.1 The legal and constitutional requirements in relation to the Authority's Treasury Management Strategy are set out in the body of this report and the Legal Advisor has no further legal comment to add.

23. Financial Consideration

23.1 As detailed in the Report.

24. Performance Management Consideration

24.1 The financial position and projections should reflect service performance trends.

25. Risk Management Considerations

25.1 Current position results in no change to present risk profile.

26. Follow-up Reports

26.1 Budgetary Control Report, next meeting.

27. Websites and e-mail links for further information

<http://www.cipfa.org.uk/>

<http://www.communities.gov.uk/corporate/>

28. Glossary

ELWA – East London Waste Authority

29. Approved by Management Board

27th January 2014

30. Confidentiality

No

TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its Treasury Management activities as:
 - a) The management of the organisation's investments and cash flows, its banking, money market and capital market transactions;
 - b) The effective control of the risks associated with those activities; and
 - c) The pursuit of optimum performance consistent with those risks.
2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Authority acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
4. When setting borrowing and lending policies, the Authority adheres to the principles contained within the CIPFA Treasury Management Code of Practice, The Prudential Code and other statutory guidance. These policies are contained within the Authority's Treasury Management Strategy which is approved annually.

CREDITWORTHINESS

(Extract from Treasury Management Practices)

The Authority is required to invest prudently and demonstrate that priority is given to security and liquidity before yield. Creditworthiness covers: -

- a) Credit quality for selecting counterparties.
- b) Credit ratings for institutions and country.

1. Credit Quality

1.1 The criteria for providing a pool of high quality investment counterparties for both Specified and Non Specified investments is as follows:

Banks with a Good Credit Quality

- a) UK banks
- b) Non UK banks domiciled in a country, which has a minimum Sovereign long term rating of AA-.
- c) Meet the requirements of the short terms and or long-term credit matrixes set out in 2 below.

UK Part Nationalised Banks

Royal Bank of Scotland Group and Lloyds Banking Group whilst they continue to be part nationalised, or meet the requirements of the credit matrixes.

The Authority's banker

National Westminster Bank (NWB), for transactional purposes. NWB is a subsidiary of the Royal Bank of Scotland. For investment purposes investments can be made with NWB and the Royal Bank of Scotland (RBS). RBS is a part nationalised bank. If this were to cease and the ratings of RBS did not meet the creditworthiness criteria then cash balances would be minimised in both monetary size and time.

Bank Subsidiary and Treasury Operations

The Authority will use these where the parent bank has the necessary ratings outlined above.

Building Societies

The Authority will use Building Societies that:

- a) Meet the requirements of the short term and or long term credit matrixes set out in 2 below; or
- b) Have assets in excess of three billion pounds.

AAA rated Money Market Funds

UK Government

(including the Debt Management Account Deposit Facility)

Enhanced Cash Funds

Local Authorities

(including Police and Fire Authorities)

Non UK Government

Supranational Institutions

Corporate Bonds.

2. Credit Criteria

2.1 The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings of all three credit rating agencies supplied by Fitch, Moody's, and Standard & Poors. Where appropriate, the rating criteria applied will be the "lowest common denominator" method for selecting counterparties and applying limits using all three credit rating agencies. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, then the institution will fall outside the lending criteria. This is in compliance with the revised CIPFA Treasury Management Code of Practice.

Short Term Credit Matrix

For short term lending (less than one year) the following minimum credit criteria for Banks and Rated Building Societies will apply using the lowest common denominator method:

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-1	A-1	A-1
Viability rating	aaa	bb-	*	*	*	*
Financial Strength	*	*	A	C -	*	*
Support	1	3	*	*	*	*

*no equivalent / comparable rating criteria

Long Term Credit Matrix

For Long Term lending (more than one year), the following minimum credit criteria will apply using the lowest common denominator method:

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-1	A-1	A-1
Viability rating	aaa	bb+	*	*	*	*
Financial Strength	*	*	A	C	*	*
Support	1	3	*	*	*	*

* no equivalent / comparable rating criteria

Long Term – relates to long term credit quality

Short Term – relates to short term credit quality

Viability/Financial Strength – Strength of the organisation as a stand alone entity

Support – Fitch's assessment of whether the bank would receive support if necessary

Monitoring of Investment Counterparties

The credit rating of counterparties is monitored regularly. The Authority receives credit rating information (changes, rating watches and outlooks) from Capita as and when ratings change and counterparties are checked promptly. Any counterparty failing to meet the criteria is removed from the list immediately.

Use of additional information other than credit ratings

The Code of Practice requires the Council to supplement credit rating information. The above criteria relates primarily to the application of credit ratings, however additional operational market information such as negative ratings watches / outlooks and financial press information must be considered before any specific investment decisions can be made. In addition, movement in credit default swap prices can provide an indication of credit risk, as can the rate of interest being offered if it is out of line with the market.

Country Sovereignty Considerations

Due care will be taken to consider the country, group and Capita exposure of the Authority's investments, no more than 35% of the total investment portfolio will be placed with non UK countries at any one time.

For countries other than the UK, sovereignty ratings must fall within the ratings matrix below, using the lowest common denominator approach, before the country can be considered for inclusion on the lending list and then each individual institution domiciled to that country must meet the high credit quality criteria as detailed, and the credit matrixes.

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Sovereign ratings	AAA	AA-	Aaa	Aa3	AAA	AA-

A Fitch rating of 'AAA' denotes the highest credit rating quality with the lowest expectation of default risk. The lowest rating 'C' denotes that default is imminent and a rating of 'D' denotes that the issuer is currently in default.

Time and Monetary Limits applying to Investments

Type of Investment	Minimum Fitch rating (or equivalent)				Limit £'m	Time Limit
	1*	2*	3*	4*		
Credit rated Institutions	F1	A	a-	3	5	1 Year
	F1	A	bb-	3	4	1 Year
	F1	A	bb+	2	3	2 Years
	F1	A	bb+	3	2	2 Years
Other Institutions						
Money Market Funds	AAAmf				3	1 Year
Unrated Building Societies	Assets greater £3bn				3	6 Months
Enhanced Cash Funds	AAA/V1				3	2 Years

Other			
UK Government – DMADF		30	2 Years
UK Government - Bonds		30	2 Years
UK Government – Part Nationalised Banks	Per group	5	2 Year
Local Authorities		5	2 Years

		Sovereign Ratings			
Non-UK Government - Bonds		AA-	3	1 Year	
Supranational Bonds		AA-	3	1 Year	

1* Short Term – relates to long term credit quality

2* Long Term – relates to short term credit quality

3* Viability/Financial Strength – Strength of the organisation as a stand alone entity

4* Support – Fitch’s assessment of whether the bank would receive support if necessary

APPROVED LIST OF SPECIFIED INVESTMENTS, CREDITWORTHINESS AND USAGE FOR UNDERTAKING THE AUTHORITY'S INVESTMENT MANAGEMENT STRATEGY

(Extract from Treasury Management Practices)

Specified Investments are sterling investments of not more than one year maturity, or those which could be for a longer period, but where the Authority has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal is small.

