NOTICE OF MEETING

Monday, 09 February 2015 – Civic Centre, Dagenham - 09.30 am

Members

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

Mark Ash
Managing Director

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

30/01/2015

AGENDA

1. Apologies for absence

2. Declaration of Members Interest

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

Items for decision

3. Minutes – To confirm as correct the minutes of the meeting held on 24 November 2014 (pages 1 - 6)

4. Treasury Management Strategy 2015/16 and Prudential Code Indicators 2015/16 to 2017/18 (pages 7 - 36)

5. Revenue & Capital Estimates and Levy 2015/16 (pages 37 - 54)

Items for information

6. Annual Budget and Service Delivery Plan (pages 55 - 60)

7. Review of Corporate Risk Register (pages 61 - 68)

8. Contract Monitoring & Waste Management to 30 November 2014 (pages 69 - 76)

9. Budgetary Control to 31 December 2014 (pages 77 - 82)

10. Dates of next meetings:

    Mid-end March – Informal Workshop

    22/06/15 Annual General Meeting and

    14/09/15

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

12. To consider whether it would be appropriate to pass a resolution pursuant to Section 100A (4) of the Local Government Act 1972.

Confidential Business

The public and press have a legal right to attend ELWA meetings except where business is confidential or certain other sensitive information is to be discussed.

AUTHORITY MINUTES: MONDAY 24 NOVEMBER 2014 (09.37AM – 11.05AM)

Present:

Councillor S Bain, Councillor K Clark, Councillor I Corbett (Chair) Councillor S Kelly, Councillor B Nijjar (Vice Chair) and Councillor L Rice (10.10m onwards) and Councillor J Wade

33. Welcome and Apologies for Absence

An apology for absence was received from Councillor R Benham and Councillor L Rice for late arrival.

34. Declaration of Members' Interests

There were none declared.

35. Minutes of previous meeting (15/09/14)

Members confirmed as true and accurate the minutes of the Authority meeting held on 15 September 2014 and the Chair was authorised to sign the same.

36. Annual Audit Letter 2013/14

Members have received and noted the Finance Director's report with the Annual Audit letter attached. The Finance Director confirmed that ELWA had received a clear set of accounts for 2013/14 and the audit letter had recommended changes in the assets valuation process. He confirmed that officers will take account of the componentisation of assets as recommended when undertaking the revaluation of the MRF asset in 2014/15 for the 2014/15 Statement of Accounts.

Members noted the report**.**

37. Treasury Management Mid Year Strategy Review 2014/15

The Finance Director presented his report containing a summary review of treasury management activity in the first half year, to include all borrowing and investment activities undertaken. Global financial markets had remained sensitive although market indicators had shown improvement over the past year. ELWA continued to keep within its prudential indicators and was prudent on operational lending to ensure security of its investments as well as maintain liquidity for the Authority. Officers would continue to follow the agreed strategy for the remainder of the financial year whilst monitoring the market for any developments. He confirmed that the position was as expected and on course.

Members noted the report.

38. Contract Monitoring & Waste Management to 30 September 2014

Members have received the Contract Manager's report and Appendices showing monitoring, outcomes and actions taken in connection with the Integrated Waste Management Services (IWMS) contract. It also updated Members on the Frog Island fire incident and provided information on waste growth and contamination in collected dry recyclates.

The Acting Managing Director advised that the refinement section of the Frog Island Mechanical Biological Treatment (MBT) facility would be out of action for about a year but that the MBT plant had received and processed waste from the Constituent Councils via lines 2 and 3 since early November. Line 1 and the refinement section repairs were ongoing. The Acting Managing Director gave credit to the contractor for its efforts in gaining consents from the Environment Agency to export a less refined Refuse Derived Fuel during the reinstatement period.

Contract waste for the period was above forecast by 1.6% and recycling performance was slightly above budget by 1%. Population growth and an increase in the economic environment were considered to be the reasons for the overall contract tonnage delivered into the contract being higher than budgeted for. The predicted 1.5% pa increase in tonnage in the longer term was thought to be in line with housing and population growth. Budget pressures as a result of these factors will continue.

Research would be undertaken as to why LB Barking & Dagenham's tonnage levels had not reduced in line with the other three Constituent Councils.

Officers would look into the demographics of contamination levels and report back at a future meeting.

The half year diversion from landfill figure was lower than budgeted for by 1% and the fire at Frog Island had resulted in August and September showing diversion lowered to 62% a reduction of 12% on budget figures.

The rise in 2012/13 collected waste as identified in Appendix B (ie black bag and kerbside recycling) was attributed to behavioural changes both in households and Constituent Councils

Members discussed the basis of the levy and the source of the figures applied, population increases and growth within households, age trends, the use of more accurate population figures and tonnage migration. Members were advised that Constituent Councils' Finance Directors had been made aware of a 10% population increases for their budget forecasts.

Detailed explanations were provided by the Acting Managing Director and Finance Director as to the current insurance model and costs, potential excesses, loss reimbursement, risks and outcomes in respect of future cover and the pursuant impact on the Levy as a consequence of the fire.

LB Havering expressed their appreciation of ELWA officers' support when their new collection arrangements coincided with the fire at Frog Island.

Members noted the report.

Councillor Lynda Rice joined the meeting.

39. Budgetary Control to 30 September 2014

The Finance Director presented his report and budget monitoring statement giving details of revenue budget variables, insurance claim and prudential indicators. He reported that tonnages prior to the fire were higher than budgeted for and were partly offset by improved diversion rates. The fire at Frog Island had impacted on operational costs which had increased through reduced diversion and cessation of royalty payments. Current projections indicate a year end overspend of £153,000. Fire related costs were excluded from this figure and losses incurred would be recouped via the insurance. He reminded Members that there would be pressures on the levy and reserves for the next few years and although the loss of operational capacity may contribute to this pressure it was anticipated that this would be covered by insurance.

The report showed a net expenditure on service of £30,284 with a net overspend of £738,000 to date based on the profiled budget of £29,744,000. The Levy setting process had assumed 429,000 tonnes of delivered waste but returns had shown projected levels to be higher and a mid-point figure of 435,000 tonnes now had been assumed. Close monitoring of household tonnages and demographic trends would continue. The Finance Director indicated that robust records to evidence losses are being kept to mitigate any action to minimise ELWA's claim. He praised the work done by the ELWA team.

Members noted the report.

40. Dates of Next Meetings

Members noted the future meeting dates for 2014/15 as being 9 February 2015 (Levy) and 22 June 2015 (Annual General Meeting) and that a Programme of Meetings report for 2015/16 would to be considered later in the Agenda. Members were requested by the Chair to ensure attendance at the Levy meeting in February 2015.

41. Appointment of Finance Director

The Acting Managing Director presented his report setting out the background to the appointment of the Authority's Finance Director, the financial support received, details of the post holder's retirement from London Borough of Redbridge and the impact on the Authority. Members received a recommendation that, in order to maintain continuity and effectiveness of the overall financial management arrangements, they continue to appoint to the post from the London Borough of Redbridge.

It was felt that any new Finance Director would quickly need to understand and get a firm hold on the Authority's finances. Members wanted to ensure that the ELWA role had been incorporated into the LB Redbridge appointment process. The Finance Director confirmed that he would pass on this information to his local authority since his successor had not, as yet, been appointed. He would ensure that interim arrangements were in place to cover the Section 151 officer role until the post was filled and he would send formal notification to the Authority.

Members and Board Officers thanked the Finance Director for his sterling contribution during his 15 years in office. The Finance Director offered his thanks and stated that he was retiring in early January with good memories of his time working with the Authority and wished ELWA well for the future.

Members noted the report and agreed to appoint to the Authority's position of Finance Director from the London Borough of Redbridge.

42. Financial Projection & Budget Strategy 2015/16 to 2017/18

The Finance Director presented his report and appendix containing details of the general budget strategy; revenue budget assumptions in respect of contractor cost, revised diversion arrangements on contractor costs and income; contract renegotiations/efficiency savings; the reserves strategy; revenue reserves assumptions; closure of landfill sites; other assumptions; determination of the levy and levy apportionment; risks and next steps.

He reported that contract cost inflation had been built into the projections on the basis of 80% of the retail price index using the previous October figures. Based on the September figures it was estimated to be 1.9% for 2015/16 and 2.0% in 2016/17 and 2.0% in 2017/18. Previously, levels of reserves had been run down to reduce the unpalatable levy increases on the Constituent Councils but the three year strategy now proposed to bolster reserves because of the unsustainable use in the medium/long term. It was proposed that levy increases in 2015/16 would not be subsidised by reserves.

He explained that the reduction of balances had been the right and sensible thing to do on transition of the contract but it was no longer appropriate. ELWA could be in a difficult position if there was a sudden spike in waste tonnages and the government decided to continue to increase landfill taxation putting ELWA under pressure. The Authority would make its Levy decision in February but the current plan was for levy increases of 9.5%, 3.7% and 2.7% over the next three years. He gave assurance that Constituent Councils' Finance Directors had received early notification of the increases.

The Chair indicated that although the projections would put Constituent Councils' budgets under some stress this information should be shared with colleagues.

Members noted the report and agreed the financial projection and budget strategy for the years 2015/16 to 2017/18.

43. Programme of Meetings

Received the Office Manager's report requesting Members agree the schedule of Authority meetings for the municipal year to June 2016 and to hold an informal workshop in March 2015.

Members have noted the report and agreed to meet on the 14 September 2015, 23 November 2015, 8 February 2016 and 20 June 2016 (AGM) to fulfil the Authority's legal & financial obligations.

Members' preference and it was agreed to hold a full day informal workshop during March 2015 to discuss their own Councils' strategies and expectations for waste management on expiry of the Integrated Waste Management Services contract in 2027. It was thought that there was a need to be aware of the available technology and infrastructure options, the Constituent Councils' projections, recycling target aspirations (EU and/or local) as well as financial constraints. ELWA officers could then plan to develop ELWA's strategy for the future disposal of the region's residual only or residual & recyclate waste with effect from 2027. It was suggested that a business model be drawn up in respect of recyclates becoming a potential income stream for the Authority.

Xmas arrangements: The Chair indicated that he would like ELWA staff and officers to come together for refreshments at the end of each year in order to express the Members' appreciation for efforts made throughout the year.

44. Other public items

Board Representation (LBHavering)

Members were advised by Cynthia Griffin that she would be leaving in December after 9 years in office. Appreciation for services to date and best wishes for the future were exchanged.

45. 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 I of Schedule 12A of the Local Government Act 1972 (as amended) or contained information likely to reveal the identity of an individual, relates to the business affairs of the Authority and negotiations related to labour relations between the authority and its employee and is subject to an obligation of confidentiality and is therefore exempt from publication by virtue of paragraphs 1, 2, 3 and 4 respectively of Schedule 12A of the Local Government Act 1972 (as amended)

46. Closed Landfill Sites - Update

Members received the Acting Managing Director's confidential report and Appendices. Members have also received commentary on Aveley 1 day to day monitoring activities, Aveley Methane Ltd and reduction in electricity generation, alternative income generation and gas management options as well as a recent incident of trespass. The report included updates on the fly tipping incident at Wennington Farm and subsequent commission of a composition analysis for remediation purposes, and a progress report on the sale of Hall Farm. Members were advised that sites security was also being reviewed. Further reports would be available in due course. Members received assurance as to public safety levels surrounding the sites.

Members noted the report**.**

47. Contract Renegotiation & Efficiencies

Members received and noted the confidential report informing them of completion of the actions taken under delegated authority by the Acting Managing Director in respect of contract renegotiation and efficiency savings generated. The report listed future savings.

Members noted the report and expressed their thanks to officers for the requested £½m savings made this year.

48. ELWA Ltd 21/10/14 Board Agenda

Members received and noted the agenda papers and comments about the dividend payment**.**

49. Management Arrangements

The Chair asked the Acting Managing Director to leave the meeting for this item.

The Business Partner, Human Resources presented his confidential report and appendices which set out the background and recruitment process to date for the permanent appointment to the post of Managing Director. Members discussed the recommendations having received the opinions of the officer panel and came to a decision before requesting the Acting Managing Director to return to the meeting.

Members agreed to vote, with a show of hands, on their decision to appoint Mr Ash to the permanent post of Managing Director with immediate effect. The decision was unanimous. Congratulations were extended.

Minutes agreed as a true record.

Chair: ………………………………..

Date: ………………………………..

