NOTICE OF ANNUAL GENERAL MEETING

Monday, 20 June 2016 - Town Hall, 1 Town Square, Barking, IG11 7LU – 9.30am

Members

Councillor Sheila Bain, Councillor Ken Clark, Councillor Ian Corbett, Councillor Osman Dervish, Councillor John Howard, Councillor Steven Kelly, Councillor Lynda Rice and Councillor Jeff Wade

Mark Ash
Managing Director

09 June 2016

Tel: 020 8724 5614
E-mail: mark.ash@eastlondonwaste.gov.uk

AGENDA

1. Membership and Induction of New Members and Appointment of Chair, Vice Chair & ELWA Limited 'A' Director for the Municipal Year 2016/17 (pages 1-4)

   The Chair shall invite nominations and conduct the vote for the positions of Chair and Vice Chair of the Authority and 'A' Director of ELWA Limited.

2. Apologies for absence

3. 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

4. Minutes – To note the minutes of the Authority meeting held on 08 February 2016 (pages 5-8)

5. Nominations under Section 41 of the Local Government Act 1985 (pages 9-10)

6. Appointment of Finance Director (pages 11-14)

7. External Audit Plan 2015/16 (pages 15-30)

   The Authority's External Auditors will attend for this item.

8. Internal Audit Progress Report 2015/16, Audit Plan 2016/17 and Planned Audit Coverage to March 2021 (pages 31-38)

Items for information

9. Provisional Financial Outturn Position and Contract Monitoring Review for the year 2015/16 (pages 39-46)

10. Budgetary Control & Contract Monitoring to 30 April 2016 (pages 47-52)

11. Date of next meeting: 12 September 2016

Members are asked to note the date of the next Authority meeting.

12. Any other public items which the Chair decides are urgent

13. To consider whether it would be appropriate to pass a resolution pursuant to Section 100A (4) of the Local Government Act 1972. To consider whether it would be appropriate to pass a resolution to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.

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 Information

14. Contract Renegotiation & Efficiency Savings (pages 53-58)

This report has been restricted to Members and specific officers only as it contains commercially confidential information.

15. ELWA Limited 28/04/16 Board Agenda (pages 59-112)

This report has been restricted to Members and specific officers only as it contains commercially confidential information.

16. Any other confidential or exempt items which the Chair decides are urgent

AUTHORITY REPORT: MEMBERSHIP AND INDUCTION OF NEW MEMBERS AND APPOINTMENT OF CHAIR, VICE CHAIR AND ELWA LIMITED "A" DIRECTOR FOR THE YEAR 2016/17

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to:

a) note the change in the composition of ELWA's membership and the appointments made in accordance with the Constituent Councils' internal procedures and ELWA's Constitution;

b) agree the appointments of ELWA Chair and Vice Chair and ELWA Limited "A" Director and Alternate 'A' Director for the year 2016/17;

c) authorise officers to send letters of thanks to the outgoing Members.

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3. Purpose

3.1 To note the appointment of Members for the municipal year 2016/17 and authorise officers to send letters of thanks to the outgoing Members, namely, Councillor Benham and Councillor Nijjar.

3.2 To agree the appointments of Chair, Vice Chair and "A" Director for ELWA Limited for the year 2016/17.

4. New Membership

4.1 The Constitution is the corporate governance document by which ELWA operates and, Section A, paragraphs 4.1 to 4.5 and Section B, paragraphs 3.1 and 3.2 of the Constitution set out details of member appointments to ELWA.

4.2 The London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge have each given notice to ELWA of their appointments for the year 2016/17 as follows:

London Borough	Previous Representative	Current Representative	Confirmed
Barking & Dagenham	Councillor Lynda Rice Councillor Jeff Wade	No change	11/05/16
Havering	Councillor Steven Kelly Councillor Robert Benham	No change Councillor Osman Dervish	26/05/16
Newham	Councillor Ian Corbett Councillor Ken Clark	No change	06/06/16
Redbridge	Councillor Baldesh Nijjar Councillor Sheila Bain	Councillor John Howard No change	31/05/16

5. Member Induction

5.1 New Members have been provided with an Induction Pack and will be given an opportunity to visit the key waste facilities at Frog Island and Jenkins Lane with Officers should they so wish. To date one new Member has received a briefing from the Managing Director and an offer has been made to the other.

6. Appointment of Chair, Vice Chair and ELWA Limited "A" Director

6.1 The ELWA Constitution is the corporate governance document by which ELWA operates and Article 1 of Part B of the Constitution sets out the election process for ELWA Member positions.

6.2 Under the Constitution, appointments to the position of Chair and, Vice-Chair are the first business to be decided upon at ELWA's Annual meeting (AGM). It is also the practice to appoint the "A" Director to ELWA Ltd at the AGM.

6.3 Appointments to the positions of Chair and Vice-Chair are to be made by the Authority by resolution passed by a majority of the Members of the Authority present at the Annual General Meeting, provided at least one Member each from three of the Constituent Councils votes in favour.

6.4 The Constitution further provides that in making the appointments to the positions of Chair and Vice Chair, the Authority shall endeavour as best as possible to ensure that the positions of Chair and Vice Chair are not occupied in any one year by the two Member representatives of the same Constituent Council.

6.5 The positions of Chair and Vice Chair are held for one year but office holders are eligible to be re-appointed for periods of up to two years each.

6.6 Further, the Constitution also provides for the appointment of a person to the post of "A" Shareholder Director (A Director) on ELWA Ltd (the Contractor). There are no restrictions as to who the Authority may appoint to this role. Most meetings of ELWA Limited require the presence of the A Director in order for a meeting to be quorate. The Articles of Association of ELWA Limited make provision for ELWA to appoint an Alternate (substitute) Director for the A Director in the event the A Director is unable to attend meetings. The Authority decided that the Managing Director should occupy the role of Alternate Director and the Authority may be of the view that this appointment should continue in 2016/17.

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7. Relevant officer:

7.1 Eldred Taylor-Camara / e-mail: eldred.taylor-camara@lbbd.gov.uk / 020 82273344

8. Appendices attached:

8.1 None

9. Background Papers:

9.1 None

10. Legal Considerations:

10.1 S.31 of the Local Government Act 1985 makes provision for the replacement of members to a joint authority such as ELWA. Under the Act, a Constituent Council may at any time terminate the appointment of a person appointed by it to a joint authority and appoint another member of the council in his/her place. Where a Constituent Council exercises its powers of replacement it must give notice of the new appointment and of the termination of the previous appointment to the authority to which those appointments were made.

10.2 This report confirms the appointments of Members from the Constituent Councils to ELWA as notified to the Authority, subject where appropriate, to formal confirmation following formal Constituent Council ratification.

10.3 This report was prepared by the Monitoring Officer and Legal Adviser to the Authority and other legal implications have been incorporated in the body of the report.

11. Financial Considerations:

11.1 None

12. Performance Management Considerations:

12.1 None

13. Risk Management Considerations:

13.1 Members should be aware of potential conflicts of interests and declare any such interests when undertaking ELWA business

14. Equalities considerations:

14.1 The equalities impact assessment identified no matters of concern.

15. Follow-up Reports:

15.1 Annual

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

16.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

17. Glossary:

Contractor=ELWA Limited
ELWA / Authority= East London Waste Authority
LBBD = London Borough of Barking & Dagenham
LBH = London Borough of Havering
LBN = London Borough of Newham
LBR = London Borough of Redbridge

18. Approved by Management Board:

18.1 06 June 2016

19. Confidentiality:

19.1 Not applicable

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AUTHORITY MINUTES: MONDAY 08 FEBRUARY 2016 (09.35 AM–10.45 AM)

Present:

Councillor S Bain, Councillor R Benham, Councillor K Clark, Councillor I Corbett (Chair), Councillor S Kelly, Councillor L Rice, Councillor J Wade.

40. Apologies for Absence

An apology for absence was received on behalf of Councillor B Nijjar (Vice Chair) and an apology for delayed arrival was received from Cllr S Kelly.

41. Declaration of Members' Interests

There were none declared.

42. Minutes of previous meeting (23/11/15)

Members confirmed as true and accurate the minutes of the Authority meeting held on 23 November 2015. The Chair was authorised to sign the same.

43. Budgetary Control and Contract Monitoring to 31 December 2015

Members received the usual joint report and appendix from the Finance Director and Contract Manager. The report was based on a profiled budget of £44,277,000 and actual net expenditure on services of £44,565,000. It set out the position as at end December and projected a net overspend of £388,000, the details of which were contained in the appendix. The overspend comprised two main elements, a £200,000 overspend on payments to the Operator because of increasing volumes and diversion allowances and under achieved royalty income. The Finance Director advised that with a further six weeks to go there was some uncertainty as to the outcome but his best estimate was a £388,000 overspend.

The Managing Director commented that recycling was down at 18.22% with a 23% year end projection and diversion was on estimate for the year.

Members noted the report.

44. Treasury Management Strategy 2016/17 and Prudential Code Indicators 2016/17 to 2018/19

Members received the Finance Director's report and four appendices detailing ELWA's treasury management borrowing and investment strategy for 2016/17. The Finance Director advised that the borrowing requirement for 2016/17 should be set at £400,000 and would only be used in the unlikely event that it was needed and Members agreed. He confirmed that there was little opportunity for investment and reserves were low. The central theme of the report was to ensure liquidity and a strategy for the coming year.