INVESTMENT	SECURITY / CREDIT RATING	USE
UK Government and Local Authorities	UK Sovereign rating	In House
Money Market Funds	Rated AAA	In House
Enhanced Cash Funds	Rated AAA	In House
UK Part Nationalised Banks	Government backed	In House
Banks	See table and criteria above Lowest common denominator matrix Meets sovereign criteria	In House
Building Societies	See table and criteria above Lowest common denominator matrix, or assets of at least £3bn	In House
Supranational Bonds	Sovereign rating criteria	To be used in house / external fund manager
Certificates of Deposit issued by banks and building societies	Short-term lowest common denominator matrix Sovereign rating criteria Government Backed	To be used in house / external fund manager
UK Government gilts and treasury bills	UK Sovereign rating	To be used in house / external fund manager
UK Gilt and Bond Funds	Sovereignty rating criteria and/ or AAA rated fund	To be used in house / external fund manager
Non-UK Government Bonds	Sovereign rating criteria	To be used in house / external fund manager
Corporate Bonds	See table and criteria above Lowest common denominator matrix Meets Sovereign criteria	To be used in house / external fund manager

APPROVED LIST OF NON-SPECIFIED INVESTMENTS, CREDITWORTHINESS AND USAGE FOR UNDERTAKING THE COUNCIL'S INVESTMENT MANAGEMENT STRATEGY

(Extract from Treasury Management Practices)

Non Specified Investments are any other type of investments that do not fall under the Specified classification.

In accordance with the guidance issued by the Security of State effective from 1 April 2010, a limit must be stated for the upper limit that may be held in non-specified investments at any time. This limit has been set at 50% of the total portfolio as per the asset class limit set in the Investment Strategy Report.

Unrated banks, building societies and other institutions are classed as non-specified investments irrespective of the investment period.

Investment	Security/Credit Rating	Maximum Term	Use
Unrated Building Societies	Market capitalisation over £3bn	6 months	In House

Long-term investments must be undertaken within the approved creditworthiness criteria and total exposure constrained within the boundaries of the approved limits.

The table below details the total percentage of the Annual Principal Sums Invested for more than 364 days that can be held in each category of investment, for example 100% of the Principal Sums limit can be held with the UK Government at any one time.

Investment (All in Sterling)	Security/Credit Rating	Maximum term	Use	Upper Limit % of the Total Principal sums for each year
UK Government DMO / Gilts	Sovereign rating criteria	2 years	In House	100%
UK Bond Funds	Sovereign rating criteria / AAA mf	2 years	In House / external fund manager	50%
Enhanced Cash Funds	Sovereign rating criteria / AAA / V1		In House / external fund manager	50%
Local Authorities	High Security	2 years	In House	100%
Banks	See table and criteria above Long term credit matrix Meets sovereign criteria	2 years	In House	100%
Building Societies	See credit criteria table Long term credit matrix.	2 years	In House	50%
Non UK Government Bonds	Sovereign rating criteria	2 years	In House / external fund manager	35%

Supranational Bonds	Sovereign rating criteria	2 years	In House / external fund manager	35%
The Authority's own banker	Government backed	1 year	In house	50%
Corporate Bonds	See table and criteria above Long term credit matrix Meets sovereign criteria	2 years	In House / external fund manager	15%

GLOSSARY

Asset Class Limits	The Authority is required to set limits in terms of percentages for each class of investment held as a percentage of the total portfolio.
Asset Life	How long an asset, e.g. a building is likely to last.
Borrowing Portfolio	A list of loans held by the Authority.
Borrowing Requirements	The principal amount the Authority requires to borrow to finance capital expenditure and loan redemptions.
Capitalisation direction or regulations	Approval from central government to fund certain specified types of revenue expenditure from capital resources.
CIPFA Code of Practice on Treasury Management	A professional code of Practice which regulates treasury management activities.
Counterparty	Financial institutions with which the Authority transacts with for borrowing and lending.
Credit Arrangements	Methods of Financing such as finance leasing
Credit Ratings	A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar institution.
Creditworthiness	How highly rated an institution is according to its credit rating.
Debt Management Office	The DMO is an agency of the HM Treasury which is responsible for carrying out the Government's Debt Management Policy.
Debt Rescheduling	The refinancing of loans at different terms and rates to the original loan.
Fitch Ratings	A credit rating agency who provides credit rated worthiness information.
Gilts	Issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest for the period.
Guidance on Local Government Investments	Statutory guidance issued by the Department for Communities and Local Government in respect of local authority investments
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Limits for external debt	The limit set for the total amount of external debt based on the Authority's spending plans,

	allowing for cashflow movements and sufficient headroom.
Liquidity	The availability of finance to ensure that the Authority has adequate cash to be able to pay its obligations when they fall due.
Lowest Common Denominator	Whereby rating agencies provide credit ratings of institutions and the lowest rating is applied to determine whether they meet the criteria to be on the Authority's lending list.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	The composite repayment obligations of the Authority debt portfolio in order of maturity.
Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside to repay debt.
Minimum Revenue Provision Policy Statement	An annual statement which sets out the options available to the Authority to calculate its minimum revenue provision
Monetary Policy Committee	Bank of England committee that sets the UK's (base) interest rate.
Money Market	The financial markets where investments and loans are traded.
Money Market Funds	An open ended mutual fund that invests in a mix of short term securities.
Moody's	A credit rating agency who provides credit rated worthiness information.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year
Prudential Borrowing	Borrowing in accordance with the requirements of the Prudential Code
Prudential Code for Capital Finance in Local Authorities	A professional code of practice for local authorities to meet statutory requirements of the Local Government Act
Prudential Indicators	Indicators specified in the Prudential Code that are set to ensure that capital investment is affordable, prudent and sustainable.
Public Works Loan Board (PWLB)	Statutory body operating within the UK Debt Management Office, who lend money and collect repayments from local authorities and other prescribed bodies
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to risk.

Security	The safety of an investment and the likelihood that it will be repaid.
Specified Investments	Investments that meet the Authority's high credit quality criteria and repayable within 12 months.
Standard and Poors	A credit rating agency who provides credit rated worthiness information.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
Treasury Bills	Short term, Government backed debt obligation with a maturity of less than one year. Very liquid and secure.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Authority.

AUTHORITY REPORT: REVENUE & CAPITAL BUDGETS AND LEVY 2014/15

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to agree:

- a) The revenue budget for 2014/15, totalling £56,465,000 excluding contributions from reserves;
- b) The charges for commercial and industrial waste for 2014/15
- c) Commercial & Industrial Waste – recycled £75 per tonne
- d) Commercial & Industrial Waste – other £139 per tonne;
- e) That on the basis of a) to b) above, ELWA determines its levy for 2014/15 as the sum of £48,060,000 (an increase of 1.9%).
- f) The policy on Reserves and associated criteria;
- g) The continuation of existing arrangements for the payment of the levy and commercial and other waste charges.

3. Purpose

3.1 To agree the revenue budget for 2014/15.

3.2 To determine the ELWA Levy for 2014/15.

4. Executive Summary

4.1 This report sets out to provide the Authority with information to agree the ELWA revenue budget for 2014/15 and to determine the levy for each Constituent Council. The proposals set out in this report have been prepared in accordance with the 2014/15 to 2016/17 ELWA Financial Strategy as agreed at the 25th November 2013 Authority meeting.

4.2 In the Financial Strategy report, Members were informed of an indicative average increase in the ELWA levy of 2.1% for 2014/15. Members were also informed that this levy figure might change following updated tonnage and Council Tax Band D figures for each borough. Also that the impact of the increase would be different for each borough dependent on tonnages and Band D figures.

4.3 Budget assumptions for setting the 2014/15 levy such as landfill tax increases and contractor inflation remain broadly in line with those reported to you in the Financial Strategy report in November 2013. It is important to stress that the proposed levy has been set on the basis that the Authority continues to run down the level of reserves in the short term. This is to allow efforts to continue in finding further major savings for the Authority. The proposed Levy for 2014/15 assumes a net transfer of £1.9 million from PFI reserves with £1.5 million of drawings from revenue reserves. It is proposed reserves are set at the level as reported to your meeting on 25th November 2013 on the Budget Strategy.