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AUTHORITY REPORT: TREASURY MANAGEMENT STRATEGY 2015/16 AND PRUDENTIAL CODE INDICATORS 2015/16 TO 2017/18

1. Confidential Report

1.1 No.

2. Recommendations

2.1 That Members agree:

a) The Borrowing Strategy for 2015/16 as set out in paragraph 8;

b) The Minimum Revenue Provision Policy Statement for 2015/16 is set out in paragraph 9;

c) The Annual Investment Strategy for 2015/16 as set out in paragraph 10-14 and summarised in paragraph 17;

d) The Treasury Management Policy Statement as set out in Appendix A;

e) The Prudential Indicators for Treasury Management as set out in paragraph 18.

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3. Purpose

3.1 This report sets out ELWA's Treasury Management Strategy for 2015/16 together with the Prudential Indicators for Treasury Management. The report encompasses new borrowing requirements and debt management arrangements, as well as a Minimum Revenue Provision Policy Statement. The report also looks at the annual investment strategy, the Treasury Management Policy Statement and the Prudential Indicators for Treasury Management.

4. Background

4.1 The Local Government Act 2003 requires the Authority to adopt the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in taking these decisions. The Prudential regime requires consideration of the Authority's borrowing and investment strategies within the decision making process for setting the Authority's spending plans.

4.2 The Authority's treasury activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice on Treasury Management in the Public Services. The Authority has adopted this code of practice and subsequent revisions as part of its Financial Rules (D2, 27.1 & 27.2) by resolution of the Authority.

4.3 In 2015/16, the Authority's maximum borrowing requirement to meet new capital expenditure and debt redemptions/replacement is estimated to be £0.4 million. The borrowing strategy to meet this requirement is set out in paragraphs 5 to 8.

4.4 ELWA is required to prepare an Annual Minimum Revenue Provision Policy Statement setting out policy for the prudent repayment of debt. The Authority must have regard to statutory guidance issued by the Department for Communities and Local Government (CLG) when preparing this statement. The Authority's Minimum Revenue Provision Policy Statement is set out at paragraph 9.

4.5 Each year the Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to guidance issued by the Department for Communities and Local Government (CLG) which came into operation 1st April 2010. The Annual Investment Strategy is at paragraphs 10 -14.

4.6 Financial Rule D2, 27.6 requires that the Finance Director present to Members the Treasury Management Strategy for recommendation prior to the start of the Financial Year. The Prudential regime requires that the Prudential Indicators for Treasury Management be considered with the Treasury Management Strategy and that ELWA set these limits. These are detailed at paragraph 18. This is an annual process.

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

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

5. Borrowing Requirements and Debt Management Arrangements for 2015/16

5.1 ELWA's estimated total borrowing of £1,250,000 at 31st March 2015 consists entirely of Public Works Loan Board (PWLB) loans. All of these loans are on a fixed rate.

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

6. Prospects for Interest Rates

6.1 As part of the Treasury Management service provided by the London Borough of Redbridge (LBR), economic forecasting is provided to assist the Authority to formulate a view on interest rates. The London Borough of Redbridge's treasury management consultants Capita have provided forecasts for medium term interest rates (as at December 2014) as shown in the table below.

Annual Average %	**Bank Rate**	**Money Market Rates**		**PWLB Rates***		
		3 month	1 year	5 year	25 year	50 year
March 2015	0.50	0.50	0.90	2.20	3.40	3.40
June 2015	0.50	0.50	1.00	2.20	3.50	3.50
Sept 2015	0.50	0.60	1.10	2.30	3.70	3.70
Dec 2015	0.75	0.80	1.30	2.50	3.80	3.80
March 2016	0.75	0.90	1.40	2.60	4.00	4.00
June 2016	1.00	1.10	1.50	2.80	4.20	4.20
Sept 2016	1.00	1.10	1.60	2.90	4.30	4.30
Dec 2016	1.25	1.30	1.80	3.00	4.40	4.40
March 2017	1.25	1.40	1.90	3.20	4.50	4.50
June 2017	1.50	1.50	2.00	3.30	4.60	4.60
Sept 2017	1.75	1.80	2.30	3.40	4.70	4.70
Dec 2017	1.75	1.90	2.40	3.50	4.70	4.70
March 2018	2.00	2.10	2.60	3.60	4.80	4.80

* Borrowing Rates

6.2 Information received from Capita (December 2014) is that the prospects for the UK are somewhat mixed. The hoped for rebalancing of the economy towards greater reliance on exports has yet to happen, and the UK faces an uphill struggle with its main trading partner, the Economic Union (EU), who are now expected to resort to full blown quantative easing early in 2015 in order to stimulate the economy to rise above near stagflation.

6.3 UK consumer confidence has remained buoyant although the housing market looks as if it is cooling with house price rises and new mortgage approvals subsiding. UK consumers are also benefiting from the fall in the price of oil, and the overall fall in inflation to 1% in November and a further fall to 0.5% in December 2014, the lowest since May 2000.

6.4 Capita's forecast view is for inflation to remain at this level for the best part of the year. Average wage increases are therefore likely to exceed inflation and so increase the disposable income of consumers. However, the result of the general election in May 2015, and considerations over the balance of government spending cuts / and or tax increases necessary to bring down the public sector borrowing deficit, may lead to an erosion of overall consumer disposable income.

6.5 The Bank of England therefore faces a delicate task of balancing the pros and cons of when to start increasing the bank rate, especially knowing that many consumers and businesses are still heavily indebted and vulnerable to increases in borrowing rates. As a result of this, market sentiment has pushed back the first increase in the bank rate to late 2015.

6.6 The projected longer run trend for Public Works Loans Board (PWLB) rates is for them to rise, primarily due to the high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. The Authority will therefore need to be mindful when making decisions on borrowing and investment.

6.7 The current economic outlook and structure of market interest rates and government debt yields has several key treasury management implications:

a) Investment returns are likely to remain relatively low during 2015/16;

b) Borrowing interest rates have been volatile as alternating bouts of good and bad news have promoted optimism and then pessimism in financial markets. The continued use of internal borrowing will need to be carefully reviewed to avoid incurring higher borrowing costs in later times, to finance new capital expenditure and/or refinance maturing debt;

c) New borrowing taken in advance of need, which results in an increase in investments, will incur an initial revenue loss as borrowing costs are much higher than investment returns.

7. New Borrowing Requirements

7.1 The Authority may need to make arrangements to finance expenditure during 2015/16 in respect of any possible capital works identified as a result of the ongoing review of landfill sites. Indicative estimates for production of Prudential Indicators are shown for 2015/16, 2016/17 and 2017/18:

Borrowing Requirement	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Potential Capital Spending	400	-	-
Maximum Estimated Borrowing Requirement	400	-	-

7.2 New Borrowing Requirements - The options available to ELWA to finance any future capital requirements include the temporary use of internal cash balances and to raise loans via PWLB.

7.3 Public Works Loan Board (PWLB) - The Public Works Loan Board is a statutory body operating within the United Kingdom Debt Management Office, an executive agency of HM Treasury. Their function is to lend money from the National Loans Fund to local authorities and other prescribed bodies and to collect repayments. Interest rates are calculated by the Treasury and are based on base rate and the government cost of borrowing (gilt yields) plus a margin of up to 1%. Loans can be taken at fixed rates for periods up to 50 years or variable rates for up to 10 years.

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

7.5 It is recommended that £400,000 is set as the borrowing requirement for 2015/16. This will only be utilised if needed and Members agree.

8. Borrowing Strategy 2015/16

8.1 Paragraph 7 indicates a potential need to finance £400,000 of capital requirements in 2015/16. The Authority is free to borrow what it deems to be prudent, sustainable and affordable within the Authority's approved Authorised External Debt Limit. See further detail at Paragraph 18.

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

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

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

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

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

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

a) That cash balances are used to finance capital expenditure on a temporary basis, pending permanent funding at a time when rates are deemed favourable;

b) All available sources of finance are evaluated when undertaking decisions for long term borrowing and advice sought as appropriate;

c) The repayment spread period of the long-term debt portfolio is set at a maximum period of 50 years;

d) That the maturity schedule is maintained so that no more than 35% of total borrowing is due for renewal in any one year.

e) That the upper limit for fixed rate borrowing be set at 100% and the upper limit for variable rate borrowing be set at 25%.

9. Minimum Revenue Provision

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

9.2 In conjunction with the regulatory amendment, the CLG have issued statutory guidance on the options available for making prudent provision for the repayment of debt. These options relate to existing and supported debt, whereby the Authority receives government support towards capital financing costs, and unsupported (Prudential) borrowing whereby financing costs are met wholly by the Authority. Authorities must have regard to this guidance.

9.3 Secretary of State guidance requires that before the start of each financial year the Authority prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to Members for approval.

9.4 Annual Minimum Revenue Provision Statement

a) For capital expenditure incurred before 1 April 2008, or any new capital expenditure incurred in the future up to the limit of the Authority's supported borrowing, minimum revenue provision will be provided for in accordance with existing practice outlined in the former regulations, which is based on a 4% charge.

b) Minimum revenue provision for new capital expenditure incurred wholly or partly by unsupported (Prudential) borrowing or credit arrangements is to be determined by reference to the expected life of the asset. Asset life is deemed to begin once the asset becomes operational. Minimum revenue provision will commence from the financial year following the one in which the asset becomes operational.

c) Minimum revenue provision in respect of Finance Leases and on balance sheet Private Finance Initiative (PFI) contracts will be regarded as being met by a charge equal to the element of the rent/charges that goes to write down the balance sheet liability. Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off balance sheet, the minimum revenue provision requirement will be regarded as having been met by the inclusion in the charge, for the year in which the restatement occurs, of an amount equal to the write down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

d) Minimum revenue provision in respect of unsupported (Prudential) borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the statutory guidance.

e) The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.

10. Annual Investment Strategy 2015-2016

10.1 The Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to the CIPFA Code of Practice on Treasury Management and the "Guidance on Local Government Investments" issued by the CLG which came into operation on 1st April 2010.

10.2 The key intention of the Guidance is to maintain the requirement for Authorities to invest prudently, and that priority is given to the security and liquidity of investments before yield. The Guidance requires the Authority to set out within its Annual Investment Strategy:

a) Security, creditworthiness criteria, risk assessment and monitoring arrangements for investments;

b) The liquidity of investments and the minimum amount to be held in short-term investments (i.e. one which the Authority may require to be repaid or redeemed within 12 months of making the Investment) and those that are available to be lent for a longer period;

c) Which investments the Authority may use for the prudent management of its treasury balances and limits for each class of investment;

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

11. Investment Objectives

11.1 The Authority's investment strategy gives priority to:

a) the security of the investments it makes;

b) the liquidity of its investments to meet known liabilities.

11.2 The Authority's objective is therefore to achieve, within this constraint, the optimum return on its investments with the appropriate levels of security and liquidity.

11.3 Within the prudent management of its financial affairs, the Authority may temporarily invest funds, borrowed for the purpose of expenditure expected to incur in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Authority will not engage in such activity.

12. Security of Capital

12.1 ELWA seeks to maintain the security of its investments by investing in high credit quality institutions. These institutions comprise the Authority's lending list. In order to establish the credit quality of the institutions and investment schemes in which the Authority invests, the Authority primarily makes use of credit ratings, both country (sovereign) ratings, and institution ratings provided by the three main ratings agencies, Fitch Rating Ltd, Moody's and Standard & Poors.

12.2 Capita provides information from the above mentioned rating agencies as part of the creditworthiness service provided to the Authority. The rating methodology used by the Authority to select country and counterparties is known as the "lowest common denominator" method. This means that the application of the Authority's minimum credit criteria will apply to the lowest credit rating (provided by the three main rating agencies) for any given country or institution. The major benefit of using this approach is to further enhance the risk control process of the Authority, as credit ratings are opinions, not statements of fact or a guarantee. Those institutions that have no ratings from a particular agency will still be considered as appropriate.

12.3 Credit Risk Assessment: As set out above, security of counterparties is evidenced by the application of minimum credit quality criteria, primarily through the use of credit ratings from the three main ratings agencies. These ratings are used to formulate a credit matrix to determine prudent investment periods and monetary limits and the need for diversification.

12.4 In formulating the matrix, consideration has been given to the levels of historic default against the minimum criteria used in the Authority's investment strategy. The table below, produced by Fitch Ratings, shows average defaults for differing periods as at 31 March 2014 of investment grade products for each long term rating category.

Long Term Rating	Historical experience of default %	
	Less than 1 year	1-2 years
AAA	0.00%	0.00%
AA	0.02%	0.04%
A	0.09%	0.24%
BBB	0.21%	0.59%

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

12.6 Other Counterparties and Investment Schemes that may be included on the approved lending list are:

a) UK Part Nationalised Banks;

b) AAA rated Money Market Funds;

c) The UK Government (Debt Management Office and Gilts);

d) Building Societies with assets in excess of £3 billion;

e) Enhanced Cash Funds;

f) Other Local Authorities; and

g) Non UK Government and Supranational Institutions.