Members agreed the borrowing strategy for 2016/17 as set out in paragraph 8; the minimum revenue provision policy statement for 2016/17 at paragraphs 10-14 and summarised in paragraph 9; the treasury management policy statement set out in the appendix and prudential indicators for treasury management at paragraph 18 of the report.

45. Circular Economy

Members received Managing Director's progress report in connection with the jointly commissioned Joint Waste Disposal Authorities' Circular Economy report and wider developments which facilitates a decision to support the proposed recommendations.

The Managing Director reminded Members that they had asked officers to widen the network and it was confirmed that Lancashire, Blackburn and Essex County Councils were now on board. There had been increasing support that Defra takes its place in Europe to get the best possible position for the United Kingdom (UK). He confirmed that these Local Authorities were in line with ELWA's lobbying position as outlined in the report. This was an ongoing piece of work and future reports would be brought to the Authority.

Members noted that that the European Union's proposals would be considered and negotiated by member states with 18 months for transposition of the final requirements into local legislation. It was estimated that the requirement would become law in the UK in 2019

Paragraph 14 of Appendix A summarised the Joint Waste Disposal Authorities key positions and could be used as the basis for a lobbying position

Members reflected on the outcomes for their Constituent Councils, following the change in legislation affecting white goods disposal and the Members particularly wanted to avoid the occurrence of a similar situation.

Members discussed the financial implications of imposed recycling targets on the Constituent Councils as well as cuts in funding for Defra and how businesses (the polluters) would be placed to make representations and share costs.

In addition, they considered the proposals for waste management as set out in paragraph 4.4, achievable targets and realistic timetables. The results of the Referendum to stay in the European Union (EU), was also considered.

Members noted the proposals by the Mayor of London and EU for moving to a circular economy, the impacts of the EU proposals for waste management identified in the Joint Waste Disposal Authorities' commissioned report at Appendix A and the next steps for lobbying the EU and UK Government.

46. Review of Corporate Risk Register

Members received the Managing Director's report and appendices. Members were informed that the risk register now contained a risk appetite column for the purpose of agreeing the appropriate risk response. The assessment had particularly highlighted financial risks with regard to flytipping (operational risks 3-5 and 13) at the landfill sites. These were being addressed.

Members approved the revised corporate risk register, the risk appetite position and further actions as identified in paragraphs 5.9, 5.10, 5.12 and 5.13.

Councillor S Kelly joined the meeting.

47. Annual Budget and Service Delivery Plan (ABSDP) 2016/17

Members received the Managing Director's report, confidential appendices and opinion that the ABSDP did not meet the contractually agreed target of 30% and that the recycling projection was disappointing at 23% especially as the new agreement had increased the incentive to reuse/recycle and divert from landfill by other means as well as produce Refuse Derived Fuel. He added that too many errors and missing information made the ABSDP unsuitable to monitor and plan future service delivery aspects. A revised draft was expected.

Members discussed at length the achievability of the 30% target and whether or not this was an aspirational target and potential repercussions of non achievement, the impact of the earlier removal of the Reuse & Recycling Centre Materials Recovery Facility and Optibag System and how to achieve higher recycling performance. Members also discussed the fact that the ABSDP had not been agreed over the past 3 years, including the 5 year service delivery plan, and the options for entering into dispute resolution. They also considered the impact on the Contractor and its funders.

Members noted that officers continued to have concerns relating to some aspects of the ABSDP for 2016/17 and that they were not in a position to recommend to the Authority that it gives approval of these documents as currently drafted.

Members agreed the recommendation to formally reject the ABSDP and to enter into a formal dispute with the Contractor (ELWA Limited), should the revised ABSDP fail to meet expectations.

48. Revenue & Capital Budgets and Levy 2016/17

Members received the Finance Director's report and appendices recommending the 2016/17 budget and average levy increase of 5.9% be approved, based on the 2016/17 to 2018/19 financial strategy and risk analysis undertaken. The levy charge for each Constituent Council varied from the average, reflecting changes in relative tonnages and council tax bases.

Members were advised that the levy had been set on the basis that general revenue reserves are kept at £3.0m over the three year period, with £750,000 each year transferred to an earmarked strategy reserve to deal with preliminary costs associated with a new waste management strategy. At the end of 2018/19 the strategy reserve would have had £2.25m contribution. The capital reserve will be reduced to £100,000.

Members were informed that an ongoing efficiency savings target of £1.5m was being included as part of the 2015/16 budget with a proposal that this target is retained in the Authority's 3 year Financial Strategy. This would be subject to review as part of the financial projection and budget strategy for 2017/18 to 2019/20 and considered in November 2016 by Members. Without this efficiency target it was thought that the levy increases would be considerably higher than those proposed. The Levy for 2017/18 and 2018/19 are projected to be set at 3.9% respectively.

It was made clear to Members that achievement of the efficiency savings fell not only to ELWA in terms of contract efficiencies but also to the Constituent Councils' and their own initiatives including reducing the waste tonnages delivered to ELWA.

A net change in the use of reserves (0.4%), the build up of strategic reserves (1.4%), tonnages and diversion supplements (1.9%) inflation increase (0.4%), insurance premium increase (0.6%), Landfill Tax (0.3%) and funding of previous years overspends (1.0%) generated the overall levy due.

One Constituent Council Member felt that they could not agree to the proposals and was particularly unhappy about increasing reserves in this way. It was explained that the Constituent Councils could find it extremely difficult to allocate the necessary sums for a future procurement exercise especially when Council funding was being cut. Members questioned what mechanisms would be in place at the Constituent Councils to generate the sums required if the Authority were to call for procurement funding at a later date. On balance the majority felt that the level of reserves were required for this purpose. The Finance Director as Section 73 Officer commented that he stood by these proposals and would be remiss in his duties if he did not.

Members were advised that Officers' intended to take forward with the Constituent Councils and a wide variety of stakeholders a review of the levy apportionment and would report back to Members in 2016/17.

The Chair called for a show of hands in response to the proposals.

By majority vote (5, 1, 1) Members agreed:

(a) the revenue budget for 2016/17 totalling £59,351,000 as set out in Appendix A of the report;

(b) the charges for commercial and industrial waste at:

£79 per tonne for recycled commercial industrial waste and

£146 per tonne – other commercial industrial waste;

(c) on the basis of a & b above, that ELWA will determine its Levy for 2016/17 at £56,567,000 which is an average increase of 5.9%;

(d) on the basis of the agreed formula for apportioning the levy, that the levies for the constituent councils with percentage increases be as follows

London Borough of Barking & Dagenham	£10,880,000	4.7%
London Borough of Havering	£13,670,000	5.0%
London Borough of Newham	£16,450,000	6.9%
London Borough of Redbridge	£15,567,000	6.7%

(e) the risk analysis of the budget and the policy on reserves; and

(f) the continuation of existing arrangements for the payment of the Levy, commercial and other waste charges.

49. Any other public items

There were none.

50. 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).

51. Contract Renegotiation & Options for Savings

Members received the Managing Director's report and commentary proposing an option to extend the diversion agreement with Shanks Waste Management, coterminous with the Integrated Waste Management Services Contract, in order to deliver longer term savings for either recycling or diversion. Members were asked to consider proposed options and balance the risks involved for the Authority, so that it could benefit from four stages of financial savings available in respect of the closure of the Survival Bag Materials Recycling Facility (SBMRF) at Jenkins Lane.

Members discussed the risks surrounding the proposed and trialled alternative arrangements available on closure of the SBMRF and potential for increased recycling and savings. In addition, Members discussed recycling, waste contamination and the implications for their respective Constituent Councils. Members satisfied themselves as to the potential for review of arrangements, the risks to the Constituent Councils, the need for less contaminated waste and the savings to be achieved.

Members agreed to **delegate power** to the Managing Director for him to formally agree and finalise the detail of the extension of the agreement with Shanks Waste Management (SWM) in relation to increased disposal from landfill savings and to prepare, complete and sign all necessary documentation and to do all things necessary to facilitate the implementation of the agreement.

Members agreed to **delegate power** to the Managing Director for him to formally agree and finalise the detail of the agreement with ELWA Ltd relating to the closure of the SBMRF at Jenkins Lane to release related savings and to prepare, complete and sign all necessary documentation and to do all things necessary to facilitate the implementation of the contract Variation.

52. ELWA Limited 27/01/16 Board Agenda

Members noted the contents of the confidential Agenda pack and received a short commentary from the Managing Director and 'A' Director on the latest position regarding recovery of operations and the insurance claim following the fire at Frog Island in August 2015. Members enquired as to where the root cause of the fire came from and were advised that it had still not been possible to identify exactly whether this was in contract or non-contract waste. Members were made aware that the insurance premium had increased significantly by 230/240% and that ELWA's position on this had been made known to the Contactor.

53. Date of next meeting

20 June 2016

Minutes agreed as a true record.

Chair: ………………………………..

Date: ………………………………..

AUTHORITY REPORT: NOMINATIONS UNDER SECTION 41 OF THE LOCAL GOVERNMENT ACT 1985

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 In accordance with Section 41 of the Local Government Act 1985, the Authority is recommended to nominate from its membership, one Member from each of the Constituent Councils, to answer questions on behalf of the Authority, put by other Members of the Constituent Councils in the course of council proceedings, pertaining to the discharge of the Authority's functions for the year 2016/17.

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3. Purpose

3.1 To seek nominations from ELWA as to which Members shall be responsible for answering questions on behalf of ELWA at their respective Constituent Council proceedings.