4.4 A major part of the November 2013 Financial Strategy report was the requirement for the Authority to make significant efficiency savings (£0.5 million on 2014/15 £2 million in 2015/16 and 2016/17). Without these the Levy increases would be considerably higher than those proposed. Considerable efforts must continue to find new savings.

4.5 Elsewhere on the agenda is a report which details the budgetary position up to December 2013 and the projected outturn position at 31st March 2014. This shows a projected outturn underspend of approximately £500,000.

4.6 The Financial strategy report in November 2013 proposed that revenue underspends in 2012/13 and 2013/14 were used to mitigate Levy increases in 2014/15 and 2015/16. It is now proposed that £1 million of these underspends (from 2012/13 and 2013/14) is used to mitigate the Levy increase in 2014/15.

- 4.7 As advised by ELWA technical officers income is now projected to be a little more buoyant in the 3 year period.
- 4.8 Updated ELWA technical officer advice is that tonnage is projected to be 429,000 tonnes in 2014/15.
- 4.9 These new factors ie increased use of underspend, slightly higher tonnages and more buoyant income have meant that this report is now proposing a 2014/15 average levy increase of 1.9%. However, this is an average and not the specific level for each Borough.
- 4.10 As part of the Financial Strategy report in November 2013 Members were reminded that they had agreed in December 2012 to continue the present method of allocating the levy between the Constituent Councils as follows:
- a) waste tonnage levels for costs attributable to household waste
 - b) Council Tax band D properties numbers to apportion other costs such as Reuse and Recycling Centres.
- 4.11 Constituent Councils have seen different changes in their comparative waste tonnage levels and band D property numbers. This means that whilst the overall proposed levy increase is 1.9%, it masks a wide spread of changes amongst the four Constituent Councils. The individual levy for each constituent council is
- | | | |
|-------------------------|-------------|-----------------------|
| LB Barking and Dagenham | £9,429,000 | (an increase of 4.7%) |
| LB Havering | £11,990,000 | (an increase of 2.9%) |
| LB Newham | £13,389,000 | (a decrease of 2.1%) |
| LB Redbridge | £13,252,000 | (an increase of 3.4%) |
- 4.12 However, Members' attention is drawn to the current projections for the ELWA levy in 2015/16 and 2016/17, which stand at 7.2% and 3.7% respectively. The use of reserves already mitigates the increases in 2014/15. This is to allow time for additional structural contract based savings to be delivered. The levy increases in 2015/16 and 2016/17 depend on significant efficiency savings being generated. Without these the proposed Levy increase will be considerably higher.
- 4.13 The ELWA Management Board supports the contents and recommendations set out here, and the Finance Service of each constituent council has been consulted on and advised of the potential levy increases.

5. Background

- 5.1 This report sets out the background to the levy, the assumptions and cost pressures determining the Levy, the strategic use of reserves to mitigate cost increases to Boroughs and the revenue budget for 2014/15. Members are asked to consider these matters and determine the levy for 2014/15.
- 5.2 The key strategic themes of this report were set out in the Financial Projection and Budget Strategy 2014/15 to 2016/17 report as agreed at the 25th November 2013 Authority meeting. The Constituent Councils were made aware of this and at that time the indicated levy increase of 2.1% in 2014/15.
- 5.3 ELWA is required to inform the Constituent Councils as to the amount of its levy requirement by the 15th February each year. The levy is made by issuing a demand to each Council, specifying the dates on which payment is to be made and the amounts involved.
- 5.4 There is no specific power enabling ELWA to make a supplementary levy during the course of the year should it require additional resources due to unforeseen circumstances.
- 5.5 The levy requirement is made up of the ELWA budget plus any contingency provisions, and drawings from/ contributions to reserves.
- 5.6 ELWA recommended and its Constituent Councils unanimously agreed to the following levy apportionment arrangements with effect from 2002/03:

- a) A levy based on waste tonnage for costs attributable to Household Waste;
 - b) A levy based on Council Tax Band D to apportion other costs attributable to, for example, Reuse and Recycling Centres and the closed landfill sites.
- 5.7 As part of the Three year Financial Projection and Budget Strategy report to the Authority meeting of 3rd December 2012, Members agreed to maintain the current arrangements.

6. Cost Pressures on Revenue Budget

- 6.1 The two principle determinants of the Levy are the costs facing ELWA, mainly from the Integrated Waste Management Contract and the ability to use reserves to mitigate against these cost pressures. The following paragraphs detail the main cost pressures.

Annual Budget and Service Delivery Plan (ABSDP)

- 6.2 The key item within the revenue budget is Shanks East London's Annual Budget and Service Delivery Plan (ABSDP) which forms approximately 95% of ELWA's total gross expenditure. The provisional ABSDP for 2014/15 assumes a total ELWA waste figure of approximately 428,000 tonnes. In recent years actual tonnage has been different to that projected in the ABSDP. At the meeting on the 25th November 2013 which considered the Three year Budget Strategy 2014/15 to 2016/17 based on ELWA technical officer advice a tonnage of 426,000 tonnes was projected for 2014/15. Based on the latest ELWA technical officer advice and Constituent Council returns the projected tonnage in 2014/15 will be 429,000 tonnes and this has been assumed in the 2014/15 contractor costs budget.
- 6.3 The revenue budget has accounted for further increases in landfill tax of £8 per tonne in 2014/15. Under the Integrated Waste Management Strategy (IWMS) contract, landfill tax is met by Shanks up to £15 per tonne. ELWA bears the excess over £15 on the levels of landfilled waste provided the contractor has achieved the contracted diversion from the landfill target. The overall landfill tax liability will vary depending on the diversion rate.
- 6.4 As a consequence of additional Landfill Tax rate rises, the revenue budget has assumed subsequent increases in commercial waste disposal charges in 2014/15 to the boroughs of the equivalent amount.
- 6.5 Managing waste levels is a key pressure for Constituent Councils and it will be affected by the pace of development of the Thames Gateway and the impact of the Olympic legacy/Olympic village, which could significantly add to waste growth over the next decade. Based on input from the boroughs and technical officer advice 431,000 and 433,000 tonnes have been assumed in 2015/16 and 2016/17 respectively.
- 6.6 As required in the contract, annual cost inflation has been built into the projections. This is based on the Retail Price Index excluding mortgages (RPIX) at the previous October each year (at 80%). At the 80% level, this is 2.13% for 2014/15 and projected to be 2% for 2015/16 and 2% for 2016/17.
- 6.7 Members will be aware that the better the diversion rate the more ELWA is able to reduce its contractor costs, as the saving on Landfill taxes exceeds the increased diversion supplements. Members agreed a report in September 2011 which detailed a proposal from Shanks for an increased level of diversion of Solid Recovered Fuel (SRF) from landfill.
- 6.8 ELWA technical officers advise that in recent months the diversion rate is around 75% while for the 2013/14 year as a whole the projection is for a rate of 74%. In the Financial Strategy report agreed by Members in November 2013 a diversion rate of 75% was projected for the three years and the assumption in this report is for a rate of 75% for 2014/15. Based on ELWA technical officer advice following recent discussions with Shanks a diversion rate of 76% will now be appropriate for 2015/16 and 2016/17.

- 6.9 Elsewhere on this agenda is a report showing the budgetary control position for December 2013 and the projected outturn for 2013/14. It is proposed that this and the available underspend from 2012/13 is used to dampen the Levy increase in 2014/15 and 2015/16.