12.7 All counterparties must meet the Authority's Creditworthiness Criteria as set out at Appendix B.

12.8 Credit Quality Monitoring: The London Borough of Redbridge's treasury management advisers, Capita, provide credit rating information as and when ratings change and these are acted upon when received. An institution's credit quality is reviewed before any investment is made.

12.9 On occasion credit ratings may be downgraded when an investment has already been made. The creditworthiness criteria used are such that minor downgrading should not affect the full receipt of the principal and interest. Any counterparty whose ratings fall to the extent that they no longer meet the approved credit quality criteria is immediately removed from the lending list. If an institution or investment scheme is upgraded so that it fulfils the Authority's criteria, its inclusion will be considered. The inclusion of institutions and investment schemes that meet the agreed credit criteria is delegated to the Finance Director.

12.10 Reliance is not placed on credit ratings alone. Regard is also given to other sources of information such as:

a) Publicity from sources such as the quality financial press and internet sites and from ratings alerts from the credit rating agencies;

b) Investment rates being paid, and whether they are out of line with the market as this could indicate that the investment is of a higher risk.

c) Where available, price movements of Credit Default Swaps, which are a financial instrument for swapping the risk of debt default, can be plotted to give an indicator of relative confidence about credit risk.

d) All information received is acted upon promptly as appropriate.

12.11 Investments and Diversification across Asset Classes - Additional security of capital is also achieved through diversification and the specifying of the type of investment that the Authority is prepared to invest in.

12.12 "Guidance on Local Government Investments" requires the Authority to set out the investments in which it is prepared to invest under the headings of Specified Investments and Non-Specified Investments.

12.13 Specified Investments are those investments that meet the Authority's high credit quality as set out in this section and also meet the following criteria:

a) Are due to be repaid within twelve months of the date in which the investment was made;

b) Are denominated in sterling and all repayments in respect of the investment are only payable in sterling;

c) The making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended]

12.14 Specified investments are therefore deemed to be of low risk.

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

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

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

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

13. Investment of Cash Balances and the Liquidity of Investments

13.1 Cashflow Management - In order to assist in managing the Authority's finances, a cashflow model is produced. The model details all known major items of income and expenditure of both a revenue and capital nature, based on Capital and Revenue budget proposals, detailed elsewhere on your agenda. Cash balances can fluctuate significantly during the course of the year due to timing differences between the receipt of cash such as grants and capital receipts and the corresponding expenditure. It is estimated that over the course of the year cash balances will vary between £2.0 million and £6.6 million. The initial cashflow estimates provide an indication of cash receipts and outgoings on a month-by-month basis.

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

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

13.4 As a result of running down reserves in 2014/15 the Levy report elsewhere on this Agenda proposes a change from the Levy being paid quarterly to monthly from constituent councils. This is to avoid the Authority bank account from being overdrawn and the administrative arrangements that would need to be put into place for charging for any overdraft.

13.5 For debt management purposes the Authority has in place overdraft facilities with its banker National Westminster Bank plc, and access to the PWLB and the money market to fund capital projects.

13.6 Borrowing in Advance of Need: The Authority has some flexibility to borrow funds this year for use in future years. The Finance Director may do this under delegated authority, where for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed rates will be economically beneficial to meet budgetary constraints.

13.7 The Finance Director will adopt a cautious approach to any such borrowing, and will only do so to fund the approved capital programme or future debt maturities where there is a clear business case. The investment of funds borrowed ahead of need, will be within the constraints of the approved investment strategy.

13.8 Interest Rates: As set out at paragraph 6, interest rates and therefore investment returns are expected to continue to remain low throughout the year, with the average investment return anticipated to be less than 1%. Low investment rates will continue to have a significant impact on investment receipts.

13.9 Yield - The Authority uses the 7 day LIBID rate as a benchmark for comparing the return on its investments.

13.10 Following the severe volatility in the banking sector, the Authority, like most other local authorities, has taken a more cautious and prudent approach to investing by placing deposits with a more restricted lending list of Banks and Building Societies acceptable within the parameters of the overall investment strategy. This list currently comprises UK and some overseas banks, UK building societies, AAA rated sterling Money Market Funds, Local Authorities and the UK Government via the Debt Management Account Deposit Facility. The Authority has followed the professional advice given by Capita, who has maintained a constant oversight of market conditions. Whilst Capita's view is of improved market stability they do not suggest that the problems within financial markets are fully resolved. This view will be taken into account in future investment decision. Investment periods have also been restricted to less than twelve months.

13.11 The creditworthiness criteria for choosing counterparties set out in this report provides a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria set out in this report, under exceptional market conditions institutions can face real and sudden difficulties with a time lag before the credit rating agencies reflect this. Therefore, it is vital that the Authority maintains a strategy of responding swiftly and the Finance Director will restrict further investment activity to those counterparties that are at any one time considered of the highest credit quality. Security of the Authority's money remains the main priority and this strategy will take precedence over yield.

13.12 Investments Longer than a Year: The code of practice requires the Authority to give consideration to longer-term investment and set an upper limit for principal sums to be invested for longer than one year. The Authority currently has no investments invested for longer than one year but a limit will still be set to provide flexibility.

13.13 Having given due consideration to the level of balances over the next three years, the need for liquidity, spending commitments and provisions for contingencies, it is determined that under "normal" market conditions and if balances should increase then up to £1 million of total fund balances could be prudently invested for longer than one year. However, in making such investments, consideration must be given to the uncertain economic outlook, and the prospect for continued market volatility in the Eurozone.

13.14 Therefore taking all of the foregoing into consideration and to allow the Authority flexibility for market improvement, it is recommended that the Authority set an upper limit for principal sums to be invested for longer than one year at £1 million for 2015/16, £1 million for 2016/17 and £0 million for 2017/18.

14. Provision for Credit-related Losses

14.1 If any of the Authority's investments appear at risk of loss due to default, provision would need to be made from revenue for the appropriate amount.

15. Treasury Management Consultants

15.1 Treasury Management support is provided by The London Borough of Redbridge as part of a Service Level Agreement. The Treasury Management Team use Capita as its treasury management consultants. The company provides a range of services which include:

a) Economic and interest rate analysis;

b) Credit ratings/market information service comprising the three main credit rating agencies;

c) Generic investment advice on interest rates, timing and investment instruments;

d) Debt rescheduling advice;

e) Technical support on treasury matters and capital finance issues.

15.2 Whilst Capita provide support to the London Borough of Redbridge's Treasury Management Team, the Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. The treasury consultancy service is subject to regular review.

16. Member and Officer Training

16.1 One of the main requirements of the Treasury Management Code of Practice requirements is the increased Member consideration of treasury management matters and the need to ensure officers dealing with treasury management are trained and keep their skills up to date. The Authority will address this important issue by:

a) Providing training sessions, briefings and reports on treasury management and investment issues to those Members responsible for the monitoring and scrutiny of treasury management, as appropriate. The Managing Director advises that constituent councils have assured the Authority that their Members receive this training in-house.

b) Requiring all relevant LBR Officers to keep their skills up to date by utilising both external and internal training workshops and seminars, and by participating in the CIPFA Treasury Management Forum and other relevant local groups and societies.

17. Investment Strategy 2015/16 Summary

17.1 In summary – considering the factors set out in Paragraphs 10 to 14, the recommended Investment Strategy is:

a) That cash balances, not immediately required to finance expenditure, are lent to the money market for the most appropriate periods as indicated by the cashflow model and current market and economic conditions;

b) That liquidity is maintained by the use of overnight deposits and call funds;

c) That the minimum amount of short-term cash balances required to support monthly cashflow management is £6 million;

d) That the upper limit for investments longer than one year is £1 million;

e) That the maximum period for longer term lending be 2 years;

f) That all investment with institutions and investment schemes is undertaken in accordance with the Authority's creditworthiness criteria as set out at Appendix B;

g) That more cautious investment criteria are maintained during times of market uncertainty;

h) That all investment with institutions and investment schemes is limited to the types of investment set out under the Authority's approved "Specified" and "Non-Specified" Investments detailed in the appendix and that professional advice continues to be sought if appropriate;

i) That all investment is managed within the Authority's approved asset class limits as set out at paragraph 12.16.

18. Prudential Indicators for Treasury Management

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

Prudential Indicators for Treasury Management relate to:

a) The adoption of the CIPFA Code of Practice for Treasury Management;

b) Limits for external debt;

c) Interest rate exposures;

d) Maturity structure of borrowings; and

e) Investment for periods of longer than one year.

18.2 The Treasury Management indicators are not targets to be aimed at, but are instead limits within which the Treasury Management policies of the Authority are deemed to be prudent.

18.3 The CIPFA Code of Practice in Treasury Management - The Authority adopted the CIPFA Code of Practice in Treasury Management in the Public Services and subsequent revisions, as part of its Financial Rules. The Authority's Treasury Management policies and practices fully comply with the CIPFA Code of Practice.

18.4 In accordance with the CIPFA Code of Practice in Treasury Management, the Authority has an approved Treasury Management Policy Statement. This is a short policy statement, which sets out core strategic issues. It is reviewed periodically and amended if policies change. This Treasury Management Policy Statement complies with the requirements of the Code of Practice and is attached as Appendix A for information.

18.5 Authorised limit for External Debt 2015/16 – 2017/18 - the authorised limit for external debt represents total external debt, gross of investments, and separately identifies borrowing from other long-term liabilities such as PFI Schemes and Finance leasing (see paragraph 18.6 below). The authorised limit is based on the Authority's spending plans, makes allowance for short-term cashflow movements and provides sufficient headroom for unusual cash movements.

18.6 As previously advised, changes in accounting treatment have resulted in ELWA PFI assets and liabilities now being included on the balance sheet. As a result of this the table below now includes a long term liability indicator of £88 million relating to the ELWA PFI liability.

18.7 In order to determine the authorised limit, a number of assumptions need to be made on the possible future use of borrowing. Borrowing can be used to finance capital expenditure over and above that supported by government grant, or to cover for slippage in the realisation of capital receipts, as an alternative form of financing e.g. instead of leasing, and for short-term treasury management purposes. The following table sets out limits that represent the maximum amount of gross debt:

	2015/16 £'m	**2016/17 £'m**	**2017/18 £'m**
Estimated borrowing b/f	1.3	1.7	1.7
Borrowing requirement	0.4	-	-
Less: Maturing debt	-	-	-
Less: Loan Replacement			

	2015/16 £'m	2016/17 £'m	2017/18 £'m
Short term/cashflow requirements	6.0	6.0	6.0
Unforeseen cash movements	6.0	6.0	6.0
Total Borrowing	13.7	13.7	13.7
Other long term liabilities	88.0	84.0	84.0
Total External Debt	101.7	97.7	97.7

18.8 It is therefore recommended that the total Authorised Limit for External Debt for 2015/16 set at £102 million, for 2016/17 £98 million, and for 2017/18 is £98 million.

18.9 Operational Boundary External Debt 2015/16 – 2017/18 - as with the authorised limit for external debt, the operational boundary represents total external debt, gross of investments, and separately identifies borrowing from other long term liabilities. The operational boundary is based on the same assumptions as the authorised limit but reflects the most likely estimate, i.e. a prudent but not the worst-case scenario of gross debt, as assumed in the authorised limit. This has resulted in a reduction of £2 million that is included in the authorised debt calculation for unforeseen cash movements.

18.10 The operational boundary is a key monitoring tool and whilst it may be breached temporarily due to cashflow variations, a sustained or regular trend above the operational boundary would be significant and lead to further investigation and action as appropriate. It is therefore recommended that the total operational boundary for external debt for 2015/16 be set at £100 million, for 2016/17 £96 million, and for 2017/18 £96 million.

18.11 Interest rate exposure 2015/16 – 2017/18 - the management of interest rate risk is a priority for the Authority. This is recognised in the Prudential Code, which requires the Authority to establish operational boundaries on net interest rate exposure. These are set by way of two Prudential Indicators, the upper limit on fixed interest rate exposure and the upper limit on variable rate interest exposure. The indicators are calculated by the netting of maximum borrowing and lending estimates as follows:

	2014/15 £'000	2015/16 £'000	2016/17 £'000
Fixed Rate (borrowing)	7,700	7,700	7,700
Variable Rate (lending)	(22,000)	(22,000)	(22,000)

18.12 The net principal sums represent the annual upper exposure limit.

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

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

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

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

18.16 Investments for longer than 364 days – within the Annual Investment Strategy, paragraph 13.13, the following amounts have been identified as available for longer term investment under "normal" market conditions and if balances should increase: 2015/16 £1 million, 2016/17 £1 million and 2017/18 £0 million.