4. Background

4.1 Section 41 of the Local Government Act 1985 requires that, as a statutory Waste Disposal Authority, ELWA should make arrangements (whether by standing orders or otherwise) for enabling questions on the discharge of the functions of a joint authority to be put in the course of the proceedings of any Constituent Council by members of that council for answer by a member of it who is also a member of the authority and is nominated by the authority for that purpose. What this means is that ELWA, as a joint authority, must nominate from its membership, a Member from each of the four Constituent Councils as the person who will, on behalf of ELWA, answer questions put by other Members of the Constituent Councils in the course of council proceedings, pertaining to the discharge of ELWA's functions. This is a mandatory statutory requirement.

4.2 The usual practice has been for ELWA to nominate ELWA Members who are the respective council's lead Member or lead for Environment/Waste matters to answer questions on behalf of ELWA. Members may wish to consider continuing that practice.

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5. Relevant officer:

5.1 Eldred Taylor-Camara / e-mail: eldred.taylor-camara@lbbd.gov.uk / 020 8227 3344

6. Appendices attached:

6.1 None

7. Background papers:

7.1 None

8. Legal considerations:

8.1 This report was prepared by the Monitoring Officer and Legal Adviser to the Authority and there are no additional legal issues to mention.

9. Financial considerations:

9.1 There are no additional financial implications for ELWA arising from the recommendation in this report.

10. Performance management considerations:

10.1 None

11. Risk management considerations:

11.1 None

12. Equalities considerations:

12.1 The equalities impact assessment identified no matters of concern.

13. Follow-up reports:

13.1 None

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

14.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

15. Glossary:

Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge
ELWA / the Authority = East London Waste Authority

16. Approved by management board

16.1 06 June 2016

17. Confidentiality:

17.1 No

AUTHORITY REPORT: APPOINTMENT OF FINANCE DIRECTOR

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to:-

a) Approve the secondment of Maria G Christofi from the London Borough of Redbridge (LBR) and her appointment to the position of Finance Director for the East London Waste Authority (ELWA / Authority).

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3. Purpose

3.1 This report sets out the current finance management arrangements of the Authority and seeks a decision from the Authority to appoint Maria G Christofi as the Finance Director to the Authority from LBR. This report is brought to the Authority as a result of the appointed officer leaving his substantive post at LBR.

4. Background

4.1 The Statutory Officer functions of the Authority are assigned in part to the Appointed Officers: the Managing Director is the statutory Head of Paid Service; the Finance Director is the statutory Chief Finance Officer (CFO). The legal adviser to the Authority has always been a legal officer from London Borough of Barking & Dagenham who is appointed the statutory Monitoring Officer.

4.2 The appointment of Statutory Officers is reserved to the Authority by law and or statutory guidance and cannot be delegated.

4.3 The responsibility of these functions is laid out in the scheme of delegation in Part C of the Constitution. Specifically Section C of Part C in the Constitution relates to the Finance Director.

4.4 The role of Finance Director has been held by the Finance Director of LBR since the East London Waste Authority (ELWA) began.

4.5 LBR also provide other support services to the Authority covered by Service Level Agreements for the functions of budgetary control, treasury management and internal audit functions.

4.6 Members, on all previous occasions, have agreed to maintain continuity and effectiveness of the overall financial management arrangements and continue to appoint to the post from LBR.

5. Proposal

5.1 By section 73 of the Local Government Act 1985, the Authority is required to appoint a CFO. This says: "Each new authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of its officers has responsibility for the administration of those affairs". Under the Waste Regulation and Disposal (Authorities) Order 1985, ELWA counts as a "new authority" for the purposes of the Act.

5.2 As set out above, the legislation requires that the CFO be an "officer" of ELWA. Traditionally, the role of CFO has been performed by the CFO of LBR as ELWA does not have such officer within its staff structure and by law cannot arrange for an external contractor to undertake that role, save in exceptional circumstances. However, Section 113 of the Local Government Act 1972 provides power for a local authority to make the services of its officers available to another local authority by secondment. This applies to ELWA. As such, it is open to LBR to second one of its officers who satisfies the statutory criteria (the officer must be a member of one of the accountancy bodies specified in the Act) to ELWA, and this has been the practice since ELWA's inception. As with any staff seconded to another organisation, the seconded officer remains an employee of LBR but is also able, as an officer of ELWA under the secondment, to take binding decisions on behalf of ELWA.

5.3 The CFO has statutory duties which apply to them personally (for example to produce reports). As such the appointment must be made of a named individual and not the role. So ELWA will only be able to appoint Maria G Christofi by name and not "the CFO of L B Redbridge". Section 114(6) of the Local Government Finance Act 1988 makes provision for the CFO's duties to be performed by a member of staff nominated by the CFO when the CFO is unable to act because of absence or illness.

5.4 The terms of the secondment will be set out in an agreement between ELWA and LBR with the consent of the appointee.

6. Conclusion

6.1 It is considered that in order to maintain continuity and effectiveness of the overall financial management arrangements that the appointment of Maria G Christofi as Finance Director to the Authority is agreed.

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7. Relevant officer:

7.1 Mark Ash, Managing Director / email. mark.ash@eastlondonwaste.gov.uk / Landline: 020 8724 5614 / Mobile: 07972003874.

8. Appendices attached:

8.1 None.

9. Background Papers:

9.1 24/11/14 Finance Director Report and Minute 41/2014

9.2 23/11/15 Appointment of Finance Director Report and minute 33/2015

9.3 ELWA Constitution

10. Legal Considerations:

10.1 The proposals set out in this report are consistent with the Authority's Constitution.

11. Financial considerations:

11.1 The Finance Director is the statutory CFO for ELWA. The cost of the Finance Director will be met from existing budgets. The supporting functions of financial support, Treasury Management and Internal Audit is set by a service level agreement and met from the corresponding budget.

12. Performance management considerations:

12.1 There are no performance management issues related to this report.

13. Risk management considerations:

13.1 The decision to appoint the Finance Director post from LBR maintains continuity and thereby minimises risk to the Authority.

14. Equalities considerations:

14.1 None.

15. Follow-up reports:

15.1 None.

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

16.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

17. Glossary:

CFO = Chief Finance Officer
ELWA/Authority = East London Waste Authority
LBR = London Borough of Redbridge

18. Approved by Management Board

18.1 6 June 2016.

19. Confidentiality

19.1 Not applicable

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AUTHORITY REPORT: EXTERNAL AUDIT PLAN 2015/16

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to note and agree KPMG External Audit plan.

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3. Purpose

3.1 To consider the external auditor's Audit Plan, for the period 1 April 2015 to 31 March 2016, including the audit of the 2015/16 final accounts.

4. Background

4.1 The audit plan is attached at Appendix A. This has been reviewed by officers and considered to be an acceptable scope of work.

4.2 The indicative audit fee for audit work in respect of the Code of Practice is £18,270 and the cost of this is met from the ELWA revenue budget.

4.3 KPMG advise in their plan that they have submitted a claim to the Public Sector Audit Appointments for an additional fee of £3,637 to reflect the change in audit procedures needed to reach a conclusion on arrangements to secure value for money. If this claim is successful then the overall cost for the audit work will be £21,907 and the additional fee will be met from the contingency budget.

4.4 At the time of writing this report, the main audit has yet to begin. Some initial systems testing has been carried out. Detailed work on the Statement of Accounts will take place in July and August 2016.

4.5 KPMG will be taking over the External Audit for 2015/16 to 2017/18. Thereafter while arrangements are still uncertain local authorities will be able to tender for external audit.

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5. Relevant officer:

5.1 Maria G Christofi, Finance Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588

6. Appendices attached:

6.1 Appendix A – KPMG 2015/16 Audit Plan

7. Background papers:

7.1 None

8. Legal considerations:

8.1 The Monitoring Officer and Legal Adviser has been consulted in the preparation of this report and confirms there are no legal issues to highlight.

9. Financial considerations:

9.1 Finance comments are included within the body of this report.

10. Performance management considerations:

10.1 None

11. Risk management considerations:

11.1 The decision to agree KPMG's External Audit plan should help mitigate the following strategic risks:

a) C7 – The Authority's control systems do not provide timely detection of fraudulent or corrupt acts.

b) C8 – The Authority has insufficient funds to meet its obligations.

c) C9 – The Authority does not have adequate systems in place to ensure continuity of its business operations

12. Equalities Considerations:

12.1 The equalities impact assessment identified no matters of concern.

13. Follow-up reports:

13.1 None.

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

14.1 None.

15. Glossary

15.1 KPMG = External Auditors

16. Approved by Management Board

16.1 06 June 2016

17. Confidentiality

17.1 Not applicable.

KPMG

External Audit Plan 2015/2016

East London Waste Authority

April 2016

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Authority needs to comply with.

Materiality

Materiality for planning purposes has set at **£1.2 million** for the Authority.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set
at £60,000 for the Authority.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls; and
- Accounting for the PFI scheme.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- Property, Plant and Equipment (PPE);
- Fly tipping at landfill sites; and
- Opening Balances

See pages 3 to 5 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is a significant change to previous years. In the past the Authority was classified as a 'larger relevant body' by the Audit Commission rather than a 'principal' body. In practice this meant that the external auditor was required to complete more limited procedures in order to be able to reach a VFM conclusion. There is now no distinction between 'larger relevant bodies' and 'principal' bodies, so we are now required to consider the criteria fully in order to reach a VFM conclusion.

We have therefore submitted a fee variation to PSAA on the basis that this is a permanent change to the procedures we need to undertake to reach a VFM conclusion. If the fee variation is accepted by PSAA this would increase the scale fee by £3,637 to £21,907.