Non-Contract Costs

- 6.10 For the non contractor costs part of the budget Members agreed to a staff restructuring at the September 2013 meeting which saves £115,000 in a full year and this has been incorporated into the revenue budget.

Efficiency savings

- 6.11 Over a number of Authority meetings Members have received details of where net efficiency savings may be achieved, eg cost reductions in contract and non- contract budgets as well as increased income generation. An efficiency savings target of £500,000 has been assumed in the levy calculation for 2014/15 and £2,000,000 for those in 2015/16 and 2016/17.

Income

- 6.12 ELWA receives interest on its balances and the total income generated depends on the level of balances and interest rates. ELWA's Treasury Management Strategy continues to focus on security rather than returns. The reduced interest income assumed in the revenue budget takes account of the continuing low interest rates and the reduced level of ELWA balances

Commercial and Royalty charges

- 6.13 There are some other income streams within the revenue budget projections. These are commercial waste charges to the Boroughs and trade waste royalty income.
- 6.14 ELWA makes charges to Boroughs for commercial and industrial waste disposal based on the tonnage disposed of. Under the IWMS contract Shanks must accept and deal with this waste.
- 6.15 To reflect the increased cost of landfill tax (in 2014/15) and inflation within the IWMS contract it is the view of the ELWA Technical officers that the normal charge for 2013/14 is increased from £128 to £139 per tonne, £3 of the increase relates to inflation and £8 to the landfill tax. The charge for recycled waste is recommended to increase from £73 to £75. ELWA technical officers advise that commercial waste tonnage will be in the region of 20,000 tonnes with income of £2.9 million.
- 6.16 The Authority receives royalty income in respect of the waste that Shanks processes in any of ELWA's facilities. This relates to waste from other Boroughs and some commercial waste. Based on ELWA technical officer advice, the projected income budget can be increased to £512,000.

Capital Expenditure/ Capital Reserve

- 6.17 Through the IWMS contract, Shanks.east london has delivered a major capital investment for the provision of waste disposal facilities and the refurbishment of existing ones in the ELWA area. The costs of this are reflected within the contract charges.
- 6.18 In addition, consideration will be given by ELWA Officers to making bids for additional funding in appropriate circumstances including recycling and composting initiatives. Currently no funding has been identified.
- 6.19 ELWA has aimed to sell its landfill sites, although as reported to Members alternative uses are being examined, for example revenue generation from landfill sites. Should the sites be sold then a capital receipt will be generated. ELWA has a capital reserve of £400,000 earmarked for future costs at the main Aveley 1 site. Prior to any sale, in the opinion of ELWA officers there continues to be the potential need for significant works eg concerning the environmental protection of and the continuation of existing operations on the site. Should the landfill sites be sold this will not only generate a capital receipt but will also mean the writing back of the capital reserve. The resulting

additional resources would then be available to smooth future levy increases subject to the appropriate accounting regulations.

- 6.20 The latest advice from ELWA technical officers is that Aveley and the other sites will not be sold in 2014/15 and consequently this reserve should remain. This also means that the revenue budgetary provisions relating to the landfill sites need to be kept at the existing 2013/14 levels.
- 6.21 Existing capital financing charges are taken account of in the revenue estimates. In 2014/15 these are slightly reduced from the 2013/14 budget level due to some debt being paid off.

Summary

- 6.22 The table below summarises the movement and the increase in cost pressures which will have a direct impact on the levy.

	£m	Reference
Original Budget 2013/14	55.4	
Shanks contract –net effect of increased diversion	(0.4)	Para. 6.8
Shanks contract – Increase due to inflation	1.0	Para. 6.6
Landfill tax increase	1.1	Para. 6.3
Changes in Tonnage	0.2	Para. 6.2
Change in income	(0.1)	Para. 6.12 to 6.16
Change in non contractor costs/efficiency savings	(0.7)	Para.6.10.and 6.11
Proposed Budget for 2014/15	56.5	

- 6.23 The tonnage increase, the impact of landfill tax and inflation have added to cost pressures. The levy increase continues to be mitigated by the ongoing use of reserves in 2014/15.

7. Reserves Strategy

- 7.1 The approach to reserves is a continuation of our long-term strategy. A higher level of reserves was put in at the start of the contract due to the uncertainty around the innovative nature of the contract, the technologies used and planning risk. Once the contract was established, reserves have been reduced in stages to an appropriate level. As part of the Financial Projection and Budget Strategy report in November 2013, I advised that the reserves at the end of the 3 year period would reflect the risks as detailed. Consequently I projected that at the end of 2016/17 there would be overall reserves of £4.0 million which is an increase of £0.5m from the end of 2015/16.

PFI Reserve

- 7.2 The PFI reserve was put in place to smooth the IWMS contract step price increases in the early years of the contract. It was good financial practice and agreed ELWA policy that a suitable level of PFI Contract Reserve be set aside in the years prior to such changes to avoid large step increases in the levy for those years. More recently other pressures outside ELWA control such as the annual increases in landfill taxes have required financing. As advised to Members previously as there will be no further step increases in the contract and that ELWA will pay less in diversion supplements from 2015/16 onwards, the reserve should be discontinued from 2014/15 onwards. Therefore the reserve will stand at zero at 31st March 2015.
- 7.3 The Department of Communities and Local Government in January 2011 advised that the annual PFI grant would be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. The main impact of this in the short term is that for the three years commencing 2014/15, the Authority will receive additional PFI grant of approximately £2.15 million compared to the position if the grant had continued to be paid on the declining balance basis.

7.4 As part of the setting of the levy in 2012/13 Members agreed to use the additional grant over the 3 year period to reduce the levy requirement and it is proposed to continue this policy for the next 3 years.

7.5 The effect on PFI reserves in 2013/14 and 2014/15 is shown below: -

	£'000
Balance at 31.3.13	2,953
PFI credit received 2013/14	3,991
Net transfer to support levy 2013/14	(5,000)
Estimated working balance at 31.3.14	1,944
PFI credit to be received 2014/15	3,991
Net transfer to support levy 2014/15	(5,935)
Projected balance at 31.3.15	0

Revenue Reserves

7.6 Members will be aware that in previous budget reports the Authority has agreed to set aside a minimum level of normal operational revenue balances based on an analysis of risk. This has been undertaken as part of this Budget Strategy process. It is now estimated that the total level of reserves that need to be held are £3.5 million at the 31st March 2015. This level of revenue reserves must be seen in the context that a 2% increase in waste tonnage creates a cost pressure of £1 million on the Authority.

7.7 The effect on Revenue Reserves in 2013/14 and 2014/15 is shown below: -

	£'000
Working Balance at 31.3.2013	7,620
Net transfer to support Levy for 2013/14	(2,650)
Estimated Working Balance at 31.3.2014	4,970
Net transfer to support Levy for 2014/15	(1,470)
Projected Working Balance at 31.3.2015	3,500

Contingency

7.8 In order to deliver a sustainable budget that is able to adapt to uncertainty, it is prudent for the Authority to set aside a provision or contingency for uncertain events.

7.9 The 2014/15 detailed Revenue Estimates include provision for pay increases of 1%. A contingency provision of £150,000 is recommended which is in line with last year.

7.10 Insurance costs for the 3 year period have been built into the 3 year budgets.

8. Levy for 2014/15 and Subsequent Years

2014/15 Levy

- 8.1 The levy requirement is made up of the ELWA net revenue budget plus / minus any contingency provisions, and drawings from or contributions to reserves.
- 8.2 The Finance Director's Financial Projection and Budget Strategy report agreed by Members on 25th November 2013 projected a levy in 2014/15 of 2.1%. The proposal now is a 1.9% increase in the overall 2014/15 levy. The reason for the net movement from the 2.1% projected in November is more buoyant income and the increased use of the 2012/13 and 2013/14 underspend.