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

Authorised Limit for External Debt

	2015/16 £'m	2016/17 £'m	2017/18 £'m
Borrowing	14	14	14
Other Long Term Liabilities	88	84	84
TOTAL	102	98	98

Operational Boundary for External Debt

	2015/16 £'m	2016/17 £'m	2017/18 £'m
Borrowing	12	12	12
Other Long Term Liabilities	88	84	84
TOTAL	100	96	96

Upper Limits on Interest Rate Exposures

	2015/16 £'m	2016/17 £'m	2017/18 £'m
Fixed Rate	7.7	7.7	7.7
Variable Rate	(22.0)	(22.0)	(22.0)

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

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

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

2015/16 £'m	2016/17 £'m	2017/18 £'m
1	1	0

19. Relevant Officer

Richard Szadziewski, Interim Finance Director / e-mail finance@eastlondonwaste.gov.uk 020 8708 3588

20. Appendix Attached

Appendix A Treasury Management Policy Statement

Appendix B Creditworthiness Criteria

Appendix C Approved list of specified and non-specified investments

Appendix D Glossary

21. Background Papers

CIPFA Code of Practice on Treasury Management – 2011 Edition

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

CLG Guidance on Local Government Investments – April 2010

CLG Guidance on Minimum Revenue Provision – 2012 Edition

22. Legal Consideration

22.1 The Local Government Act 2003 (the "Act") requires ELWA each year to set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy which sets out ELWA's policies for managing its investments and for giving priority to the security and liquidity of those investments. ELWA also has to prepare an Annual Minimum Revenue Provision statement setting out how it proposes to repay its debts.

22.2 When carrying out its functions under the Act, ELWA has to 'have regard to' the CIPFA Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

23. Financial Consideration

23.1 As detailed in the Report.

24. Performance Management Consideration

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

25. Risk Management Considerations

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

26. Follow-up Reports

26.1 Budgetary Control Report, next meeting.

27. Websites and e-mail links for further information

http://www.cipfa.org.uk/
http://www.communities.gov.uk/corporate/

28. Glossary

CIPFA - Chartered Institute of Public Finance and Accountancy
CLG - Department for Communities and Local Government
ELWA / the Authority – East London Waste Authority
LBR – London Borough of Redbridge
PWLB - Public Works Loan Board

29. Approved by Management Board

19.1 26 January 2015

30. Confidentiality

None

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TREASURY MANAGEMENT POLICY STATEMENT

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

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CREDITWORTHINESS

(Extract from Treasury Management Practices)

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

a) Credit quality for selecting counterparties.

b) Credit ratings for institutions and country.

1. Credit Quality

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

Banks with a Good Credit Quality

a) UK banks

b) Non UK banks domiciled in a country, which has a minimum Sovereign long term rating of AA-.

c) Meet the requirements of the short terms and or long-term credit matrixes set out in 2 below.

UK Part Nationalised Banks

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

The Authority's banker

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

Bank Subsidiary and Treasury Operations

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

Building Societies

The Authority will use Building Societies that:

a) Meet the requirements of the short term and or long term credit matrices set out in 2 below; or

b) Have assets in excess of three billion pounds.

AAA rated Money Market Funds

UK Government

(including the Debt Management Account Deposit Facility)

Enhanced Cash Funds

Local Authorities

(including Police and Fire and Water Authorities)

Non UK Government

Supranational Institutions

Corporate Bonds.

2. Credit Criteria

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

Short Term Credit Matrix

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

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A-	Aaa	A3	AAA	A
Short term credit	F1+	F1	P-1	P-1	A-1	A-1

Long Term Credit Matrix

For Long Term lending (more than one year), the following minimum credit criteria will apply:

	Fitch	Fitch	Moody's	Moody's	S&P's	S&P's
	Highest	Lowest	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A	Aaa	A2	AAA	A
Short term credit	F1+	F1	P-1	P-1	A-1	A-1

Long Term – relates to long term credit quality / Short Term – relates to short term credit quality

Monitoring of Investment Counterparties

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

Use of additional information other than credit ratings

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

Country Sovereignty Considerations

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

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

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

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

Time and Monetary Limits applying to Investments

Credit Rated Institutions							
Minimum Credit Rating Short Term			**Minimum Credit Rating Long Term**			**Limit £'m**	**Time Limit**
Fitch	**S & P**	**Moody's**	**Fitch**	**S & P**	**Moody's**		
F1	A-1	P-1	A-	A3	A-	5	1 Year
F1	A-1	P-1	AA-	Aa3	AA-	3	1 Year
F1	A-1	P-1	AA	Aa2	AA	2	2 Years
F1	A-1	P-1	AA+	Aa1	AA+	1	2 Years
Other Institutions							
Money Market Funds			AAAmf			3	1 Year
Unrated Building Societies			Assets greater £3bn			3	6 Months
Enhanced Cash Funds			AAA/V1			3	2 Years
Other							
UK Government – DMADF						30	2 Years
UK Government - Bonds						30	2 Years
UK Government – Part Nationalised Banks			Per group			5	2 Year
Local Authorities						5	2 Years

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

The creditworthiness criteria detailed above provides a sound approach to investment in "normal" market circumstances. However, under exceptional market conditions institutions can face real and sudden difficulties with a time lag before the credit rating agencies reflect this. Therefore, the Council will maintain a strategy of responding swiftly and the Director of Finance and Resources will restrict further investment activity to those counterparties that are at any one time considered to be of the highest credit quality. Security of the Council's money always remains the main priority and this strategy will take precedence over yield.

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

(Extract from Treasury Management Practices)

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

INVESTMENT	SECURITY / CREDIT RATING	USE
UK Government and Local Authorities	UK Sovereign rating	In House
Money Market Funds	Rated AAAmf	In House
Enhanced Cash Funds	Rated AAA/V1	In House
UK Part Nationalised Banks	Government backed	In House
Banks	See table and criteria above Lowest common denominator matrix Meets sovereign criteria	In House
Building Societies	See table and criteria above Lowest common denominator matrix	In House
Supranational Bonds	Sovereign rating criteria	In house / external fund manager
Certificates of Deposit issued by banks and building societies	Short-term lowest common denominator matrix Sovereign rating criteria Government Backed	In house / external fund manager
UK Government gilts and treasury bills	UK Sovereign rating	In house / external fund manager
UK Gilt and Bond Funds	Sovereign rating criteria and/ or AAA rated fund	In house / external fund manager
Non-UK Government Bonds	Sovereign rating criteria	In house / external fund manager
Corporate Bonds	See table and criteria above Lowest common denominator matrix Meets Sovereign criteria	In house / external fund manager

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

(Extract from Treasury Management Practices)

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

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

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

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

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

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

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

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

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GLOSSARY

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

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

Security	The safety of an investment and the likelihood that it will be repaid.
Specified Investments	Investments that meet the Authority's high credit quality criteria and repayable within 12 months.
Standard and Poors	A credit rating agency who provides credit rated worthiness information.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
Treasury Bills	Short term, Government backed debt obligation with a maturity of less than one year. Very liquid and secure.
Unrated Institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Authority.

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AUTHORITY REPORT: REVENUE & CAPITAL BUDGETS AND LEVY 2015/16

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to agree:

a) The revenue budget for 2015/16, totalling £57,692,000 as set out in Appendix A to the report;

b) The charges for commercial and industrial waste for 2015/16

(i) Commercial & Industrial Waste – recycled £77 per tonne,

(ii) Commercial & Industrial Waste – other £143 per tonne,

c) That on the basis of a) and b) above, ELWA determines its levy for 2015/16 as the sum of £53,401,000, an average increase of 11.1%,

d) On the basis of the agreed formula for apportioning the levy that the levies for the constituent authorities with percentage increases are as follows;

	£	%
Barking and Dagenham	10,392,000	10.2
Havering	£13,023,000	8.6
Newham	£15,395,000	15.0
Redbridge	£14,591,000	10.1

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

f) That the levy is paid to ELWA in monthly instalments;

g) The continuation of existing arrangements for the payment of commercial and other waste charges.

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3. Purpose

3.1 To agree the revenue budget for 2015/16.

3.2 To determine the ELWA levy for 2015/16.

4. Executive Summary

4.1 This report provides the Authority with information to agree the ELWA revenue budget for 2015/16 and to determine the levy for each constituent council.

4.2 The proposals set out in this report have been prepared in accordance with the 2015/16 to 2017/18 ELWA Financial Strategy as agreed at the 24th November 2014 Authority meeting. That report projected an indicative average increase in the ELWA levy of 9.5% for 2015/16 but stated that this might change following updated information. The impact of the increase would be different for each borough dependent on tonnages and their Council Tax base.

4.3 Budget assumptions for setting the 2015/16 levy such as landfill tax increases and contractor inflation remain broadly in line with those reported to you in the Financial Strategy report in November 2014. As a result of further information ie greatly increased insurance premium, reduced commercial waste tonnage and the overspend in 2014/15, means an average levy increase of 11.1% is proposed in 2015/16. However, this is an average and not the specific level for each constituent council. The movement from the 9.5% increase projected in November to the 11.1% proposed now is due to the following

a) insurance costs (1.0%)

b) projected 2014/15 overspend (0.4%)

c) net commercial waste income reduction/non contract costs; (0.2%)

4.4 The overall increase of 11.1% is due to:

a)	reduced reserves available to mitigate the 2015/16 levy	(8.2%)
b)	tonnage increases	(1.9%)
c)	inflation increases	(1.5%)
d)	reduction in commercial waste activity	(0.9%)
e)	increased insurance premium	(1.7%)
f)	Landfill tax	(0.5%)
g)	Other	(0.3%)

There has been some mitigation of these pressures as a result of finding contract and non contract efficiencies and through the re-negotiation of diversion supplements (3.9% reduction).

4.5 It is important to stress that the proposed levy has been set on the basis that while utilising reserves of £0.5 million to support the levy for 2015/16,the Authority begins to increase reserves from 2016/17 by £750,000 with the same increase in the following year. It is proposed that total reserves by the end of 2017/18 are set at the level (£4.5 million) as reported to your meeting on 24th November 2014 on the Budget Strategy.

4.6 A major part of the November 2014 Financial Strategy report was the requirement for the Authority to make significant ongoing efficiency savings of £2 million. The Authority has been advised of the difficulties of meeting this target and it is therefore proposed that the target is reduced to £1.5 million. This proposal would be subject to review as part of the Financial Projection and Budget Strategy 2016/17 to 2018/19 to be considered in November 2015. Without this revised efficiency target the levy increases would be considerably higher than those proposed. Considerable efforts must continue to find new savings. As £0.5 million of ongoing efficiency savings have been achieved in 2014/15 the additional target requirement for these savings in 2015/16 is £1.0 million.

4.7 Elsewhere on the agenda is a report which details the budgetary position up to December 2014 and the projected outturn position at 31st March 2015. This shows a projected outturn overspend for 2014/15 of £200,000.

4.8 Members have been advised during 2014/15 of the financial impact of the fire at the Frog Island Mechanical Biological Treatment Facility (MBT) and there may be some effect of this in 2015/16. For the purposes of this report it is assumed that any business losses incurred in 2015/16 are covered by the insurance claim. The increase in the annual insurance premium (up to nearly £1 million) however has been built into the 2015/16 Budget and levy calculations.

4.9 Updated ELWA technical officer advice is that tonnage is still projected to be 446,000 tonnes in 2015/16, although commercial waste tonnage will reduce from 20,000 to 19,000 tonnes. The loss of Havering Council commercial waste would reduce this to 16,000 tonnes.

4.10 The agreed present method of allocating the levy between the constituent councils is as follows:

a) waste tonnage levels for costs attributable to household waste;

b) Council Tax Base to apportion other costs such as Reuse and Recycling Centres.

4.11 Constituent councils have seen different changes in their comparative waste tonnage levels and Council Tax Base. As a result there is a wide spread of changes amongst the four constituent Councils.

4.12 The current projections for the ELWA levy increase in 2016/17 and 2017/18 are at 4.8% and 2.8% respectively. The levy increases in all three years from 2015/16 to 2017/18 depend on the continued generation of significant efficiency savings.

4.13 The ELWA Management Board supports the contents and recommendations set out here, and the Finance Service of each constituent council has been consulted on and advised of the potential levy increases.