Also, the NAO has made some more general changes to the VFM requirements:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report any VFM significant risks during our audit.

See pages 6 to 9 for more details.

Logistics

Our team is:

- Phil Johnstone - Director
- Antony Smith - Manager
- Ishpal Chaggar – Assistant manager

More details are on **page 12.**

Our work will be completed in four phases from February to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 11.**

Our fee for the audit is £18,270 (£18,270 - 2014/15, PwC LLP), see **page 10 for more details.**

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process (stages 2 and 3 are combined for the Authority) which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 6 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16 and the initial findings of our VFM risk assessment.

Financial Statements Audit Planning

Our planning work takes place during February to March 2016. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.

Keys: ● Significant risk ● Other area of audit focus ● Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Significant risks are those risks requiring specific audit attention and require specific procedures to address the likelihood of a material financial statement error. We will revisit our assessment throughout the year and should any additional risks present themselves we will adjust our audit strategy as necessary.

Accounting for the PFI scheme

- Risk: The Authority entered into a 25 year PFI agreement in December 2002, which has a material effect on several aspects of the Authority's financial statements and has a range of associated complex judgements relating to the fulfilment of the contract with ELWA Limited .
- Approach: We will review the Authority's arrangements in place to account for the PFI scheme and managing the PFI contract.

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Assuring the fair value and impairment of PPE

- Risk: In 2014/15 the Authority reported PPE of £107 million (Gross Book Value). There was also a material impairment at 31 March 2015, following a fire at Frog Island in 2014 (the financial statements noted that the site was not operating at full capacity at 31 March 2015). Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value; consideration of impairments following the fire at Frog Island; and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.
- Approach: We will understand the approach to valuation, the qualifications and reports by the Authority's external valuers and the judgements made by the Authority in response to the information received. Where valuations are made other that at the year end we will review the Authority's judgement in assessing movements from the valuation date.

Other areas of audit focus

Fly tipping at landfill sites

- Risk: In 2014/15 the Authority included a contingent liability in its financial statements regarding waste which had been fly tipped illegally at one off its closed landfill sites. There is potentially a significant cost to the Authority if the significant amount of waste fly tipped is required to be disposed of to landfill. Given the potential cost is close to being material in value and the judgement involved in determining what action is needed and when it is sufficiently clear to consider changing the current accounting treatment we consider this to be an area of audit focus.
- Approach: We will understand the approach to considering and assessing the fly tipping (from both a cost to clean up as well as site security/risk evaluation for this and the Authority's other closed landfill sites). We will consider the Authority's judgements as to accounting treatment in the 2015/16 financial statements.

Opening balances

- Risk: The balances reported as the opening position and comparators in the 2015/16 financial statements comprise an integral part of your financial statements and are included within the assurance opinion we provide to you. As this is our first year of your audit, we have to conduct further work over these balances to be able to assure those charged with governance that they are free from material misstatement due to fraud or error.
- Approach: A requirement of the professional auditing standards is that we meet with the outgoing auditor to ensure that key information and significant findings are communicated to us. We will complete the handover process with the predecessor firm and where possible we will seek to place reliance upon their findings to ensure that the burdens placed upon the finance team resulting from the change in auditor are minimised.

  As a part of our audit we will perform analysis of the opening balances recorded within the accounting system and agree these to the audited 2014/15 financial statements. We may seek to agree significant balances to accounting records and other third party sources of information.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgment to represent 'misstatements' unless the application of that judgment results in a financial amount falling outside of a range which we consider to be acceptable.

Reporting to the Authority

For the Authority, materiality for planning purposes has been set at £1.2 million which equates to 1.9% percent of gross expenditure (or 1% of gross assets at 31 March 2015).

We design our procedures to detect individual errors. For the Authority this is £0.9 million for the year ended 31 March 2016, and we have some flexibility to adjust this level downwards.

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK&I), we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance, and to request that adjustments are made to correct such matters. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

- In the context of the Authority we propose to report all individual unadjusted differences greater than £60,000 to the Authority.
- We will also have regard to other errors below this amount if evidence of systematic error or if material by nature.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority ‘has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources’.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to ‘take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor’s judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body’s arrangements.’

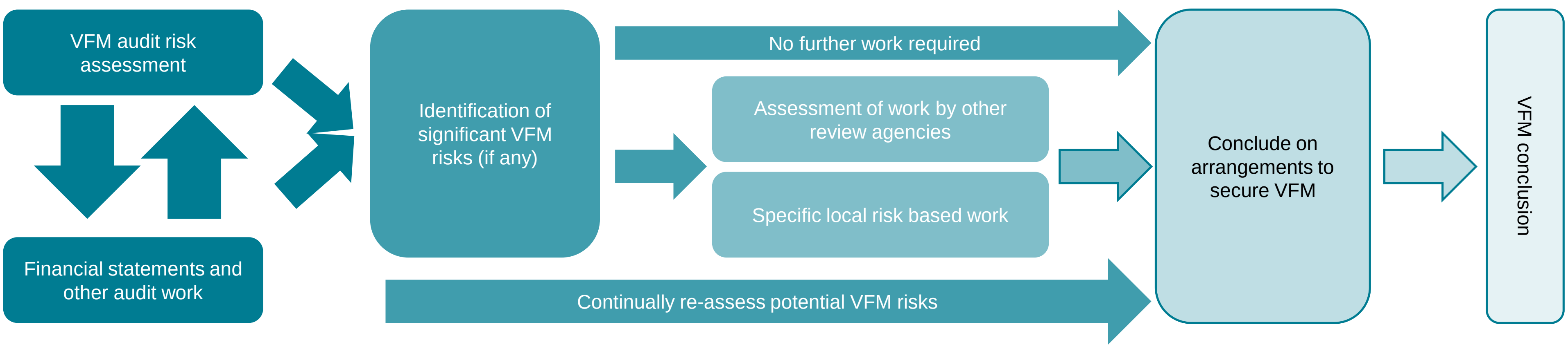
The VFM approach has changed significantly compared with previous years. In the past the Authority was classified as a ‘larger relevant body’ by the Audit Commission rather than a ‘principal’ body. In practice this meant that the external auditor was required to complete more limited procedures in order to be able to reach a VFM conclusion. There is now no distinction between ‘larger relevant bodies’ and ‘principal’ bodies, so we are now required to consider the criteria fully in order to reach a VFM conclusion.

As noted in the ‘Headlines’ section, we have therefore submitted a fee variation to PSAA on the basis that this is a permanent change to the procedures we need to undertake to reach a VFM conclusion. If the fee variation is accepted by PSAA this would increase the scale fee by £3,637 to £21,907.

The process is shown in the diagram below. In addition, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Authority. The full guidance is available from the NAO website at: https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/. Our approach to the value for money is recorded below:

Overall criterion: *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Informed decision making	Sustainable resource deployment	Working with partner and third parties



Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Authority, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ■ Meeting with senior managers across the Authority; ■ Review of minutes and internal reports; ■ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	Based on our initial risk assessment we have not identified any significant risks for our VFM conclusion. We will continue to consider whether there are any significant risks throughout our audit. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. In previous years the Authority has fallen below the threshold requiring any substantial work. However, deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Phil Johnstone (Director) and Antony Smith (Audit Manager) providing continuity at a senior level. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Authority. Our communication outputs are included in Appendix 1.

Independence and Objectivity

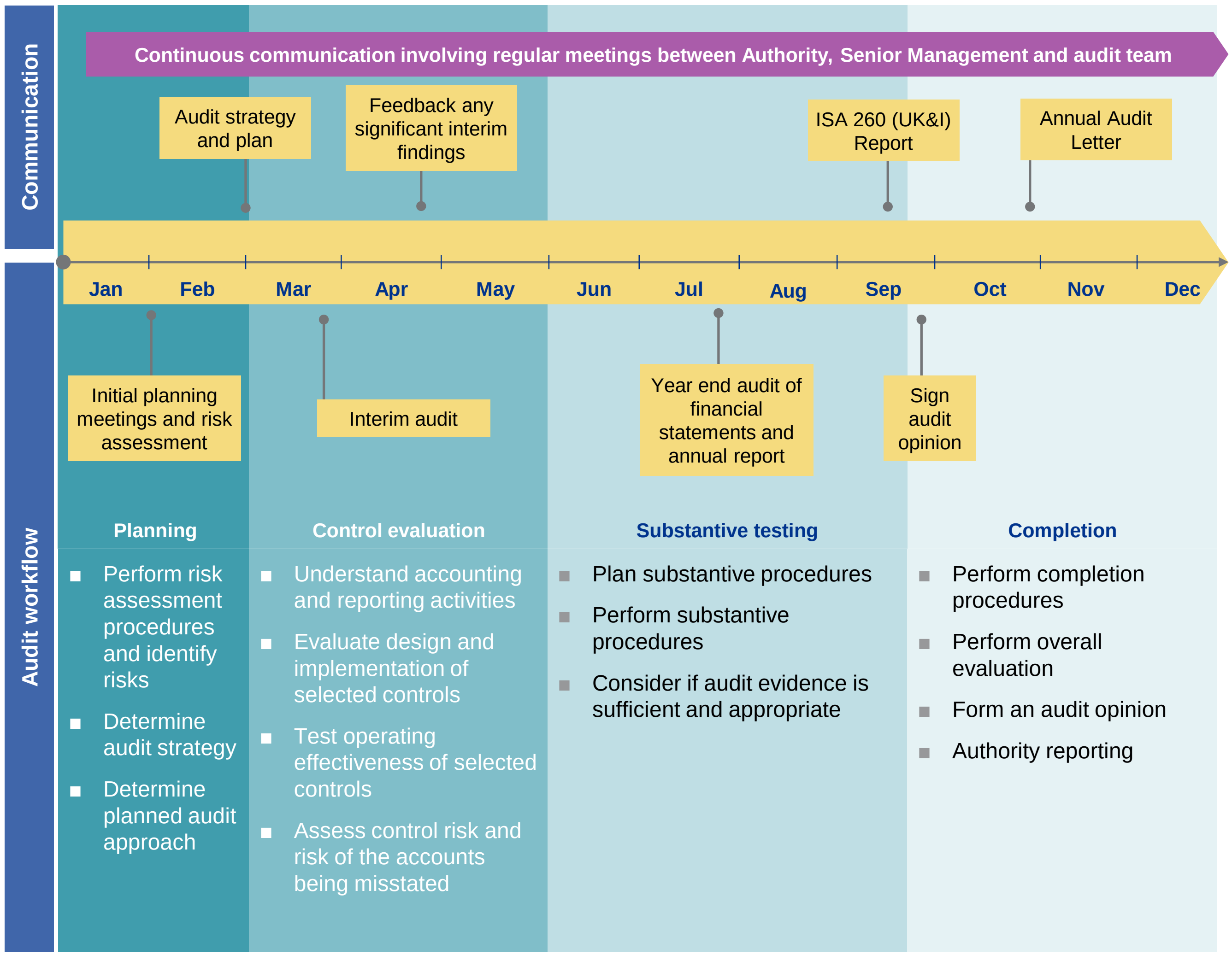
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2015/2016 presented to you in April 2015 first set out our fees for the 2015/2016 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2015/16 is £18,270 for the Authority. This is the same audit fee set by PSAA in 2014/15.