Levies 2015/16 and 2016/17

- 8.3 The table below highlights a potential levy of £51.5 million for 2015/16 and £53.4 million for 2016/17. The reserves position at the end of 2016/17 is projected to be £4.0 million for revenue reserves with the PFI Contract reserve at zero.
- 8.4 The levy forecasts for 2015/16 to 2016/17 clearly can only be taken as an indication for planning purposes. However, a change in any of a number of uncertain factors, for example changes in landfill tax legislation, waste growth, inflation assumptions and any new legislation could impact on the overall projections.
- 8.5 The indicative levy position and reserves figures for the next three years based on the data used for the 2014/15 levy are summarised in the following table :

Summary Budget	2014/15 £'000	2015/16 £'000	2016/17 £'000
Revenue Budget	56,465	55,705	56,920
Annual PFI Grant	(3,991)	(3,991)	(3,991)
Transfer to PFI Reserve	3,991		
Sub Total	56,465	51,714	52,929
Financed By			
Transfer from PFI Reserve	(5,935)		
Transfer (from)/to General Reserve	(1,470)	0	500
Underspend 2012/13 and 2013/14	(1,000)	(200)	-
Levy	48,060	51,514	53,429
Levy Increase over previous year	1.9%	7.2%	3.7%
Year End Reserves			
PFI Reserve	0	0	0
Capital Reserve	400	400	400
General Reserve	3,500	3,500	4,000

- 8.6 The above reserves projections reflect the current understanding and assessment by officers on the risks faced by ELWA. These matters will need to be kept under review and the advice may change in light of any future developments.
- 8.7 The levy for 2014/15 is recommended to be £48,060,000 including the contingency of £150,000 and after applying a net £1,944,000 from the PFI reserve and drawings from revenue reserves of £1,470,000, and the use of the 2012/13 and 2013/14 underspends to mitigate the Levy increase.
- 8.8 Increases in the levy in future years are likely to put pressure on the budgets of the Constituent Councils. As I have highlighted before, if increases of this level are to be avoided ELWA should continue to work with Shanks.east London to find further ways to substantially reduce costs.

- 8.9 The previous Government's capping regime did not apply to Waste Disposal Authorities like ELWA. Nevertheless, the Coalition Government has made public sector financial constraint a key feature of its policies. This reinforces the need for ELWA to seek ways to reduce future levy increases.
- 8.10 Any changes in the budgets provided in the recent three-year plan will be reflected in the next three-year Financial Strategy and Budget Projection review due in November 2014.

Apportionment of the 2014/15 levy and monitoring arrangements

- 8.11 The basis of the apportionment of the levy is explained in paragraphs 5.6 to 5.7 of the report. The detailed apportionment is given in the table below:-

Actual Levy 2013/14	Estimated Levy per November 2013 Report		Tonnages	Apportion Tonnages	Band D Basis	Apportion Band D	Proposed Levy 2014/15	Increase in 14/15
£'000	£'000			£'000		£'000	£'000	%
9,010	9,450	LBBD	69,453	8,011	40,522	1,418	9,429	4.7
11,653	12,038	LBH	79,634	9,185	80,183	2,805	11,990	2.9
13,673	13,351	LBN	97,029	11,191	62,838	2,198	13,389	-2.1
12,819	13,289	LBR	91,016	10,497	78,756	2,755	13,252	3.4
47,155	48,128	Total	337,132	38,884	262,299	9,176	48,060	1.9%

- 8.12 Changes in the relative tonnages between boroughs and between household and non-household waste tonnage may reflect not only volume changes but also the re-classification of waste.
- 8.13 The proposed Levy changes for each borough show a wide range around the 1.9% average increase and for Newham there is actually a proposed decrease. Members will recall that the household waste element of the levy is calculated on the relative tonnages of the last complete year. The household part of the 2014/15 levy is therefore based on 2012/13 household tonnages. The Newham proportion of the overall household tonnages reduced from over 30% to less than 29% between 2011/12 and 2012/13 with the proportion of each of the other boroughs increasing slightly in the same period. As previously agreed the Newham household tonnage figure has been adjusted for the Olympics waste which was estimated at 6,600 tonnes.
- 8.14 In the past ELWA has agreed that each year's levy should be sought in four equal instalments payable in the middle of each quarter i.e. 15 May, 15 August, 15 November and 15 February or the nearest banking day thereto. It is recommended that the Levy be paid in the same way in 2014/15.
- 8.15 It is recommended that commercial and industrial waste charges and other expenditure and income continue to be sought in accordance with the existing arrangements i.e. based on quarterly claims and invoices. Current arrangements have generally worked well and it is recommended that these be continued, subject to further review as necessary.

9. The Localism Act 2011

- 9.1 The Localism Act 2011 gives local communities the power to decide about Council Tax rises. Where such rises are deemed to be excessive, Authorities will be required to hold a referendum to get approval or a veto from local voters. Currently the rules apply to Local Authorities and Precepting Authorities.
- 9.2 ELWA is a levying Authority and therefore currently not subject to these rules on referenda. At this stage Officers believe that the referenda rules will not apply to ELWA, but such a change cannot be ruled out. In addition the Authority is indirectly

funded via the Council Tax and therefore in setting the levy in 2014/15 to 2016/17 it needs to take account of the potential impact on the Council Tax of Constituent Authorities.

10. Risks

- 10.1 In line with all public sector organisations, ELWA faces difficult financial challenges over the next few years. Consequently, it is vital that ELWA is aware of the risks it faces and has arrangements in place to mitigate these.
- 10.2 The risks that ELWA faces include ensuring that contractual performance targets are met to minimise the costs of landfill, Government funding cuts, avoiding major failure in technology, new legislation and ensuring that existing regulations continue to be complied with. A key risk is that the efficiency savings which underpin the 3 year budgets are not achieved.
- 10.3 Controls have been put in place to mitigate against identified risks and the success of these controls will need to be regularly monitored within ELWA's risk management arrangements. This level of reserves has been based on the assumption that these risks will be mitigated in line with ELWA's agreed risk management framework. The level of reserves held will need to be kept under review and measured against the success of the various savings initiatives.

11. Robustness of budget and adequacy of reserves

- 11.1 The Local Government Act 2003 places duties on local authorities to reinforce good financial practice. In respect of the setting of ELWA's annual budget and levy, I am required to provide professional advice on the robustness of the budget and the adequacy of reserves. The Secretary of State has back up powers to impose a minimum level of reserves on any Authority that fails to make adequate provision.
- 11.2 The framework for the preparation of the budget is ELWA's three-year financial strategy. Monthly budget statements are prepared throughout the year for monitoring and control purposes. These anticipate cost pressures and take a prudent view on income estimates. The advice of the External Auditor and the experience of professional and technical officers of other Waste Disposal Authorities are also taken into account.
- 11.3 The major component of the estimates is the IWMS contract cost. This is formally agreed between ELWA and Shanks, East London via the ABSDP and this is taken account of in the Revenue Budget. ELWA's other costs are as advised by ELWA Officers and Constituent Councils who are responsible for and carry out certain functions on ELWA's behalf. These costs are based on the advice of Constituent Council's Technical Officers with appropriate support from other Officers and in particular their views on waste levels.
- 11.4 The view of ELWA Directors is that the proposed budget is robust and the proposed levels of reserves are adequate given the currently known risks facing ELWA. These provide a reasonable and sound basis for the operation of ELWA next year but in the medium term do need to be kept under review.
- 11.5 ELWA maintains tight financial control but being a single purpose Authority changes in service demand have a more profound impact than in say a multi-function London Borough. The proposals for 2014/15 are prudent and reasonable but the level of potential levy increase for future years, despite assuming significant efficiency savings, must raise significant concerns. Members and officers need to find ways of mitigating the level of increase and, in particular, robustly review the working of the IWMS contract.
- 11.6 At present ELWA officers maintain detailed systems for budgetary control and also for waste/contract monitoring. It is vital these systems are maintained to supply effective data for Members and senior managers. This will better enable in year variances to be identified and mitigated.
- 11.7 In my view, having consulted relevant colleagues and following an analysis of the strategic, operational and financial risks and uncertainties facing ELWA, which are set

out in this report, these risks and uncertainties are adequately addressed in the setting of the 2014/15 budget and levy and the proposed level of reserves, subject to the various remarks about mitigation in this report. The rundown in reserves is built on the premise that significant focus will continue to be placed on reducing the costs of the Authority. The levels proposed for future years will need to be kept under constant review in the light of any new developments which may impact on the Authority and the success of initiatives to find major new savings,