5. Background

5.1 This report sets out the background to determining the Authority's levy including cost pressures, efficiency savings and the need to build up reserves. Members are asked to consider these matters and determine the levy for 2015/16.

5.2 This report builds on the Financial Projection and Budget Strategy 2015/16 to 2017/18 report as agreed at the meeting of this Authority on 24th November 2014. The constituent councils were made aware of this and an indicative levy increase of 9.5% in 2015/16.

5.3 ELWA is required to inform the constituent councils as to the amount of its levy requirement by the 15th February each year.

5.4 There is no specific power enabling ELWA to make a supplementary levy during the course of the year should it require additional resources due to unforeseen circumstances.

5.5 The levy requirement is made up of the ELWA budget plus any contingency provisions, and drawings from/contributions to reserves.

5.6 ELWA recommended and its constituent councils unanimously agreed to the following levy apportionment arrangements with effect from 2002/03:

a) A levy based on waste tonnage for costs attributable to Household Waste;

b) A levy based on Council Tax Band D to apportion other costs attributable to, for example, Reuse and Recycling Centres and the closed landfill sites.

5.7 At its meeting on 3rd December 2012, the Authority agreed to maintain the current arrangements.

6. Cost Pressures on Revenue Budget

6.1 The principal determinant of the levy are the costs facing ELWA, mainly from the Integrated Waste Management Contract and the ability to use reserves to mitigate against these cost pressures. The following paragraphs detail the main cost pressures.

<u>Annual Budget and Service Delivery Plan (ABSDP)</u>

6.2 The key item within the revenue budget is Shanks.east London's Annual Budget and Service Delivery Plan (ABSDP) which forms approximately 94% of ELWA's total gross expenditure. The provisional ABSDP for 2015/16 assumes a total ELWA waste figure of approximately 448,000 tonnes. In recent years actual tonnage has been different to that projected in the ABSDP. At the meeting on the 24th November 2014, which considered the Three year Budget Strategy 2015/16 to 2017/18, based on ELWA technical officer advice a tonnage of 446,000 tonnes was projected for 2015/16. Based on the latest ELWA technical officer advice the projected tonnage in 2015/16 continues to be 446,000 tonnes and this has been assumed in the 2015/16 contractor costs budget. The loss of Havering's commercial waste would reduce this to 443,000 tonnes.

6.3 The revenue budget has accounted for further increases in landfill tax uprated by the retail price index at July 2014, increasing the rate from £80 to £82.50. Under the Integrated Waste Management Strategy (IWMS) contract, landfill tax is met by Shanks up to £15 per tonne. ELWA bears the excess over £15 on the levels of landfilled waste provided the contractor has achieved the contracted diversion from the landfill target. The overall landfill tax liability will vary depending on the diversion rate.

6.4 ELWA technical officer advice is that changes relating to Landfill Tax arrangements in the Chancellor's Autumn Statement are unlikely to have any impact on the 2015/16 Budget.

6.5 As a consequence of additional Landfill Tax rate rises, the revenue budget has assumed subsequent increases in commercial waste disposal charges in 2015/16 to the constituent councils of the equivalent amount.

6.6 Managing waste levels is a key pressure for constituent councils and it will be affected by the pace of development of the Thames Gateway as well as general population growth in the constituent councils which could significantly add to waste growth over the next decade. Based on input from the boroughs and technical officer advice 453,000 and 460,000 tonnes have been assumed in 2016/17 and 2017/18 respectively. The loss of Havering's commercial waste would reduce these projections by 3,000 tonnes.

6.7 As required in the contract, annual cost inflation has been built into the projections. This is based on the Retail Price Index excluding mortgages (RPIX) at the previous October each year (at the 80% level). At this level, it is 1.92% for 2015/16 and projected to be 2% for 2016/17 and 2% for 2017/18.

6.8 As part of the levy setting report in February 2014 Members were advised that ELWA would pay less in diversion supplements from 2015/16 onwards and a reduction of £400,000 was built into the three year projections at that time. At the meeting of 24th November 2014 Members were advised of the detail of revised diversion arrangements. ELWA would benefit from these as lower diversion supplements would be paid for diversion up to a level of 45%, whereas under previous arrangements the lower rate was payable only up to a diversion level of 23%. Members were advised that based on current tonnage levels at a base diversion figure of 67% the resulting saving to ELWA would be £450,000 per annum.

6.9 Another feature of the new diversion arrangements is an incentive for the operator not to fall below a diversion performance of 67% as the operator would then pick up the whole of the resulting Landfill tax liability. As agreed in the Financial Projection and Budget Strategy report a diversion rate of 70% will be assumed over the three years with the additional 3% diversion generating savings to the Authority of approximately £500,000. It is also assumed that performance above this would need to be shared with the operator and be subject to negotiations between the two parties, but would be available as a contribution to meeting the £1.5 million efficiency savings target. Elsewhere on this agenda is a report showing the budgetary control position for December 2014 and the projected outturn for 2014/15. At this stage a net overspend of £200,000 is projected which will need to be taken account of in setting the levy in 2015/16.

Non-Contract Costs

6.10 Members have been previously advised of the ongoing saving arising from the staff restructuring (£115,000). This is built into the 2015/16 Budget and subsequent years. In addition economies have been found in the non contract budget relating to recycling schemes and service level agreement payments.

Insurance Costs

6.11 Following the fire at the Frog Island MBT there was a significant pay-out from the insurers for the replacement of the asset and the business losses resulting. This has meant a significant increase in the annual insurance premium. The cost of the insurance premium is divided between ELWA and the operator. ELWA 's share of the premium is projected to be £985,000 and this has been built into the ELWA revenue budget.

Efficiency savings

6.12 For 2014/15 a £500,000 efficiencies target was assumed in the calculation of the 2014/15 Budget and levy. For 2015/16 onwards an annual efficiencies target of £2,000,000 had been built into the financial projections. The Managing Director advised as part of the November 2014 Financial Projection and Budget Strategy report of the difficulties in meeting this target. It is therefore proposed that this target is reduced to £1.5 million. It is important, however, that progress in meeting this target is carefully monitored to help prevent a budgetary pressure on the levy.

Income

6.13 ELWA receives interest on its balances and the total income generated depends on the level of balances and interest rates. ELWA's Treasury Management Strategy continues to focus on security and maintaining liquidity for the Authority. It is proposed to set the budget for interest at roughly the same level as in 2014/15.

Commercial and Royalty charges

6.14 There are some other income streams within the revenue budget projections. These are commercial waste charges to the constituent councils and trade waste royalty income.

6.15 ELWA makes charges to constituent councils for commercial and industrial waste disposal based on the tonnage disposed. Under the IWMS contract Shanks must accept and deal with this waste.

6.16 To reflect the increased cost of landfill tax (in 2015/16) and inflation within the IWMS contract it is the view of the ELWA technical officers that the normal charge for 2015/16 is increased from £139 to £143 per tonne. £2 of the increase relates to inflation and £2 to the landfill tax. The charge for recycled waste is recommended to increase from £75 to £77. ELWA technical officers advise that based on recent trends commercial waste tonnage will be in the region of 19,000 tonnes with income of £2.717 million. This is a reduction from the 20,000 tonnes projected in the November 2014 Financial Projection and Budget Strategy report. The loss of the Havering contract will reduce the income projection by approximately £300,000 but this will largely be offset by reduced operator payments.

6.17 The Authority receives royalty income in respect of the waste that Shanks processes in any of ELWA's facilities. This relates to waste from other Boroughs and some commercial waste. Based on ELWA technical officer advice, the projected income budget can be increased to £522,000.

Capital Expenditure/ Capital Reserve

6.18 Through the IWMS contract, Shanks.east london has delivered a major capital investment for the provision of waste disposal facilities and the refurbishment of existing ones in the ELWA area. The costs of this are reflected within the contract charges. In addition, consideration will be given by ELWA Officers to making bids for additional funding in appropriate circumstances including recycling and composting initiatives. Currently no funding has been identified.

6.19 Existing capital financing charges are taken account of in the revenue budget In 2015/16 these are slightly reduced from the 2014/15 budget level due to some debt being paid off.

Landfill sites

6.20 ELWA has a number of closed Landfill sites and the Managing Director advised at the last Authority meeting on the position on and strategy relating to these sites. Currently the aim is to dispose of Wennington Farm and Hall Farm and the disposal of the latter is progressing. This disposal will generate a capital receipt for the Authority and the resulting additional resources would be available to smooth future year levy increases subject to the appropriate accounting regulations.

6.21 In respect of the Aveley site the strategy proposed at the last Authority meeting is to move from a policy of disposal to one of revenue generation until there are favourable circumstances eg planning policies to allow a successful disposal of the site.

6.22 The cost of ongoing environmental maintenance at the Aveley site is funded from ELWA's revenue budget and includes the cost of two full time staff. As part of the 2014/15 Budget and levy process a capital reserve of £400,000 was agreed. This is for potential future costs at Aveley.

6.23 Members are advised that losses of the Joint Venture company Aveley Methane need to be funded by ELWA and to the extent that these are not covered by any revenue generation at Aveley then they would need to be met from the contingency.

Summary

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

	£m	Reference
Original Budget 2014/15	56.5	
Shanks contract –net effect of increased diversion	(0.9)	Para. 6.8 and 6.9
Shanks contract – Increase due to inflation	0.8	Para. 6.7
Landfill tax increase	0.3	Para. 6.3
Changes in Tonnage	0.9	Para. 6.2
Change in income	0.4	Para 6.13 to 6.17
Insurance increase	0.8	Para. 6.11
Change in non contractor costs/efficiency savings	(1.1)	Para.6.10, 6.12
Proposed Budget for 2015/16	57.7	

6.25 The tonnage increase, the impact of landfill tax inflation and the increased insurance premium have added to cost pressures.

6.26 Details of the recommended budget for 2015/16 are at Appendix A.

7. Reserves Strategy

7.1 The approach to reserves is a continuation of our long-term strategy. A higher level of reserves was put in at the start of the contract due to the uncertainty around the innovative nature of the contract, the technologies used and planning risk. Once the contract was established, reserves were reduced in stages to an appropriate level. As part of the Financial Projection and Budget Strategy report in November 2014, the advice was that the reserves at the end of the 3 year period would reflect the risks as detailed. Consequently the projection at the end of 2017/18 was that there would be overall reserves of £4.5 million, which is an increase of £0.75m in 2016/17 and an increase of £1.5m in 2017/18 from the updated 2015/16 position.

PFI Reserve

7.2 Members agreed to discontinue from 2014/15 the PFI reserve which in the early years of the contract had been put in place to help smooth the levy increases as well as financing outside pressures such as Landfill Taxes.

7.3 The Authority however continues to receive PFI grant funding of £3,991,000 per annum. The Department of Communities and Local Government in January 2011 advised that the annual PFI grant would be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. The main impact of this is that for the three years commencing 2015/16, the Authority will receive £2.5m extra compared to the position if the grant had continued to be paid on the declining balance basis.

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

Revenue Reserves

7.5 Members will be aware that in previous budget reports the Authority has agreed to set aside a minimum level of normal operational revenue balances based on an analysis of risk. This has been undertaken as part of this Budget Strategy process. It is now estimated that the total level of reserves will rise from £3.0 million at the end of 2015/16 to £4.5 million at the 31st March 2018.

7.6 The effect on Revenue Reserves in 2015/16 to 2017/18 is shown below:-

	£'000
Working Balance at 31.3.2016	3,000
Addition to reserves	750
Estimated Working Balance at 31.3.2017	3,750
Addition to reserves	750
Projected Working Balance at 31.3.2018	4,500

Contingency

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

7.8 The 2015/16 detailed Revenue Budget includes provision for pay increases of 2.2%. A contingency provision of £150,000 is recommended which is in line with last year.

8. Levy for 2015/16 and Subsequent Years

2015/16 Levy

8.1 The levy requirement is made up of the ELWA net revenue budget plus/minus any contingency provisions, and drawings from or contributions to reserves.

8.2 The above reserves projections reflect the current understanding and assessment by officers on the risks faced by ELWA. These matters will need to be kept under review and the advice may change in light of any future developments.

8.3 The levy for 2015/16 is recommended to be £53,401,000 including the contingency of £150,000 with the assumption that the efficiencies savings target of £1.5m is achieved.