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department.

Name	Phil Johnstone philip.johnstone@kpmg.co.uk
Position	Director
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Authority, Managing Director and the Authority’s section 151 officer.

Name	Antony Smith antony.smith@kpmg.co.uk
Position	Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Phil to ensure we add value. I will liaise with the Principal Finance Officer and the Finance Team

Name	Ishpal Chaggar ishpal.chaggar@kpmg.co.uk
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

[

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Authority.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of 1 March 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body’s own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact Phil Johnstone the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG’s work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA’s complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

AUTHORITY REPORT: INTERNAL AUDIT PROGRESS REPORT 2015/16, AUDIT PLAN 2016/17 AND PLANNED AUDIT COVERAGE TO MARCH 2021

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to:-

a) note the audit coverage for 2015/16 as outlined in Section 5;

b) agree the audit coverage for 2016/17 as outlined in Section 6;

c) agree the Five Year Strategic Plan set out in Appendix A.

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3. Purpose

3.1 To advise Members of the progress of Internal Audit coverage and findings arising during 2015/16.

3.2 To seek Members' comments and agreement to the proposed Internal Audit Plan for 2016/17 and the five-year rolling programme attached at Appendix A.

4. Background

4.1 The objective and responsibility of the Internal Audit function is to provide Members and management with an independent view and assurance concerning the robustness of the systems and procedures within East London Waste Authority (ELWA / the Authority) and in particular for the effective management of the contract with ELWA Ltd, operated by Shanks east London (SEL), thereby safeguarding assets from fraud and wastage. Internal Audit coverage has and will continue to concentrate on reviewing systems and procedures within ELWA to ensure the effective management of the contract.

4.2 The Internal Audit strategy / plan was agreed on 22 June 2015. The purpose of the strategic plan is to ensure total audit coverage of the key systems / areas of activity within ELWA's unique operational environment. It is intended to fulfil this responsibility by working in conjunction with the External Auditor in keeping with the principles of "Managed Audit" and aims to avoid any duplication of audit effort.

4.3 The Internal Audit function is provided by the London Borough of Redbridge (LBR) and reports directly to the Finance Director, ELWA, and who subsequently reports on Audit matters to the Authority.

5. Current Position

<u>Internal Audit Coverage During 2015/16</u>

5.1 The main focus of Internal Audit activity during this year has been to undertake the planned reviews of contract management and corporate governance. As reported in each of the last three years ELWA has looked at ways of maximising the effectiveness of its contract management arrangements by ensuring that monitoring activities are geared towards the prevention of non-contract waste being accepted. With each Constituent Council experiencing its own different challenges, the audit was scoped to focus on the individual monitoring programmes established by each of the Constituent Councils and to assess the success of these arrangements. However despite agreeing these individual programmes, they have still to be fully implemented by the Constituent Councils and therefore it was decided with the Managing Director that the intended focus of the audit should be revised and instead a review was undertaken of Automatic Number Plate Recognition (ANPR), which was introduced fully in January 2016, with the aim of reducing non-contract waste. A draft report has been issued for contract management.

5.2 The audit of corporate governance looked at the Authority's internal control regime and its suitability for addressing the challenges that ELWA now faces. The audit of corporate governance has been finalised.

5.3 Based upon the audit work undertaken during 2015/16, Internal Audit has reached the opinion that the Authority's core financial systems are generally sound, although ELWA will need to liaise with SEL to ensure that the ANPR system is fit for purpose and that the initial weaknesses, particularly within categorising frequent visitors, system access and management information, are addressed before controls can be considered fully effective. There has been no reported fraud or irregularity during the year. As no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance, this statement is intended to provide reasonable assurance. The main findings of the audits undertaken during 2015/16 are set out below.

<u>Audit of Corporate Governance</u>

5.4 Our review of ELWA's internal control system found it to be effective with a number of strategies, policies and procedures in place to enable it to achieve its aims and objectives for the management of the Integrated Waste Management Strategy (IWMS) contract for the disposal of the waste collected by the four Constituent Councils. A review of these documents did find that some needed to be updated to reflect the recent changes in ELWA's structure.

5.5 Previous reviews have highlighted that ELWA did not have a fully effective business continuity plan in place but the audit carried out this year has identified that this weakness has been addressed and that ELWA now has an effective business continuity plan in place. We did note however that testing of the plan needs to be embedded and that periodic assurances that appropriate business continuity arrangements are in place had not been obtained from partner organisations that provide services to ELWA.

5.6 ELWA has a generally robust risk management framework, with both strategic and operational risks being identified and documented in risk registers. Risks are ranked on their likelihood and impact and the risk registers contain detail of any mitigating controls and residual risk. The framework includes the basis for an action plan to address any residual risk but where no action was recorded it was not evident whether these were incomplete or management were happy to accept the level of exposure resulting from the residual risk. It is recommended that as part of the process of utilising the action plans for managing residual risks ELWA first establishes its risk appetite to guide its overall approach to risk management. Whilst it is accepted that there are differences between waste management authorities there are also many common pressures and areas of operation resulting in some generic risks in relation to their role and therefore it is considered that some value may be obtained through the benchmarking of risks with these other waste authorities.

5.7 We found that ELWA has appropriate policies and procedures in place covering both officer and Member conduct through its measures for dealing with sensitive and confidential information, gifts & hospitality and the declaration of interests. The organisational structure, including the integration of the strategic and operational groups, helped facilitate the effective reporting arrangements that were evident and KPIs were used to inform on performance. Adequate health & safety arrangements were also found to exist.

5.8 It is our opinion that ELWA's governance arrangements are effective with an efficient internal control regime and therefore we have given substantial assurance for this review.

Three amber and three green recommendations were agreed for implementation with ELWA management. No red recommendations were made for this audit.

Audit of Contract Management - ANPR

5.9 ELWA has negotiated an arrangement with SEL for the introduction of an ANPR system, which SEL has delivered through the procurement of the system SNAP from the provider Precise. Our review looked at the SNAP system, its functionality and the monitoring of the system and the management information produced. We found that whilst SNAP delivers many of the basic functions required there were a number of weaknesses evident, which we concur with the opinion is partly due to weaknesses in SEL's procurement process due to the lack of a detailed specification.

5.10 SNAP is used to reduce non-contracted waste by identifying and eliminating commercial waste being tipped free of charge with ANPR detecting and reporting frequent visitors to the Reuse and Recycling Centres (RRCs). Vehicles are initially reported once they use the RRCs ten times during a rolling month period although the number of visits is to be reviewed. We noted that the number of vehicles being reported appeared low and consider that the threshold should be lowered to a more appropriate level for household users when considered as an addition to their normal waste collections.

5.11 An anomaly was identified in relation to taxis, which were included in the list of most frequent visitors, and a policy will need to be developed regarding their future access to the RRCs. The frequent visitor reports also contained errors and anomalies reporting some known vehicles, such as dustcarts and contractors, which were on the authorised vehicles list.

5.12 Whilst image quality was clear, recognition accuracy and conversion into SNAP did identify a number of errors of all types, e.g. square, foreign and personalised number plates, as well as those in a standard format. Our testing returned an accuracy rate against the total number of vehicles accessing the site of 95% which just achieves Precise's claim of 95-98% in normal working conditions. However our check could only include those vehicles that appeared on screen meaning that the overall rate is lower. We were informed that neither ELWA nor SEL were carrying out checks of recognition accuracy.

5.13 To improve the warning signals that alert site operatives of frequent visitors both ELWA and SEL consider that an audible alert would be preferable to the visual alerts currently received. The frequent visitors records checked did not evidence that visitors were being issued with the correct letters or that the appropriate action was being taken, which would result in the non-contract tonnages not being reduced.