11.8 The details and balances of ELWA's proposed reserves are contained in this report. Subject to all the above, the levels of these reserves are deemed appropriate based on information supplied to me, my professional judgement and ELWA's previous experiences and future plans.

11.9 In my opinion, if ELWA follows the advice contained in this report then the relevant requirements of the Local Government Act 2003 are met.

12. Conclusion

12.1 Based on the Financial Strategy and risk analysis the report recommends a 2014/15 Budget and an average Levy increase of 1.9% for ELWA. The proposed Levy change for each Borough varies from the average reflecting changes in relative tonnages and Band D numbers.

13. Relevant officer:

13.1 Geoff Pearce, Finance Director / e-mail finance@eastlondonwaste.gov.uk 020 8708 3588

14. Appendices attached:

Appendix A: Summary of original and revised Revenue Budgets for 2013/14 and Forward Budget for 2014/15

Appendix B: Financial Risk Analysis 2014/15

15. Background papers:

Return from Constituent Councils

Budget working papers

25/11/13 - Financial Projection and Budget Strategy 2014/15 to 2016/17 Report & draft minute No.34

16. Legal considerations:

16.1 ELWA needs to inform Constituent Councils of their 2014/15 levy by the 15th February 2014.

17. Financial considerations:

17.1 As detailed in the Report.

18. Performance management considerations:

18.1 As detailed in the Report

19. Risk management considerations:

19.1 As detailed in paragraphs 10 and 11 of the Report

20. Equalities considerations:

20.1 In respect of the equalities impact assessment of these proposals, this report builds on previous decisions by the Authority and at the point the decisions were made there were no equality issues. The report makes changes in budget figures and increases the Levy but the Managing Director advises that following the equalities impact assessment this does not particularly affect any one group as defined by equalities legislation.

21. Follow-up reports:

Financial Projections and Budget Strategy 2015/16 to 2017/18 November 24 2014

22. Websites and e-mail links for further information:

None.

23. Glossary:

ABSDP-Annual Budget and Service Delivery Plan

ELWA-East London Waste Authority

IWMS-Integrated Waste Management Strategy

PFI- Private Finance Initiative

24. Approved by management board

27 January 2014

25. Confidentiality:

None

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SUMMARY OF REVENUE ESTIMATES

	Budget 2013/14	Forward Budget 2014/15
	£'000	£'000
EXPENDITURE		
Employee and Support Services	481	371
Premises Related Expenditure	163	149
Transport Related Expenditure	5	5
Supplies and Services		
Payments to Shanks.east London	56,242	58,075
Other (inc cost of Support Costs)	473	464
Third Party Payments		
Recycling Initiatives and savings	1,942	1,980
Tonne Mileage	500	500
Rent payable - property leases	317	317
Capital Financing Costs	210	186
TOTAL GROSS EXPENDITURE	60,333	62,047
Income		
Commercial Waste Charges	(2,731)	(2,900)
Bank Interest Receivable	(175)	(50)
Other Income	(2,218)	(2,282)
Efficiency savings	-	(500)
TOTAL INCOME	(5,124)	(5,732)
Contingency Allocated	150	150
NET EXPENDITURE ON SERVICES	55,359	56,465
Underspend 2012/13 and 2013/14	(554)	(1,000)
PFI Grant Receivable	(3,991)	(3,991)
Transfer to PFI Contract Reserve	3,991	3,991
Levy Receivable	(47,155)	(48,060)
Transfer from PFI Contract Reserve	(5,000)	(5,935)
Contribution from Reserves	(2,650)	(1,470)
REVENUE DEFICIT/(SURPLUS) FOR PERIOD	0	0

FINANCIAL RISK ANALYSIS FOR 2014/15 (AS AT JANUARY 2014)

Risk	Likelihood	Worst Case	Value of Risk
	%	£m	£m
Law changes i.e. concerning waste management, definition, or regulation	25	2.0	0.5
Cut in Government funding	10	4.0	0.4
Landfill sites – pollution & costs –gradual events	10	6.0	0.6
Aveley Methane contingency plan for gas extraction	20	0.5	0.1
Waste increases above service plan assumptions	25	1.6	0.4
Diversion rates not achieved	50	1.0	0.5
Loss of royalty income	20	0.3	0.1
Efficiency savings-non achievement	20	0.5	0.1
Legal action	5	2.0	0.1
Authority Insurances (excluding IWMS Contract) - liability for uninsured losses and deductibles	10	2.0	0.2
IWMS Contract Operational Insurances – Liability for uninsured losses and deductibles	20	2.5	0.5
TOTAL			£3.5 m

AUTHORITY REPORT: BUDGETARY CONTROL TO 31 DECEMBER 2013

1. Confidential Report

1.1 No

2. Recommendation:

2.1 To note this report.

3. Purpose

3.1 This budgetary control report compares ELWA's actual expenditure for the period ended 31st December 2013 with the original revenue budget approved in February 2013. It is based on information supplied by Shanks East London, ELWA technical officers and the four Constituent Councils.

3.2 Budgetary control reports are presented for monitoring and control purposes.

4. Background

Revenue Estimates

4.1 Based on the profiled budget of £42,169,000 and the actual net expenditure on services of £41,987,000 the position is a net underspend of £182,000 to date. (see Appendix A).

4.2 Overall the outturn is projected to be a favourable variance of £499,000 compared with budget at year end.

4.3 The principal activity driver on ELWA's budget is the level of waste tonnage delivered from the Constituent Councils. The general trend in the early months of 2013/14 was that waste tonnage levels were below that expected when the budget was set and earlier in the year it was projected total tonnage for the year would be 422,000. In the last two months waste levels have increased and Members were advised at the meeting on the 25th November 2013 that there was the possibility of such an increase due partly to additional green waste. It is now projected that total tonnage by the end of the year will be 426,000 tonnes and this compares to 428,000 tonnes assumed in the 2013/14 Budget. The final outturn position will partly depend on the severity of the winter months and to some extent on population growth and the extent of the economic recovery.

4.4 A diversion rate of 70% was assumed in the 2013/14 budget. The diversion rate for the earlier months of 2013/14 reached approximately 75% and it is now projected that a 74% rate will have been achieved by the end of the year. The net effect of the higher diversion performance with the reduction in the landfill tax liability, and tonnages being broadly in line with the budget means an end of year projected saving on contractor payments of £400,000.

4.5 The budget however remains susceptible to fluctuation both in tonnage levels and diversion performance and needs to continue to be closely monitored throughout the rest of the financial year.