8.4 The Finance Director's Financial Projection and Budget Strategy report agreed by Members on 24th November 2014 projected a levy in 2015/16 of 9.5%. The proposal now is an 11.1% increase in the overall 2015/16 levy. The reasons for the net increase from the 9.5% projected in November are as follows:

	£m
Insurance	0.49
2014/15 over-spend	0.2
Net commercial waste income reduction	0.13
Non contract savings	(0.06)
Total	**0.76**

The main reasons for the overall increase of 11.1% are as follows:

a) reduced level of reserves available to mitigate the 2015/16 levy;

b) tonnage increases;

c) reduction in commercial waste activity;

d) increased insurance premium;

e) Landfill tax.

Appendix C gives a detailed breakdown of this.

8.5 There has been some mitigation of these pressures as a result of finding contract and non contract efficiencies and through the re-negotiation of diversion supplements

<u>Levies 2016/17 and 2017/18</u>

8.6 The table below highlights a potential levy of £55.956 million for 2016/17 and £57.511 million for 2017/18. The reserves position at the end of 2017/18 is projected to be £4.5 million for revenue reserves. The PFI contract reserve remains at zero.

8.7 The levy forecasts for 2016/17 to 2017/18 clearly can only be taken as an indication for planning purposes. However, a change in any of a number of uncertain factors, for example changes in landfill tax legislation, waste growth, inflation assumptions and any new legislation could impact on the overall projections.

8.8 The indicative levy position and reserves figures for the next three years based on the data used for the 2015/16 levy are summarised in the following table :

Summary Budget	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**
Revenue Budget	57,692	59,197	60,752
Annual PFI Grant	(3,991)	(3,991)	(3,991)
Sub Total	53,701	55,206	56,761
Financed By			
Transfer to/from General Reserve	(500)	750	750
Overspend 2014/15	200		
Levy	53,401	55,956	57,511
Levy Increase over previous year	11.1%	4.8%	2.8%

8.9 Increases in the levy in future years are likely to put pressure on the budgets of the constituent councils. If increases of this level are to be avoided ELWA should continue to work with Shanks.east London to find further ways to substantially reduce costs.

8.10 The Coalition Government has made public sector financial constraint a key feature of its policies and includes any levies in calculating the trigger of a 2% Council Tax increase for the Council to hold a referendum. This is likely to be a common theme regardless of which Government is elected in May 2015. This reinforces the need for ELWA to seek ways to limit future levy increases.

8.11 Any changes in the budgets provided in the recent three-year plan will be reflected in the next three-year Financial Strategy and Budget Projection review due in November 2015.

<u>Apportionment of the 2015/16 levy and monitoring arrangements</u>

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

Actual Levy 2014/ 15	**Estimated Levy per November 2014 Report**		**Tonnages**	**Apportion Tonnages**	**Band D Basis**	**Apportion Band D**	**Proposed Levy 2015/16**	**Increase in 15/16**
£'000	**£'000**			**£'000**		**£'000**	**£'000**	**%**
9,429	10,286	LBBD	71,694	8,807	42,625	1,585	10,392	10.2
11,990	12,769	LBH	80,871	9,934	83,110	3,089	13,023	8.6
13,389	15,186	LBN	105,028	12,901	67,097	2,494	15,395	15.0
13,252	14,402	LBR	94,400	11,596	80,570	2,995	14,591	10.1
48,060	**52,643**	**Total**	**351,993**	**43,238**	**273,402**	**10,163**	**53,401**	**11.1**

8.13 Changes in the relative tonnages between boroughs and between household and non-household waste tonnage may reflect not only volume changes but also the re-classification of waste.

8.14 The proposed levy changes for each borough show a wide range around the 11.1% average increase and Newham's increase is significantly above this average. Members will recall that the household waste element of the levy is calculated on the relative tonnages of the last complete year. Therefore the household part of the 2015/16 levy is based on 2013/14 household tonnages. The Newham proportion of the overall household tonnages increased from under 29% to nearly 30% between 2012/13 and 2013/14 with the proportion of each of the other boroughs decreasing slightly in the same period.

8.15 In the past ELWA has agreed that each year's levy should be sought in four equal instalments payable in the middle of each quarter i.e. 15 May, 15 August, 15 November and 15 February or the nearest banking day thereto. As a result of running down reserves in 2014/15, it is now recommended that from 2015/16 the levy is paid in twelve monthly instalments to avoid ELWA's bank account being overdrawn.

8.16 It is recommended that commercial and industrial waste charges and other expenditure and income continue to be sought in accordance with the existing arrangements i.e. based on quarterly claims and invoices. Current arrangements have generally worked well and it is recommended that these be continued, subject to further review as necessary.

9. The Localism Act 2011

9.1 The Localism Act 2011 gives local communities the power to decide about Council Tax rises. Where such rises are deemed to be excessive (2% and above), Authorities will be required to hold a referendum to get approval or a veto from local voters. Currently the rules apply to Local Authorities and Precepting Authorities.

9.2 The Authority is indirectly funded via the Council Tax and therefore in setting the levy in 2015/16 to 2017/18 it needs to take account of the potential impact on the Council Tax of constituent authorities.

10. Risks

10.1 In line with all public sector organisations, ELWA faces difficult financial challenges over the next few years. Consequently, it is vital that ELWA is aware of the risks it faces and has arrangements in place to mitigate these.

10.2 The risks that ELWA faces include ensuring that contractual performance targets are met to minimise the costs of landfill, Government funding cuts, avoiding major failure in technology such as that resulting from the fire damage, new legislation and ensuring that existing regulations continue to be complied with. A key risk is that the efficiency savings which underpin the 3 year budgets are not achieved.

10.3 Controls have been put in place to mitigate against identified risks and the success of these controls will need to be regularly monitored within ELWA's risk management arrangements. This level of reserves has been based on the assumption that these risks will be mitigated in line with ELWA's agreed risk management framework. The level of reserves held will need to be kept under review and measured against the success of the various savings initiatives. Details are in Appendix B.

11. Robustness of budget and adequacy of reserves

11.1 The Local Government Act 2003 places duties on local authorities to reinforce good financial practice. In respect of the setting of ELWA's annual budget and levy, I am required to provide professional advice on the robustness of the budget and the adequacy of reserves. The Secretary of State has back up powers to impose a minimum level of reserves on any Authority that fails to make adequate provision.

11.2 The framework for the preparation of the budget is ELWA's three-year financial strategy. Monthly budget statements are prepared throughout the year for monitoring and control purposes. These anticipate cost pressures and take a prudent view on income estimates.

11.3 The major component of the estimates is the IWMS contract cost. This is formally agreed between ELWA and Shanks.east London via the ABSDP and this is taken account of in the Revenue Budget. ELWA's other costs are as advised by ELWA Officers and constituent councils who are responsible for and carry out certain functions on ELWA's behalf. These costs are based on the advice of constituent council's technical officers with appropriate support from other officers and in particular their views on waste levels.

11.4 The proposals for 2015/16 are prudent and reasonable given the process for preparing the budget. It should be noted that they incorporate a significant level of efficiency savings above and beyond what has been achieved to date. In future years, further efficiency savings are assumed and the level of levy increase will need to remain under review in the light of progress with efficiency savings along with all other relevant factors affecting the business.

11.5 ELWA directors have reviewed the Financial Projections and Budget Strategy for the years 2015/16 to 2017/18 and specifically have reviewed the draft budget at their meeting on 26th January 2015. The view of ELWA Directors is that the proposed budget is robust.

11.6 ELWA officers maintain detailed systems for budgetary control and also for waste/contract monitoring. It is vital that these systems are maintained to supply effective data for Members and Board. This will enable in year variances to be identified and mitigated. Relevant information that may affect the viability of the budget should in any case be reported to Members and Board and appropriate action taken accordingly.

11.7 There are a number of risks facing ELWA, as set out in Appendix B. In general, as a single purpose Authority, risks have a more concentrated effect on ELWA than would be the case with a multi-purpose authority, in that adverse impacts on its principal business cannot be offset by other factors. This is compounded by the fact that the viability of the budget depends overwhelmingly on the volume of waste processed, but the amount of this waste is outside the Authority's control. This makes ELWA acutely sensitive to risk, and requires that strong controls be in place and monitored constantly for effectiveness by the Board. Members need to consider ways of managing and limiting increases in waste volumes within their respective authorities in order to mitigate the risks faced by ELWA.

11.8 The Authority's reserves are a vital part of its financial management arrangements. A Revenue Reserve (also described as the Working Balance or General Fund Reserve) is maintained to cushion the impact of unexpected events. Appendix B sets out a target level of Revenue Reserve, based on an assessment of the likelihood and impact of a range of risks. This amounts to £4.5 million and the budget projections provide for a £750,000 increase in reserves in each of 2015/16 and 2016/17 in order that this target may be reached. It is recognised that the likelihood of all risks materialising in one year is low, but it is essential that the Authority move toward the targeted level of Revenue Reserves over the next three years.

11.9 In my view, having consulted relevant colleagues and following an analysis of the strategic, operational and financial risks and uncertainties facing ELWA, which are set out in this report, these risks and uncertainties are adequately addressed in the setting of the 2015/16 budget and levy and the proposed level of reserves, subject to the various remarks about mitigation in this report. The proposed build-up of reserves in the medium term reflects the risks identified and is an inherent element in the strategy for addressing these risks. The level of reserves proposed for future years will need to be kept under constant review in the light of any new developments which may impact on the Authority.

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

12. Conclusion

12.1 Based on the Financial Strategy and risk analysis the report recommends a 2015/16 Budget and an average levy increase of 11.1% for ELWA. The proposed levy charge for each Borough varies from the average reflecting changes in relative tonnages and Council Tax bases.

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13. Relevant officer:

13.1 Richard Szadziewski, Interim Finance Director / e-mail finance@eastlondonwaste.gov.uk 020 8708 3588

14. Appendices attached:

14.1 Appendix A: Summary of Revenue Budgets for 2014/15 and Forward Budget for 2015/16

14.2 Appendix B: Financial Risk Analysis 2015/16

14.3 Appendix C: Detailed breakdown of reasons for levy increase by constituent authority

15. Background papers:

15.1 Return from constituent councils

15.2 Budget working papers

15.3 03/12/12 – Financial Projection & Budget Strategy 2013/14 to 2015/16 & Minute 36/2012

15.4 24/11/14 - Financial Projection and Budget Strategy 2015/16 to 2017/18 Report & draft minute No.42/2014.

16. Legal considerations:

16.1 As a levying authority, ELWA makes levies on its constituent councils each year to meet all liabilities falling to be discharged by it for which provision is not otherwise made.

16.2 The constituent councils have agreed the manner and proportions by which the amount to be levied is to be apportioned between them.

16.3 By law, the levy needs to be made by a demand stating the date by which a payment or payments in respect of the levy are required to be made and the amount of such payment(s). The demand must be issued, or information as to the amount to be subsequently demanded must be given, to each constituent council not less than twenty-one days before the beginning of the financial year to which the levy relates. ELWA has determined that the demand for the 2015/16 financial year be made by 15 February 2015.