5.14 As SNAP was procured by SEL and the contract is between SEL and Precise it is SEL's responsibility to ensure that Precise delivers a system that is fit for purpose and as a result a list of issues has been drawn up by SEL and ELWA together to take to Precise. These issues are primarily around poor and inconsistent access issues as well as inadequacies and errors within the management information produced. System response times during our testing were also very slow. To ensure that these issues can be properly identified it will be necessary to make sure all records, such as the authorised vehicle list in SNAP, are up to date and that there is an effective system in place for reporting and monitoring the response to system fault calls.

5.15 A review of the tonnages for the first quarter that the ANPR system has been in place (quarter 4 2015/16) showed an overall increase over the same period in 2014/15 of 270 tonnes (2.29%), although in general the amount of waste collected is increasing; the total tonnage, including RRCs but excluding trade waste, has increased by 4,360 tonnes in the last year. This is obviously very early days and there are a number of contributing factors to tonnage levels but it is recommended that as part of ELWA's monitoring of waste data that it should periodically evaluate the impact of ANPR and also what affect the letters have had on frequent visitors.

5.16 A data sharing protocol has been signed up to by ELWA, the Constituent Councils and SEL and it has been agreed that each of the Constituent Councils will restrict access to two nominated users but in practice, due to cover arrangements, whilst it may be kept to two at any time it will not be the same two officers. Each Constituent Council has its own user name and password, not each user, making it virtually impossible to monitor compliance with the data protocol and also to identify who undertook what transactions thereby increasing the risk of misuse.

5.17 SNAP delivers many of the basic requirements but there were a number of weaknesses evident, some of which render the ANPR system ineffective in some areas and not fit for purpose in others, and this has resulted in limited assurance being given for this review. We have made nine amber and six green recommendations for this review as part of the draft report which is subject to agreement and finalisation. No red risk recommendations have been made.

6. Internal Audit Coverage for 2016/17

6.1 The annual plan is structured to adapt to changing circumstances while considering the strategic implications / risk management issues for the Authority. The annual audit plan is formulated from discussions with the Finance Director / Section 73 Officer and the Managing Director and is based on an annual risk assessment process so that identified concerns are assessed and evaluated to determine the impact on the Authority. The risk assessment process takes into consideration the risks identified in the Authority's risk register, but also considers other factors such as previous audit findings, materiality, volume and value of transactions, complexity and stability of systems, contract compliance and level of irregularities. This ensures the plan is responsive to the needs of the Authority. Based on Internal Audit's previous work, foremost amongst those aspects, which need to be regularly reviewed, are the arrangements for the management and monitoring of the IWMS contract.

6.2 To enable Internal Audit to target its resources most effectively, coverage has been set at a more strategic level and forms part of a rolling five-year plan, a copy of which is attached at Appendix A.

6.3 The main area of focus for 2016/17 will again be an audit of contract management to review progress on the implementation of the revised contract monitoring regime with particular focus on the involvement of the Constituent Councils, as outlined in section 5 above, and the effectiveness of contract monitoring as a whole.

6.4 In addition to the audit of contract monitoring we intend to undertake a review of financial management, where the main focus will be on ELWA's contract related and non-contract related expenditure.

6.5 It is also intended to continue to carry out follow up work to ensure that actions agreed by management have been implemented and to seek explanations where recommendations have not been implemented in the appropriate time scales.

7. Internal Audit Coverage for 2016 - 2021

7.1 As stated in paragraph 6.2 above, it is proposed that the updated rolling five-year plan be adopted for future audit coverage with the areas for review set at a higher, strategic level. This plan is attached for Members' approval. The updated plan enables greater flexibility and means that Internal Audit will be able to respond to changing priorities and the concerns of Members and management. Like the previous plan this has been risk assessed and enables internal audit resources to be targeted accordingly.

8. Performance and Effectiveness of Internal Audit

8.1 The requirements of the Accounts & Audit (England) Regulations 2015 provide the necessary assurance to Members and management as to the adequacy of the Internal

Audit function. It is important that the effectiveness of the work of Internal Audit is monitored and reported. To do this a range of performance criteria is closely monitored by the Head of Internal Audit throughout the year. During 2015/16 the Internal Audit Service underwent an independent review which concluded that Internal Audit had demonstrated compliance with the more rigorous criteria of the Public Sector Internal Audit Standards (PSIAS) jointly developed by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Institute of Internal Auditors (IIA).

8.2 It is also essential that Internal Audit obtain the views of ELWA regarding the service it delivers and the value it adds to ELWA's business objectives. At the close of each audit a satisfaction questionnaire, covering key elements of the audit process, is sent to ELWA management for completion and return. The results from these questionnaires have been positive.

8.3 Internal Audit processes and effectiveness are reviewed on a regular basis and have a quality assurance and improvement programme as required by PSIAS. My view based upon my experience of the Internal Audit Section's advice and performance, external guidance on Internal Audit and the feedback received, is that the Authority has a sound and robust system of Internal Audit, which continues to adapt and respond to the changing needs of the Authority.

9. Conclusions

9.1 Based upon the audit work undertaken during 2015/16 Internal Audit has reached the opinion that the Authority's overall control framework is generally sound and the core financial systems continue to operate effectively and there are no fundamental breakdowns in control resulting in material discrepancy. This view is re-enforced by the Authority's External Auditors.

9.2 I feel confident that through this process and the assurances received, notably from Internal Audit, External Audit and other sources, I will be well placed to provide an opinion as to the overall adequacy and effectiveness of the Authority's internal control environment to Members and management.

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10. Relevant officer:

10.1 John Jones / john.jones@redbridge.gov.uk / 020 8708 3192

11. Appendices attached:

11.1 Appendix A: Five Year Strategic Plan

12. Background papers:

12.1 Internal Audit Progress Report 2014/15, Audit Plan 2015/16 and Planned Audit Coverage to March 2019 Report & Minute 8/2015

12.2 Internal Audit Report on Corporate Governance 2015/16

12.3 Internal Audit Report on Contract Management 2015/16

13. Legal considerations:

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

14. Financial considerations:

14.1 The Internal Audit coverage on corporate governance and internal controls is covered within the body of the report.

14.2 The cost of the annual Internal Audit coverage is funded as part of the LB Redbridge Finance service level agreement with ELWA.

15. Performance management considerations:

15.1 None.

16. Risk management considerations:

16.1 The decision to agree the audit coverage for 2016/17 as outlined in Section 6 should help ensure ELWA's strategic and operational risks are identified and appropriate control strategies implemented to mitigate these risks.

17. Equalities considerations:

17.1 None.

18. Follow-up reports:

18.1 None

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

19.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

20. Glossary:

ANPR = Automatic Number Plate Recognition
ELWA/the Authority = East London Waste Authority
CIPFA = Chartered Institute of Public Finance & Accountancy
Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
IWMS = Integrated Waste Management Strategy
IIA = Institute of Internal Auditors
LBR = London Borough of Redbridge
PSIAS = Public Sector Internal Audit Standards
RRCs = Reuse and Recycling Centres
SEL = Shanks east.london

21. Approved by management board

21.1 06 June 2016

22. Confidentiality:

22.1 None

ELWA - 5 year Strategic Plan 2016/17 - 2020/21

					Actual	5 year Audit Plan				
Audit Areas	**Risk Impact**	**Likeli-hood**	**Risk Rating**	**Frequency**	**15/16**	**16/17**	**17/18**	**18/19**	**19/20**	**20/21**
Internal Control and Corporate Governance	5	2	**10**	3 yearly	10		10	10		
Audits in this area will include Review of Constitution, Contract Rules, Financial Regs, Corporate Governance, Risk assessment and Business Continuity Planning, Anti Fraud Arrangements, any other matters arising (IT / Personnel Issues), it would be intended to cover all the above over a 6 year period										
Contract Management / Monitoring / Compliance	9	3	**27**	Annually	15	20	20	20	20	20
Audits in this area will include reviews of ELWA's Monitoring Arrangements for the contract, Borough's Monitoring arrangements, Payments to the contractor, Performance Measures, TIM system and the weighbridge. In addition to these audits sample compliance checks on the content within the monthly IWMS contract invoice will be carried out monthly or bi-monthly It would be intended to cover all the above over a 5 year period										
Financial Management	5	3	**15**	4 yearly		10				10
Audits in this area will include reviews of Financial Management of non IWMS contract costs. The audit would be done once over a 4 year period.										
Asset Management	2	3	**6**	5 yearly					10	
Audits in this area will review the management of the Authorities assets (predominantly the Landfill Sites) and will undertaken once every 5 years										
Reporting / Administration / Follow Up / Other					5	3	3	3	3	3
Total Days					**30**	**33**	**33**	**33**	**33**	**33**

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AUTHORITY REPORT: PROVISIONAL FINANCIAL OUTTURN POSITION AND CONTRACT MONITORING REVIEW FOR THE YEAR 2015/16

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 To note this report and in particular the net overspend against budget mainly as a result of budget pressures within the Integrated Waste Management Strategy (IWMS) contract, and a shortfall of royalty income.

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3. Purpose

3.1 To provide a summary of the Financial Outturn for the East London Waste Authority (ELWA) for the 2015/16 financial year.

3.2 To provide a summary and commentary for the contract performance for the 2015/16 contract year.

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

4. Revenue Budget

4.1 The outturn figures presented in this report are provisional and there may be some changes as the accounts are being finalised. It is not currently anticipated however that there will be any significant changes from these provisional figures.