4.6 Employee costs show a current underspend of £100,000 reflecting savings in respect of the deletion of the Head of Operations post. The cost of recruitment to the Managing Directors post will fall in 2014/15. The end of year projection is a £144,000 underspend on employees.

4.7 Other non contractor costs are projected to be broadly in line with budget at year end.

4.8 Based on ELWA technical officer advice commercial waste income will be on target at year end. The improvement from the figure reported earlier in the year is mainly due to the London Borough of Barking and Dagenham's Housing Maintenance being brought back 'in house'. Other income in total is projected to be slightly below budget.

- 4.9 The pressure on the levy and the reserves over the next few years has been previously reported to Members. Given this it is important that robust monitoring of the financial position throughout the year remains in place and it is essential that remedial action can be swiftly taken on areas of over spend or insufficient income collection.

Prudential indicators

- 4.10 The Authority sets Prudential Indicators covering borrowing, lending and capital expenditure limits. These are monitored by the Finance Director on a monthly basis and the Authority remains within the limits set by the Prudential Indicators.

5. Conclusion

- 5.1 The net underspend for the period to date is £182,000 and year end net expenditure is projected to be £499,000 less than budget. It is proposed this is utilised as part of the Levy setting process.
- 5.2 The position will continue to be closely monitored on a monthly basis throughout the rest of the financial year. The ability to remain within budget will depend to a great extent on tonnage trends, achievement of diversion targets and income collection.

6. Relevant officer:

Geoff Pearce, Finance Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588

7. Appendices attached:

Appendix A: Budget Monitoring Statement to 31st December 2013

8. Background papers:

4 February 2013 - Revenue & Capital Estimates and Levy 2013/14 Report & Minute No.48/2012

9. Legal considerations:

9.1 None

10. Financial considerations:

10.1 As outlined in the report.

11. Performance management considerations:

11.1 The financial position and projections should reflect service performance trends.

12. Risk management considerations:

12.1 The projected position depends on final tonnage levels, on the performance of the contractor and the success in achieving budgeted diversion levels.

13. Follow-up reports:

13.1 Report on Provisional Outturn 2013/14, next meeting

14. Websites and e-mail links for further information:

14.1 None

15. Glossary:

ELWA = East London Waste Authority

16. Approved by management board

16.1 27.01.2014

17. Confidentiality:

17.1 Not Applicable.

BUDGET MONITORING STATEMENT TO 31 DECEMBER 2013

	Original Budget 2013/14	Profiled Budget to 31.12.13	Total Actual to 31.12.13	Variance to 31.12.13	Projected Outturn	Outturn Variance
	£'000	£'000	£'000	£'000	£'000	£'000
EXPENDITURE						
<i>Employee and Support Services</i>	481	353	253	(100)	337	(144)
<i>Premises Related Expenditure</i>	170	113	107	(6)	161	(9)
<i>Transport Related Expenditure</i>	5	4	4	0	5	0
<i>Supplies and Services</i>						
Payments to Shanks.East London	56,242	43,015	42,859	(156)	55,842	(400)
Other (inc. cost of Support Costs)	466	308	299	(9)	466	0
<i>Third Party Payments</i>						
Recycling Initiatives	210	158	162	4	210	0
Tonne Mileage	500	375	375	0	500	0
Rent payable - property leases	317	237	243	6	319	2
<i>Capital Financing Costs</i>	210	108	108	0	210	0
TOTAL GROSS EXPENDITURE	58,601	44,671	44,410	(261)	58,050	(551)
INCOME						
Commercial Waste Charges	(2,731)	(2,048)	(2,007)	41	(2,731)	0
Other Income	(661)	(495)	(457)	38	(609)	52
TOTAL INCOME	(3,392)	(2,543)	(2,464)	79	(3,340)	52
Contingency Allocated	150	41	41	0	150	0
NET EXPENDITURE ON SERVICES	55,359	42,169	41,987	(182)	54,860	(499)
12/13 underspend	(554)	(554)	(554)	0	(554)	0
PFI Grant Receivable	(3,991)	(2,993)	(2,993)	0	(3,991)	0
Transfer to PFI Contract Reserve	3,991	2,993	2,993	0	3,991	0
Levy Receivable	(47,155)	(35,366)	(35,366)	0	(47,155)	0
Transfer from PFI Contract Reserve	(5,000)	(5,000)	(5,000)	0	(5,000)	0
Contribution from reserves	(2,650)	(2,650)	(2,650)	0	(2,650)	0
NET	0	(1,401)	(1,583)	(182)	(499)	(499)

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AUTHORITY REPORT: CONTRACT MONITORING TO 31 DECEMBER 2013

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to note this report.

3. Purpose

3.1 To provide an update on the monitoring, outcomes and actions taken with regards to the management of the Integrated Waste Management Strategy (IWMS) Contract for the period to 31 December 2013.

4. Summary to Quarter 3 of Contract Year Performance

4.1 The total year to date tonnage is showing very slightly above the tonnage for the same period last year. However, this was anticipated within the budget to account for increases in population.

4.2 Tonnage of contract waste year to date is on budget, despite the fact that this year's forecast had been made slightly more complex as a result of estimating the level of Olympic tonnage generated last year. It is anticipated that the year end figure will be slightly below the budgeted figure.

4.3 There are however some individual waste streams that have increased above last year's levels. For example, Reuse & Recycling Centres' (RRC) waste is slightly up against last year as is household waste collected from the kerbside. A summary of waste arisings and variances can be seen below.

4.4

Key Waste Types Year to date [Tonnes]	12-13	13-14	Change
Processed Dry Recyclate	49,207	40,619	-17%
Processed Green material	18,268	18,129	-0.8
Delivered Household [excluding above & Trade co-collected with household]	167,616	174,750	4.3%
Other Waste (i.e. Street Cleansing, Bulky etc)	31,324	33,884	8.1%
Sub Total Collected	266,415	267,382	0.4%
Trade (Estimated) Collected with Domestic	10,002	9,558	4.4%
Trade/Municipal Weighed Separately	6,322	6,147	-2.7%
Sub Total	16,324	15,706	-3.8%
RRC Green Material	8,096	7,918	-0.2%
RRC Recyclate (Exc. Green Material)	11,882	13,488	13.5%
RRC Residual	27,644	27,502	-0.5%
RRC Sub Total	47,622	48,908	2.7%
TOTAL	330,363	331,996	0.5%

4.5 Members have consistently given ELWA officers direction that increased diversion from landfill is a priority in order to avoid the increased landfill tax liability. ELWA officers

have taken this direction and have engaged proactively with the contractor to drive this performance up.

- 4.6 This initiative was partly facilitated by changes introduced at the RRC Sites which has resulted in an additional 6000t of material being diverted from landfill and the introduction of a second baling machine to eliminate shortfalls in the primary baling operation.
- 4.7 As a result of this increased focus the year to date diversion performance is 74.4%; this is a considerable improvement against the same period last year of 67.8%, and slightly above the anticipated figure in the Annual Budget & Service Delivery Plan (ABSDP) of 73.9%.
- 4.8 Traditionally levels of diversion reduce slightly in the months of January and February as a result of cement kilns closing for annual maintenance with the impact of lower tonnages of Solid Recovered Fuel (SRF) being despatched. It is anticipated however that this year the current diversion level should be maintained as a result of the diverse off-taker contracts in place.
- 4.9 Contract recycling is at 25.9%, nearly 2% lower than anticipated in the ABSDP. This is thought to be primarily due to reduced tonnages across the spectrum of collected recycling. The collected Kerbside recyclate for example is 6% down on last year's figures with output of the Survival Bag MRF (SB MRF) down by 15%. The table at 4.4 above shows a reduction of all delivered collected material, while the table below shows the change year on year of delivered kerbside recycling material specifically.