17. Financial considerations:

17.1 As detailed in the report.

18. Performance management considerations:

18.1 As detailed in the report

19. Risk management considerations:

19.1 As detailed in paragraphs 10 and 11 of the Report and Appendix B.

20. Equalities considerations:

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

21. Follow-up reports:

21.1 Financial Projections and Budget Strategy 2016/17 to 2018/19 November 23 2015

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

22.1 ELWA: http://www.recycleforyourcommunity.com/waste_authority/default.aspx

23. Glossary: ABSDP-Annual Budget and Service Delivery Plan

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

ELWA - East London Waste Authority

IWMS - Integrated Waste Management Strategy

MBT - Mechanical Biological Treatment Facility

Operator – Shanks.east London

PFI- Private Finance Initiative

24. Approved by management board

24.1 26 January 2015

25. Confidentiality:

25.1 None

SUMMARY OF REVENUE BUDGET

	Budget 2014/15	Proposed Budget 2015/16
EXPENDITURE	**£'000**	**£'000**
Employee and Support Services	371	375
Premises Related Expenditure	149	149
Transport Related Expenditure	5	5
Supplies and Services		
Payments to Shanks.east London	58,075	59,885
Other (inc cost of Support Costs)	464	440
Third Party Payments		
Recycling Initiatives and savings	1,980	1,930
Tonne Mileage payments	500	500
Rent payable - property leases	317	337
Capital Financing Costs	186	184
TOTAL GROSS EXPENDITURE	**62,047**	**63,805**
Income		
Commercial Waste Charges	(2,900)	(2,417)
Bank Interest Receivable	(50)	(54)
Other Income	(2,282)	(2,292)
Efficiency savings	(500)	(1,500)
TOTAL INCOME	**(5,732)**	**(6,263)**
Contingency	150	150
NET EXPENDITURE ON SERVICES	**56,465**	**57,692**
(Under)/overspend previous years	(1,000)	200
PFI Grant Receivable	(3,991)	(3,991)
Transfer to PFI Contract Reserve	3,991	
Levy Receivable	(48,060)	(53,401)
Transfer from PFI Contract Reserve	(5,935)	
Contribution(from)/to Reserves	(1,470)	(500)
REVENUE DEFICIT/(SURPLUS) FOR PERIOD	**0**	**0**

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FINANCIAL RISK ANALYSIS FOR 2015/16 (AS AT JANUARY 2015)

Risk	Likelihood %	Worst Case £m	Value of Risk £m
Waste increases above service plan assumptions	50	3.0	1.5
Aveley Methane contingency plan for gas extraction	50	0.5	0.3
Diversion rates not achieved	40	1.0	0.4
Efficiency savings-non achievement	40	1.5	0.6
IWMS Contract Operational Insurances – Liability for uninsured losses and deductibles	20	1.0	0.2
Loss of royalty/commercial waste income	20	0.5	0.1
Authority Insurances (excluding IWMS Contract) - liability for uninsured losses and deductibles	10	1.0	0.1
Cut in Government funding	10	4.0	0.4
Landfill sites – fly-tipping and pollution costs	10	7.0	0.7
Law changes concerning waste management definition or regulation	5	2.0	0.1
Legal action	5	2.0	0.1
TOTAL			**£4.5 m**

Note: The Financial Strategy provides for a £0.75m increase in reserves per annum in 2016/17 and 2017/18 to get to a level of £4.5m

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Appendix C

Split of Levy increase 14/15 to 15/16 by Borough

	Barking and Dagenham £m	Havering £m	Newham £m	Redbridge £m	Total £m
2014/15 Levy	**9.43**	**11.99**	**13.39**	**13.25**	**48.06**
IWMS contract					
-tonnage	0.13	-0.07	0.69	0.15	0.90
-inflation	0.15	0.18	0.21	0.20	0.74
-diversion	-0.18	-0.22	-0.25	-0.25	-0.90
-insurance	0.06	0.07	0.11	0.09	0.33
-Landfill taxes inflation	0.05	0.05	0.09	0.06	0.25
Reduction in the use of reserves	0.58	0.74	0.83	0.80	2.95
Use of prev. years underspend	0.20	0.25	0.30	0.27	1.02
efficiency savings	-0.21	-0.24	-0.29	-0.26	-1.00
additional insurance	0.08	0.12	0.14	0.14	0.48
2014/15 overspend	0.04	0.05	0.06	0.05	0.20
commercial waste reduction	0.07	0.11	0.14	0.11	0.43
non contract savings	-0.01	-0.01	-0.02	-0.02	-0.06
Projected 2015/16 Levy	**10.39**	**13.02**	**15.40**	**14.59**	**53.40**

	Increases Barking and Dagenham %	Havering %	Newham %	Redbridge %	Total %
IWMS contract					
-tonnages	1.35	-0.59	5.15	1.13	**1.87**
-inflation	1.60	1.52	1.57	1.51	**1.53**
-diversion	-1.89	-1.86	-1.87	-1.88	**-1.87**
-insurance	0.62	0.59	0.82	0.68	**0.69**
-Landfill taxes inflation	0.52	0.42	0.67	0.45	**0.52**
Reduction in the use of reserves	6.04	6.25	6.19	6.03	**6.13**
Use of prev. years underspend	2.08	2.11	2.24	2.03	**2.12**
efficiency savings	-2.19	-2.02	-2.16	-1.96	**-2.07**
additional insurance	0.83	1.01	1.05	1.05	**1.00**
2014/15 overspend	0.42	0.42	0.45	0.38	**0.42**
commercial waste reduction	0.72	0.93	1.04	0.83	**0.88**
non contract savings	-0.10	-0.08	-0.15	-0.15	**-0.12**
Proposed 2015/16 levy	**10**	**8.7**	**15**	**10.1**	**11.1**

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AUTHORITY REPORT: ANNUAL BUDGET AND SERVICE DELIVERY PLAN 2015-2016 & 5 YEAR SERVICE DELIVERY PLAN 2015-2020

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to note that:

a) Officers continue to have concerns relating to some aspects of the details of both the submitted Annual Budget and Service Delivery Plan (ABSDP) 2015-16 and the 5 Year Service Delivery Plan 2015-20 and officers are therefore not in a position to recommend that the Authority gives approval of these documents;

b) It is not necessary for the Authority to formally reject the Plans at this stage; and

c) Officers are continuing to engage with the Contractor regarding these plans to ensure that the final documents reflect the Integrated Waste Management Services (IWMS) Contract requirements and provide service levels that the Authority expects.

---

3. Purpose

3.1 To consider the Annual Budget & Service Delivery Plan 2015-2016 and the 5 Year Service Delivery Plan 2015-2020 produced by ELWA Ltd, the Contractor.

4. Background

4.1 The IWMS contract contains specific requirements regarding service delivery plans.

4.2 The Overall Service Delivery Plan (OSDP) of ELWA Ltd is a plan that covers the 25 years of the contract. This large document is a schedule to the contract and is essentially the operational and technical proposal by the Contractor to meet ELWA's original requirements.

4.3 The 5 year Service Delivery Plan (SDP) follows a similar format to the OSDP but provides a greater level of detail.

4.4 The ABSDP provides a further level of detail and focuses on the next contract year particularly in respect of financial matters. The plans connect the Authority to the Operator (Shanks East London) through the conduit that is ELWA Ltd. The intention is for the Authority to consider the ABSDP in the autumn prior to the commencement of the relevant financial year to which it relates. This is to ensure that the levy report in February can fully reflect the likely expenditure commitments arising from the contract.

4.5 Penalties can be applied by the Authority if these plans are not received from the Contractor within the given timeframe but the Contract does not allow for any penalties or contractual sanctions if the submitted documents are not accurate.

4.6 The contractual arrangements concerning service delivery plans are quite specific and are supposed to provide a firm foundation for the achievement of contractual targets. They also provide limited flexibility for reviews and minor variations over the life of the contract.

5. Current Position - 5 Year Service Delivery Plan

5.1 Officers do not consider that the submitted plan is acceptable. Not only does it have a lack of detail in a lot of aspects but more fundamentally it does not reflect the increase in contract targets applicable from next year. This is a fundamental error and totally unacceptable.

5.2 In addition, officers do not feel that the plan acknowledges or reflects the financial position that ELWA and its constituent councils are in, and fails to reflect or even mention the savings agenda and the potential wider impacts on service provision. Officers believe that a plan submitted on a business as usual basis is not acceptable.

5.3 Officers have therefore responded to the Contractor's submission accordingly and are awaiting a response.

6. Current Position - ABSDP

6.1 The Contractor submitted its plan to ELWA officers in accordance with contractual requirements in October 2014.

6.2 The plan takes account of current and planned waste tonnages and operational performance in determining likely recycling and diversion rates for the coming year. ELWA officers recognised the difficulty the Contractor would have in providing reliable figures for diversion performance as the reinstatement plan for Frog Island was still being devised.

Tonnages

6.3 The Shanks forecast tonnage for 2015-2016 is 448,000 tonnes. The 2015-2016 ABSDP estimates are for an increase in general household waste of 4.7% and an increase of 3.2% in RRC waste. However, officers from the London Borough of Havering have indicated there will be a reduction of 3,000 tonnes of commercial waste. Therefore, the estimated total waste for the year is 445,000 tonnes.

Recycling Performance

6.4 The contractual recycling target for Shanks is 30% for 2015-2016 a step up from current year. However, the ABSDP does not indicate this level of performance will be achieved for the year. Therefore, there is no guarantee the shortfall will be met and Shanks consider it prudent to state a recycling rate of 25% for the year.

Diversion Performance

6.5 Overall diversion of waste from landfill is currently at 74%. Shanks have indicated that subject to the implementation of a revised agreement between the Authority and Shanks, they will be able to maintain and improve this increased diversion by exporting Refuse Derived Fuel (RDF), the 2015-2016 ABSDP diversion rate for the year, including recycling, is 76%.

Contractual Cost

6.6 The combination of the increased waste tonnages, performance levels, insurance premiums and the inflationary increase, give rise to a contract cost of circa £59.2m. The exact figure cannot yet be established as officers have identified that there are errors in the financial model provided with the ABSDP. It should be noted that this figure includes additional supplements that have yet to be agreed.

Communications Plan 2015-16

6.7 The ELWA partnership communications programme will continue into 2015-16. Appendix A provides an overview.

6.8 Officers have raised their concerns regarding the Contractor's ABSDP submission and are awaiting a response.

7. Conclusion

7.1 Officers recognise the ABSDP reflects a realistic position and understand the reasons for a recycling rate of 25%. Whilst it is disappointing and does not meet the contractually agreed target of 30%, there are no effective contractual remedies ELWA can enforce to improve this position.

7.2 Officers consider that there are too many errors and missing information in these documents for them to be considered suitable to monitor and plan future service delivery aspects. In light of this, officers are not in a position to recommend that Members consider the ABSDP and 5 Year SDP as currently drafted, and officers require more time to rectify the outstanding enquiries.

7.3 The revised plans will be brought to the Authority for approval in due course.

8. Relevant officer:

Mark Ash, Managing Director / mark.ash@eastlondonwaste.gov.uk / 020 8724 5614 / 07872 003874

9. Appendices attached:

Appendix A: Communications overview

10. Background Papers:

10.1 None.

11. Legal Considerations:

11.1 The legal provisions relating to the provision of the waste disposal services delivered by the contractor ELWA Ltd, are set out in the Waste Management Contract between the parties. The Contract makes provision for the preparation and submission by the Contractor of Annual Budget, and 5 year Service Delivery Plans to be agreed with ELWA the contents of which the Contractor will be bound and held to account over the period covered by the plan. The details of these have been set out elsewhere in the body of this report. It is vital that the Authority is satisfied that the assumptions underlying the Plans are accurate and achievable as they are used in the calculation of the annual Levy.

12. Financial Considerations:

12.1 The ABSDP provides detailed information on expenditure commitments, tonnage estimates and landfill diversion rates. It is vital that ELWA Officers are satisfied that these assumptions are accurate and achievable as these are one of the factors considered when determining the levy.

13. Performance Management Considerations:

13.1 The ABSDP sets the level of performance for the year.

14. Risk Management Considerations:

14.1 If the decision to formally reject the ABSDP and 5 year plan is taken at some point in the future then the following risks need to be considered:

a) S2 - Breakdown of relationship with contractor.

b) S12 - Failure to deliver improved levels of contractual performance.

15. Follow-up Reports:

15.1 None.

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

16.1 None.

17. Glossary:

ABSDP - Annual Budget & Service Delivery Plan
Constituent Councils – London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
Contractor – ELWA Ltd
IWMS - Integrated Waste Management Services Contract
MBT – Mechanical Biological Treatment
Operator – Shanks east.london
OSDP - Overall Service Delivery Plan
RDF – Refuse Derived Fuel
RPI – Retail Price Index
RRC – Reuse and Recycling Centre
SRF – Solid Recovered Fuel

18. Confidentiality:

18.1 No

19. Approved by management board:

19.1 26 January 2015

20. Confidentiality:

20.1 Not Applicable

COMMUNICATIONS PLAN 2015/16

Shanks have again contracted Keep Britain Tidy (KBT) as their communications partner for 2015/16, continuing the well established 'Recycle For Your Community' campaign which is largely designed and directed by ELWA and constituent council officers. Monthly and quarterly campaign reports are produced for partners to allow for regular reviews of the campaign's direction and provide monitoring against key performance indicators.

Schools Programme

As in 2014/15, the focus of the Communications Plan for the coming year will be on the Schools Programme, which offers tailored support to various age groups with the aim of instilling positive waste behaviours early on. The hope is that not only will these good habits be maintained in the long term but parents will be pestered into improving theirs for more immediate benefits as well. This Programme is managed by a full time Education Officer based at Jenkins Lane.

Key projects/messages

Waste minimisation remains the key message across the campaign, while reuse and recycling are also high on the agenda. Reducing food waste in particular will continue to be a central theme, with resource packs being provided to schools to allow them to run their own campaigns initiated by the Education Officer.

MuRFy's World

MuRFy's World, the education centre at Jenkins Lane, will continue to operate this year as it remains a well regarded outlet for more hands on activity with school groups. It is hoped that internal funding secured by Redbridge officers for transport will increase the number of schools making use of this facility, as getting children to the site in Becton has been a limiting factor.