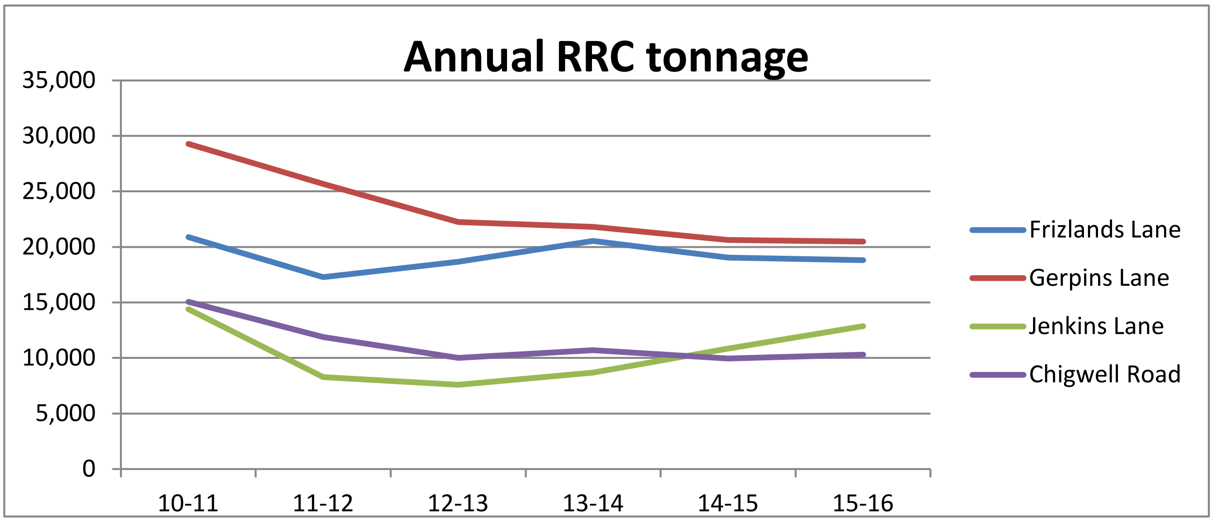
4.2 Based on the budget of £57.692m and the actual net expenditure of £58.158m there is an adverse variation against budget of £0.466m.The overspend is greater than that projected at your last meeting and reflects the higher tonnage figures at outturn.

4.3 The principal activity driver on ELWA's budget is the level of waste tonnage delivered from the Constituent Councils. The 2015/16 Budget assumed annual waste tonnages of 442,500. Earlier in the year it was projected and reported to Members that tonnages could be slightly below this at 437,000 tonnes but due partly to the mild winter tonnages in recent months these have been above profiled levels and the provisional outturn shows tonnages broadly in line with budget (441,200 tonnes).

4.4 The table (4.6) overleaf shows the breakdown of tonnages compared to previous years. It should be noted that the controls introduced at the Reuse & Recycling Centres (RRC) continue to abate tonnages brought into the sites and when compared with the tonnages delivered prior to the introduction of the revised controls at the sites, tonnages remain significantly lower. The slight increase in tonnages experienced can partly be explained by the increase in usage at the sites, Jenkins Lane in particular, during the period of LBBD collection crew's industrial actions.

4.5 Further enhancements to monitoring at the RRC sites are in place, which includes the installation of an Automatic Number Plate Recognition (ANPR) monitoring system which came into operation in February 2016. Officers will monitor this during 2016/17 to determine any impact on tonnages.

4.6



4.7 Summary of total Contract tonnage 2012-2016

Description	2012/13	2013/14	2014/15	2015/16
NI Residual	254,955	264,365	278,463	289,238
NI Recycling	82,456	75,120	77,100	68,381
Non NI Recycling	6,322	12,509	4,058	4,348
Sub Total- Collected Household	343,732	351,993	359,621	361,967
Trade collected with domestic waste	12,930	13,176	13,832	12,206
Trade / Municipal weighed	8,158	7,830	6,920	4,508
Sub Total- Collected Municipal	21,088	21,006	20,752	16,714
Total Excluding RRC Waste	364,820	372,999	380,373	378,681
RRC waste	25,884	26,173	27,361	28,911
RRC Recycled	24,341	27,575	26,405	26,001
Non NI Recycling	8,242	7,983	6,690	7,559
Sub Total- RRC	58,467	61,730	60,456	62,470
TOTAL	423,288	434,730	440,829	441,151

4.8 Total tonnage delivered By Constituent Council [Excluding RRC waste]

Delivered Tonnage	Barking & Dagenham	Havering	Newham	Redbridge	Total
2012/13	72,673	86,773	107,544	97,831	364,821
2013/14	76,059	86,597	109,093	101,249	372,999
2014/15	75,660	87,864	113,339	103,510	380,373
2015/16	73,815	85,743	114,922	104,201	378,681

4.9 Although tonnage is broadly in line with budget, the major factor in the adverse financial variance was the underlying assumptions made in relation to the projected diversion from landfill performance. This was budgeted at 70% but it was clear that Shanks Waste Management (the Operator) was not going to achieve this without further incentivisation. As a consequence and in order to mitigate this a new diversion agreement with the operator was signed in June 2015.

4.10 This agreement with the Operator was designed to incentivise the Operator to maximise diversion through the payment of additional categories of supplements where the operator achieved diversion over the contractual 67% level. In 2015/16 there was no additional financial benefit to ELWA as the financial benefit of improved diversion from landfill was already assumed in the budget. Members are advised that as part of the 2016/17 Levy and budget setting process the financial impact of the new diversion agreement has been built into the 2016/17 budget.

4.11 A small offset against the overspend in IWMS contract costs was as a result of an underspend in non contract costs such as staffing costs, premises and property expenditure. As part of the 2015/16 Levy setting process Members agreed to a contingency of £0.150m.This was largely spent in 2015/16 due to the need to meet the additional cost of the insurance premium in the last quarter of the year. Also offsetting pressures in the budget were over-recoveries of commercial waste and investment income.

4.12 There was a significant under-recovery of royalty income against budget amounting to £0.232m due to the reduction in the non contract waste received in Jenkins Lane since September 2015 resulting from a loss of a contract.

4.13 Underpinning the 2015/16 Budget and Levy was an efficiency savings target of £1.500m. Against this £1.308m has been achieved, a shortfall of £0.192m. A significant part of this year’s saving is due to the Managing Director successfully agreeing additional payments by the Contractor to the Authority by the enforcement of a contract provision. It is possible that similar additional payments may be made in future years but this cannot be guaranteed.

4.14 As part of the levy report considered in 2016/17, Members were advised that there was projected to be an overspend of £0.388m in 2015/16 and as part of setting the Levy and Budget for 2016/17 it was agreed to fund this overspend. The actual overspend is £0.466m and the additional amount of £0.078m will need to be funded as per the table below:-

	As per Budget 2016/17 **£000**	**Following Final Outturn** **£000**
Net in year expenditure 2016/17	56,179	56,179
Overspend for 2015/16	388	466
Budget Requirement	56,567	56,645

5. Contract Performance

5.1 The annual diversion rate for 2015/16 finished at 78.5%. The improved diversion largely reflects the impact of the new agreement as outlined in paragraph 4.10. The recycling performance was 3.25% below Annual Budget and Service Delivery Plan (ABSDP) at 22.59%, a further reduction on the performance achieved in the previous contract year. The Managing Director has written to ELWA Limited (the Contractor) in relation to this poor recycling performance and has rejected the ABSDP as agreed by the Authority at your meeting in February. To date no response has been received this was reported at the meeting of ELWA Ltd in April 2016.

5.2 The contract performance is not calculated in the same manner as the constituent councils' (pre 2013) National Indicator (NI 192) performance. The year end NI 192 performance for each council is as below (this is subject to ratification by the Environment Agency (EA)).

Constituent Council	**% Recycling Performance**
Barking & Dagenham	20.7%
Havering	32.3%
Newham	15.5%
Redbridge	29.9%

6. Prudential indicators

6.1 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.

6.2 The Prudential Indicators are reviewed on a regular basis and all activities have been contained within the indicators as shown in the table below:

Authority Limit for External Debt	**Limit 2015/16 £000**	**Actual to 31/03/16 £000**
Borrowing	14,000	1,250
Other long term liabilities	88,000	78,277
TOTAL	102,000	79,527
Operational Boundary for External Debt	**Limit 2015/16 £000**	**Actual to 31/03/16 £000**
Borrowing	12,000	1,250
Other long term liabilities	88,000	78,277
TOTAL	100,000	79,527

7. 2015/16 Financial Statements

7.1 The production of the 2015/16 Financial Statements is in progress. This is a significant piece of work and is highly technical in nature. The draft statutory accounts need to be signed off by the Finance Director by 30 June 2016 and will be approved by the Authority at its meeting in September 2016. Completion of the ELWA Whole of Government Accounts is also required by 30 June 2016.

8. Conclusion

8.1 The net overspend in 2015/16 is £0.466m. The overspend in contractor payments and shortfalls against the savings efficiency target and in royalty income were partly offset by higher commercial waste income levels and efficiencies in non contract spend.

8.2 The overspend in 2015/16 will be taken into account in the next three year Financial Projections and Budget Strategy process, to be considered at the November 2016 meeting.

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9. Relevant officers:

9.1 Mark Ash, Managing Director / e-mail: mark.ash@eastlondonwaste.gov.uk / 020 8724 5614 and Maria G. Christofi, Finance Director, / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588.