Delivered orange bag type material	2012/13 (tonnes)	2013/14 (tonnes)	Difference
LB Barking & Dagenham (LBBD)	6,778	7,013	3%
LB Havering (LBH)	10,566	9,991	-5%
LB Newham (LBN)	10,637	9,036	-15%
LB Redbridge (LBR)	9,411	9,153	-3%
Total	37,391	35,193	-6%

It is thought that in addition to this reduced amount delivered the lower output from the SB MRF is due to the increased contamination which is outlined in further detail [below](#).

- 4.10 It should be noted however that the contaminated outputs are not going to landfill but are being diverted to the BioMRF which as a process is diverting 82% of inputs from landfill.
- 4.11 The table below provides a summary of the year to date (NI192) recycling performance for each of the constituent councils and a comparison for the same period last year. The figures reflect the issues set out above.
- 4.12 It should be noted however that the constituent councils are no longer subject to this NI performance target and DEFRA and Wastedataflow are in the process of changing how recycling performance is calculated which will affect the data published by them. We are still awaiting guidance on the exact nature of these changes.

Constituent Council	2012/13	2013/14
LBBD	27.2%	26.0%
LBH	35.8%	33.1%
LBN	20.9%	17.1%
LBR	30.7%	30.1%
Average ELWA	27.2%	26.0%

5. Forecast of Year End Performance

- 5.1 As the main organic season is now over it is likely that further reductions in the current recycling performance will occur, as in previous years. The forecast for year end performance is 25.0%, against the ABSDP expectations of 26.4%.
- 5.2 The ABSDP diversion from landfill performance was estimated to be 73.5%; our current forecast is a year-end performance of 74.1%.
- 5.3 The financial effects of these figures are detailed in the Finance Director's report elsewhere on the agenda.
- 5.4 The current forecast for year end tonnages is 426k tonnes against a budget of c.428k tonnes.
- 5.5 Overall waste tonnages at the RRCs are up slightly on last year but measures put in place to increase recycling and diversion from the site are delivering improved performance and it is anticipated that the increased monitoring of the sites as described later in this report will improve this performance further.

6. Contract Monitoring

- 6.1 No significant concerns have been raised by ELWA or constituent councils' monitoring officers during site inspections on the operation of the facilities.
- 6.2 As previously reported ELWA and the constituent councils have been developing revised parameters of the collective monitoring regime and all constituent councils have to varying degrees successfully implemented agreed changes.
- 6.3 LBBB and LBH now have an Enforcement presence at their respective RRCs at certain times of the day /week, aiming to challenge use and deter any fraudulent use of the sites by traders thereby reducing tonnage inputs and costs. Initial feedback from constituent councils' Enforcement officers and Shanks staff has been mutually positive.
- 6.4 The LBR and LBN RRCs appear to suffer less from misuse by traders' vans therefore inspections continue to be carried out by constituent councils' officers to establish the need for enforcement and whether resource may be better placed elsewhere, such as in monitoring at weighbridges to ensure Shanks continue to operate the existing restrictions.
- 6.5 ELWA maintains its own monitoring regime which continues to address all aspects of site management and will cover those areas no longer being focused on by constituent council officers.
- 6.6 ELWA will continue to monitor the impact of monitoring inspections in terms of tonnage inputs against the previous year, taking into account variables such as the weather.
- 6.7 Further measures including Automatic Number Plate Recognition (ANPR) systems are being considered.

7. Contamination in recycling

- 7.1 Through ongoing consultation with Shanks, ELWA officers have established that the contamination levels, i.e. non-target material capture, in LBBB and LBN's kerbside recycling collections have reached a level that raises doubt over the appropriate treatment method for the material. The problem is more acute in LBN but similar concerns have been raised over LBBB's material. Although contamination is not a new consideration, it has become significantly more of an issue since the constituent councils moved to wheelie bins for containment and in LBN's case fortnightly recycling collections.
- 7.2 Shanks have implemented a daily sampling regime for inputs to and outputs from the recycling Materials MRF and have collated data for the three month period to December 2013, which has been circulated to constituent councils' officers for their analysis.
- 7.3 Any item not specifically intended to be placed in the recycling bin/bag is considered a contaminant, but there are degrees by which any load is affected by contamination which depend on the nature of the offending material. Food waste is a major issue as it has a

tendency to spread to everything around it and can have a damaging effect on the MRF machinery.

- a) For the recorded period, the average contamination rate for LBN was 41%, ranging from 9% to 91% and the majority being between 15% and 65%. For LBBD the range was 10% to 91%, and the majority being between 15% and 45%.
- b) Key contaminants other than food waste are nappies, needles/clinical waste, textiles, green waste and electrical items.
- c) Each load delivered will have a level of contamination, but some are so highly contaminated that they cannot be processed through the MRF and these need to be rejected outright so as not to contaminate the recyclable material in the other loads. Any loads that are rejected at the SB MRF are being reported to ELWA on a weekly basis with accompanying pictorial evidence. The majority of this material is processed through the BioMRF.
- d) Over the Christmas period contamination rates rose considerably, again more acutely in LBN's collections. We have already seen this drop off in the subsequent weeks so although it is a concern, the quality of collected material over that period should be considered in isolation.

- 7.4 LBBD, LBN and ELWA are in the process of securing London Waste and Recycling Board (LWaRB) funding towards a contamination focused joint project, which is intended to target the worst performing areas in each constituent council. The effectiveness of the funding support is likely to depend on the scale of the problem, as it will not be sufficient for a meaningful outreach project across both constituent councils.
- 7.5 Shanks' adoption of a sampling regime puts them in a position of compliance with the incoming MRF Code of Practice, a requirement for MRF operators to provide sampling data due to be inserted into legislation later this year.
- 7.6 Further reports will update Members on this issue.

8. Relevant officer:

Dave Hawes, Contract Manager/e-mail: dave.hawes@eastlondonwaste.gov.uk / 020 8724 5045

9. Appendices attached:

9.1 None

10. Background Papers:

10.1 None

11. Legal Considerations:

12. The Legal Adviser has been consulted in the preparation of this report and confirms there are no legal implications to highlight.

13. Financial Considerations:

13.1 Tonnage levels and landfill tax liabilities continue to be the main drivers of cost within the IWMS contract. Reduced tonnages therefore and increased diversion have led to a financial saving for the Authority in this period. This is included within the Budgetary Control report presented elsewhere on the agenda.

14. Performance management considerations:

14.1 The report contains the latest contract performance information.

15. Risk management considerations:

15.1 None

16. Equalities considerations:

16.1 None

17. Follow-up reports:

17.1 None

18. Websites and e-mail links for further information:

18.1 None

19. Glossary

ANPR = Automatic Number Plate Readers

ABSDP = Annual Budget & Service Delivery Plan

BioMRF = Biological Materials Recycling Facility

Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge

ELWA = East London Waste Authority

IWMS = Integrated Waste Management Strategy

LBBB = London Borough of Barking & Dagenham

LBH = London Borough of Havering

LBN = London Borough of Newham

LBR = London Borough of Redbridge

LWaRB = London Waste and Recycling Board

NI192 = National Indicator (Household Waste Recycled or Composted)

RRCs = Reuse & Recycling Centre(s)

SB = Survival Bag

20. Approved by Management Board

20.1 27 January 2014

21. Confidentiality:

21.1 Not applicable

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

Agenda Items 11 & 12

THESE DOCUMENTS ARE RESTRICTED