10. Appendices attached:

10.1 Appendix A: Budget Monitoring Statement to 31 March 2016

11. Background papers:

09/02/15 Revenue & Capital Budgets and Levy 2015/16 Report & Minute No.51/2013

22/06/15 Budgetary Control to 30 April 2015 Report & Minute No. 10/2015

14/09/15 Budgetary Control to 31 July 2015 Report & Minute 21/2015

23/11/15 Budgetary Control to 30 September 2015 Report & Minute 32/2015

08/02/16 Budgetary Control to 31 December 2015 Report & draft Minute No. 43/2015

12. Legal considerations:

12.1 No additional issues.

13. Financial considerations:

13.1 As outlined in the report.

14. Performance management considerations:

14.1 The financial position and projections should consider among other things service performance trends, for example, tonnage rates.

15. Risk management considerations:

15.1 The current position may suggest budget pressures in 2016/17

16. Equalities considerations:

16.1 The equalities impact assessment for this decision identified that there are no specific equality implications arising from this report.

17. Follow-up reports:

17.1 None.

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

18.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

19. Glossary:

ABSDP = Annual Budget and Service Delivery Plan
ANPR = Automatic Number Plate Recognition
EA = Environment Agency
ELWA = East London Waste Authority
IFRS = International Financial Reporting Standards
IWMS = Integrated Waste Management Strategy
NI = National Indicator
RRC = Reuse & Recycling Centre
SRF = Solid Recovered Fuel

20. Approved by Management Board

20.1 06 June 2016

21. Confidentiality:

21.1 Not Applicable.

BUDGET MONITORING STATEMENT TO 31 MARCH 2016

	Budget 2015/16	Projected Outturn 2015/16	Projected Outturn Variance
EXPENDITURE	**£000**	**£000**	**£000**
Employee and Support Services	375	349	(26)
Premises Related Expenditure	149	121	(28)
Transport Related Expenditure	5	2	(3)
Supplies and Services			
Payments to Shanks.East London	58,196	58,449	253
Other (inc cost of Support Costs)	440	409	(31)
Payments to Constituent Councils	2,685	2,666	(19)
Capital Financing Costs	184	183	(1)
TOTAL GROSS EXPENDITURE	**62,034**	**62,179**	**145**
INCOME			
Commercial Waste Charges	(2,417)	(2,486)	(69)
Bank Interest Receivable	(54)	(80)	(26)
Other Income	(521)	(290)	231
Efficiency savings	(1,500)	(1,308)	192
TOTAL INCOME	**(4,492)**	**(4,164)**	**328**
Contingency Allocated	150	143	(7)
NET EXPENDITURE ON SERVICES	**57,692**	**58,158**	**466**
PFI Grant Receivable	(3,991)	(3,991)	-
Levy Receivable	(53,401)	(53,401)	-
Net Contribution from Reserves	(300)	(300)	-
REVENUE OVERSPEND FOR THE PERIOD	**-**	**466**	**466**

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AUTHORITY REPORT: BUDGETARY CONTROL AND CONTRACT MONITORING TO 30 APRIL 2016

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 To note this report.

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3. Purpose

3.1 This budgetary control report compares the East London Waste Authority's (ELWA / the Authority) actual expenditure for the period ended 30 April 2016 with the original revenue budget approved in February 2016. It is based on information supplied by Shanks east.London (the Operator), ELWA technical officers and the four Constituent Councils.

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

3.3 This report also provides the Integrated Waste Management Services (IWMS) Contract performance for the period ended 30 April 2016 to support the financial information.

4. Background

Revenue Budget

4.1 Based on the profiled budget of £4.760m and the actual net expenditure on services of £4.785m the position is a net overspend of £0.025m to date. (see Appendix A).

4.2 Overall the outturn is currently projected £0.632m over budget at year end due to the anticipated non achievement of efficiency savings and a future shortfall of royalty income.

4.3 The principal activity driver on ELWA's budget is the level of waste tonnage delivered from the Constituent Councils. Based on these council returns and ELWA technical officer advice the 2016/17 budget and levy setting process has assumed 447,000 tonnes in 2016/17. The end of year projection assumes a tonnage of 447,000 tonnes. There may however be other trends that affect the 2016/17 position and officers will need to determine the impact of possible increases in tonnages per household as well as demographic trends. The waste figure for April 2016 is 0.2% higher than the profiled budget.

4.4 The 2016/17 budget has taken account the financial impact of the agreement signed in June 2015. Although the agreement made provision for revised diversion supplements it is designed to incentivise the Operator to divert from landfill as much waste as possible and thus passes the risk of diversion performance on to the Operator. Given this then diversion performance is no longer a variable affecting the cost of the contract to ELWA and cost pressures in respect of the contract relate to tonnage levels.

4.5 Employee and non contractor costs are broadly in line with budget to date. Both these areas are projected to be in line with budget at year end.

4.6 At this stage based on ELWA technical officer advice commercial waste income will be in line with budget at year end.

4.7 As reported as part of the provisional outturn position elsewhere on this agenda in 2015/16 there was a significant shortfall of non contract royalty income against budget due to the loss of a contract. The Operator is making every effort to seek new contracts but there is a risk that this income target will not be achieved by year end. The projection assumes some progress in negotiating new contracts but a shortfall of approximately £0.130m is projected at year end.

4.8 Members are reminded that underpinning the 2016/17 budget and levy is an efficiency savings target of £1.500m. In 2015/16 this was largely achieved due to two significant payments by the contractor to ELWA relating to the enforcement of a contract provision and these payments amounted to £0.900m. It is not anticipated that any such payments will be made in 2016/17. Therefore after taking account of ongoing contract savings already achieved there is projected to be a shortfall against the efficiency savings target off £0.500m. However it was noted as part of 2016/17 Levy setting report in February 2016 that achievement of this target also depended on the efforts of constituent councils in reducing waste tonnages delivered to ELWA.

4.9 The pressure on the levy and the reserves over the next few years has been reported to Members previously and as part of the 2016/17 levy setting process reserves were set at the appropriate level to cover these risks. Therefore, it is important that robust monitoring of the financial position throughout the year remains in place with particular focus on the achievement of the efficiency savings target and the minimisation of tonnage levels. Given the single purpose nature of ELWA it is difficult for remedial action to be taken on areas of over spend or to recover 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. Next Steps

5.1 The position will continue to be closely monitored on a monthly basis throughout the financial year.

6. Conclusion

6.1 The ability to remain within budget will depend to a great extent on tonnage trends, income collection and the achievement of efficiency savings.

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7. Relevant officers:

7.1 Maria G Christofi, Finance Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588 and Dave Hawes, Contract Manager / e-mail: dave.hawes@eastlondonwaste.gov.uk / 020 8724 5054.

8. Appendices attached:

8.1 Appendix A: Budget Monitoring Statement to 30 April 2016

9. Background papers:

08 February 2016 - Revenue & Capital Estimates and Levy 2016/17 Report & Minute No.55/2014

10. Legal considerations:

10.1 This report is for noting and no legal implications arise that need highlighting

11. Financial considerations:

11.1 As outlined in the report.

12. Performance management considerations:

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

13. Risk management considerations:

13.1 The projected position depends on the performance of the contractor, tonnage levels and the success in achieving efficiency savings. The amount of reserves is set at a level to take account of the risks.

14. Equalities considerations:

14.1 None.

15. Follow-up reports:

15.1 Budgetary Control Report, next meeting

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

16.1 http://www.recycleforyourcommunity.com/waste_authority/default.aspx

17. Glossary:

ELWA/the Authority = East London Waste Authority
Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
IWMS = Integrated Waste Management Services Contract
The Operator = Shanks east.London

18. Approved by management board

18.1 06 June 2016

19. Confidentiality:

19.1 Not Applicable.

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BUDGET MONITORING STATEMENT TO 30 APRIL 2016

	Original Budget 2016/17	Profiled Budget to 30/04/16	Total Actual to 30/04/16	Variance to 30/04/16	Projected Outturn to 30/04/16	Outturn Variance
EXPENDITURE	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Employee and Support Services	375	31	31	-	375	-
Premises Related Expenditure	154	35	35	-	154	-
Transport Related Expenditure	5	1	1	-	5	-
Supplies and Services						
Payments to Shanks.East London	59,903	5,310	5,310	-	59,903	-
Other (inc. cost of Support Costs)	443	37	37	-	443	-
Payments to Constituent Councils	2,703	28	28		2,703	-
Capital Financing Costs	181	15	15	-	181	
TOTAL GROSS EXPENDITURE	**63,764**	**5,457**	**5,457**	**-**	**63,764**	**-**
INCOME						
Commercial Waste Charges	(2,466)	(617)	(617)	-	(2,466)	-
Interest receivable	(65)	(5)	(5)	-	(65)	-
Other income	(532)	-	-	-	(400)	132
Efficiency savings	(1,500)	(75)	(50)	25	(1,000)	500
TOTAL INCOME	**(4,563)**	**(697)**	**(672)**	**25**	**(3,931)**	**632**
Contingency Allocated	150	-	-	-	150	-
NET EXPENDITURE ON SERVICES	**59,351**	**4,760**	**4,785**	**25**	**59,983**	**632**
PFI grant receivable	(3,991)	-	-	-	(3,991)	-
previous year overspend funded	757	757	757	-	757	-
Levy Receivable	(56,567)	(4,450)	(4,450)	-	(56,567)	-
Net Contribution from reserves	450	-	-	-	450	-
NET	**-**	**1,067**	**1,092**	**25**	**632**	**632**

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