Public Relations/Social Media

General PR and communications activity such as design of leaflets, use of social media outlets and keeping the website updated, will be carried out by KBT. Support will also be provided where possible to individual constituent council campaigns. All partners will continue to seek any outside funding opportunities to boost communications capacity.

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AUTHORITY REPORT: REVIEW OF THE CORPORATE RISK REGISTER

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to note the revised corporate risk register.

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3. Purpose

3.1 To report on the review of the corporate risk register and highlight the current risk profile of the Authority.

4. Background

4.1 Risk management is central to good governance and the effective strategic management of ELWA. It is a structured, consistent and continuous process for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of our objectives.

4.2 A key element of the Authority's approach to risk management is the corporate risk register. The register includes the following:

a) The risk assessment criteria.

b) Details of the strategic and operational risks faced by the Authority.

c) A summary of the results of the risk assessment.

4.3 The Managing Director is responsible for ensuring the corporate risk register is up-to-date to help inform strategic and operational decisions.

5. Current Position

5.1 The complete corporate risk register can be found at Appendix A.

<u>Corporate risk register format</u>

5.2 The format of the corporate risk register is designed to show assessed risks and the impact of existing controls and other mitigation factors. The register shows a clear progression:

a) Identification of risks.

b) Scored assessment of the likelihood and impact of the risks materialising.

c) Details of the existing controls and mitigation factors to reduce the likelihood and impact of the risks.

d) A revised scored assessment of the risks in light of the existing controls and mitigation factors.

e) Further actions required to mitigate the residual risks.

<u>Risk matrix - assessment criteria and scoring</u>

5.3 The risk assessment criteria combine to create a matrix for scoring the likelihood and impact of the risks materialising. The likelihood aspect is considered in terms of the percentage chance of a risk materialising. The impact aspect is considered in terms of the financial costs, service disruption levels and reputational consequences in the event that a risk materialises.

5.4 Each aspect is scored from 1 to 4, giving a range of risk assessment scores of 1 to 16. The risk assessment results in risks categorised as low (1-3), medium (4-6) or high (8-16).

<u>Risk categories</u>

5.5 Risk can be categorized in many different ways and the Authority identifies two types of risk:

a) Strategic risks - risks affecting the medium to long term aims and objectives of the Authority (including political, financial, technological, legislative, performance, partnership and environmental factors).

b) Operational risks- risks encountered in the course of the day to day running of services (including professional, legal, financial and contractual matters).

5.6 It should be noted that these categories are not mutually exclusive. The purpose of categorising risk is to ensure that risk is considered across a broad range of issues.

<u>Strategic risks</u>

5.7 Officers identified and assessed eight strategic risks and the existing controls and mitigation factors and categorised them as below:

a) Low Risk = 5 items.

b) Medium Risk = 2 items.

(1) Risk S2 'Breakdown of relationship with contractor' reflects the ongoing commercial discussions between ELWA officers and the Contractor.

(2) Risk S8 'Failure to deliver improved levels of contractual performance' has been identified as a medium risk primarily due to the fire at Frog Island and also to reflect the change in the export markets for RDF relating to higher gate fees.

c) High Risk =1 item. Risk S7 'Viability of AML' has been identified as a high risk due to the increased likelihood of AML ceasing trading within the next 12 months due to declining gas levels.

5.8 Where a medium or high risk has been identified, which also has a business continuity risk, then further actions have been identified to reduce the impact if the risk materialises.

<u>Operational risks</u>

5.9 Officers identified and assessed nineteen operational risks and the existing controls and mitigation factors and concluded:

a) Low Risk = 11 items.

b) Medium Risk = 7 items. The medium risks identified can be placed into four groups as below:

(1) Risks that relate to the closed landfill sites O3, and O3a are evaluated as medium risk due to the very nature of the sites and the impact that can result if a risk materialises. Continued effective management, insurances and presence at these sites mitigates the likelihood and impact of these risks.

(2) Risks relating to the continued operation of the waste facilities O4 and O6 are evaluated as medium risk as history has proven that events can happen at these facilities that prevent normal operation. However these risks are substantially reduced by the Authority's business continuity plan and the robust contract monitoring programme employed by officers.

(3) The risk of fraudulent activity at the waste sites, risk O13, is deemed as a possibility as there is a high value attached to waste disposal and staff operate largely autonomous in a process that relies on operator input. Continued effective monitoring of the contract by ELWA and constituent council officers is therefore paramount to avoid potentially costly fraud.

(4) The final risk grouping identified relates to activities of the constituent councils activities. Risk O16 relates to the increasingly unpredictable waste tonnages and the recent rises in tonnages experienced. Risk O14 'Performance of collection authorities' reflects the uncertainty over maintaining the existing service provision in light of budget pressures and service reviews.

c) High Risk = 1 item. O12 relates to an incident at a closed landfill site. As previously reported to the Authority there has been a significant flytipping incident at one of the closed landfill sites. Due to the high volumes of flytipping that occurred at the Wennington site there is a risk that the Authority will be required to remove and dispose of the waste that was deposited. Officers are in receipt of a technical report which outlines the characteristics and potential volumes that were illegally tipped. Officers are currently engaging with Thurrock Council to establish what actions are required to be taken. Further reports will be brought to the Authority when the actions to be taken and financial implications are known.

5.10 None of the medium risks identified and evaluated would prevent business continuity and therefore no further action has been planned.

6. Conclusion

6.1 The review of the corporate risk register has highlighted the key risks faced by the Authority and the actions required to further limit the likelihood and impact of those risks. Whilst the formal review of the register is undertaken annually, it is amended as and when changes in the Authority's risk profile are identified.

6.2 Maintaining the existing mitigating controls is an important part of managing these risks.

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7. Relevant officer:

Mark Ash, Managing Director / mark.ash@eastlondonwaste.gov.uk / 020 8724 5614 / 07872 003874

8. Appendices attached:

8.1 Appendix A: Corporate Risk Register

9. Background Papers:

9.1 None

10. Legal Considerations:

10.1 The Legal Adviser has been consulted in the preparation of this report which is provided to the Authority for information and noting and does not require decision. There are no legal implications to highlight.

11. Financial Considerations:

11.1 The regular review of the Authority risk register, as well as the actions that have been put in place to mitigate against these risks, are an important control mechanism in reducing the Authority's exposure to financial risk and loss

12. Performance Management Considerations:

12.1 The corporate risk register is one of the tools used to identify performance management issues.

13. Risk Management Considerations:

13.1 The corporate risk register is a key element of the authority's risk management strategy.

14. Follow-up Reports:

14.1 No.

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

15.1 ELWA: http://www.recycleforyourcommunity.com/waste_authority/default.aspx.

16. Glossary:

16.1 AML =Aveley Methane Ltd
16.2 Constituent Councils – London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge.
16.3 Contractor – ELWA Ltd
16.4 ELWA = East London Waste Authority
16.5 IWMS Integrated Waste Management Services.
16.6 Operator – Shanks.east London
16.7 RDF – Refuse Derived Fuel

17. Confidentiality:

17.1 No

18. Approved by management board:

18.1 26 January 2015

19. Confidentiality:

19.1 Not Applicable

Risk Assessment Criteria

Likelihood of Risk Materialising	**Unlikely (0% - 5%)**	**Possible (6% - 35%)**	**Probable (36% - 75%)**	**Likely (76% - 100%)**
Likelihood Assessment	**1**	**2**	**3**	**4**

Impact of Risk Materialising	**Minimal**	**Moderate**	**Critical**	**Calamitous**
Cost	<£50k	£50k - £2m	£2m - £5m	>£5m
Service	Minor disruption	Service disruption	Significant disruption	Total service loss
Reputation	Isolated complaints	Adverse local media coverage	Adverse national media coverage	Ministerial intervention
Impact Assessment	**1**	**2**	**3**	**4**

Summary Results

Net Strategic Risks

Likelihood						
	Likely	4		S7		
	Probable	3		S2		
	Possible	2		S4, S8		
	Unlikely	1		S1, S6	S3, S5	
			1	2	3	4
			Minimal	Moderate	Critical	Calamitous
			Impact			

Net Operational Risks

Likelihood						
	Likely	4				
	Probable	3				
	Possible	2	O5, O7, O8, O11	O3, O3A, O4, O6, O13, O14, O16		O12
	Unlikely	1	O1, O5A, O13A, O15	O2, O9, O10		
			1	2	3	4
			Minimal	Moderate	Critical	Calamitous
			Impact			

No.	Description of Risk & Sub-risks	Gross Risk Assessment			Controls and Mitigation	Net Risk Assessment			Further Actions to Reduce Risk	Business Continuity Risk	Risk Owner	Actions addressed by
		L	I	Total		L	I	Total		Y/N		Date
S1	Corporate divisions and disagreements Delayed decision making Uncertainty over way forward Failure to agree levy Long term future of partnership in doubt	2	2	4	Constitution Joint Waste Management Strategy Open dialogue at all levels within Boroughs IWMS Service Delivery Plans Primary legislation Financial strategy & budget planning	1	2	2	Further transparency and discussions at OMT Revised strategic approach at Management Board Increased stakeholder engagement	N	Managing Director & Management Board	
S2	Breakdown of relationship with contractor Non co-operation by Contractor Problems not resolved Performance suffers Eventual failure of PFI contract	3	3	9	Contractual provisions & penalties/incentives Dispute Resolution Procedures in Contract IWMS Service Delivery Plans	3	2	6	Constant stakeholder communication Maintain professional approach to commercial negotiations	Y	Managing Director	
S3	Termination of IWMS contract by Authority Re-tender costs for ELWA Ltd Adverse media attention Disruption of services	1	4	4	Provisions in IWMS Contract Review financial results and accounts ELWA Ltd contingency plans ELWA files of licences and operation manuals	1	3	3	Continued engagement with Contractor supported by DEFRA to reduce contract costs	Y	Managing Director	
S4	New statutory requirements New investment required. Change in contract negotiated.	2	2	4	Maintain high level of national involvement and expertise Contingency plans Change of law provisions in IWMS Contract	1	2	2		N	Managing Director	
S5	Insufficient financial reserves to meet unforeseen circumstances Progress is limited by lack of resources Subsequent levy increases are unpredictable	2	3	6	Medium Term financial strategy. Risk Management strategy. Treasury management regime Annual levy calculation Maintain reserves at adequate level. Keep insurances under review. Awareness of potential new regulations.	1	3	3		N	Finance Director	
S6	Loss of key staff / lack of succession planning Authority fails to meet statutory requirements Lack of knowledge and experience in monitoring the PFI contract Loss of strategic direction	1	2	2	Approved staffing establishment Succession planning Shared knowledge within team Performance management/appraisal regime Documented processes and procedures Flat organisation structure Greater cross working within organisation Business Continuity Plan	1	2	2		Y	Managing Director	
S7	Viability of Aveley Methane Ltd AML ceases trading - loss of income or removal of losses liability Landfill gas requires managing at a higher cost Additional management responsibilities	4	2	8	AML Board meetings. Review financial results and accounts. Contingency plans Use of advisors	4	2	8	Identification of alternative uses of landfill site to mitigate any increased costs	N	Managing Director	
S8	Failure to deliver improved levels of contractual performance Poor perception of Authority Increased landfill costs	2	2	4	Medium and long term strategy planning with contractor. IWMS Service Delivery Plans Side agreement to contract for increased diversion of coarse SRF to EfW markets	2	2	4	Engage with contractor to identify performance improvement measures	N	Managing Director	

No.	Description of Risk & Sub-risks	Gross Risk Assessment			Controls and Mitigation	Net Risk Assessment			Further Actions to Reduce Risk	Business Continuity Risk	Risk Owner	Actions to be addressed by
		L	I	Total		L	I	Total		Y/N		Date
O1	Loss of accommodation and documents contained within Unable to access important documents Loss of critical data Monitoring and reporting are weakened	1	2	2	Landlord responsibilities for accommodation. Daily IT backup by LBBD Key contractual documents held elsewhere (Wragge & Redbridge). IT link up for home-working or hot desking within LBBD. Business Continuity Plan Insurance	1	1	1		Y	Office Manager	
O2	Closure of public waste disposal site Unable to receive waste from public Potential for fly tipping near the site Adverse local media attention Poor perception of the Authority	2	2	4	Contractual performance requirements. Penalty regime on contractor. Alternative sites if one closes	1	2	2		N	Contract Manager	
O3	Trespass on closed landfill site leading to death / serious injury HSE / Police investigation Adverse national media attention ELWA security provisions called into question	2	3	6	Quarterly review of site security. Appropriate signage Insurance cover.	2	2	4		N	Waste & Recycling Officer	
O3a	Trespass on closed landfill site leading to flytipping/traveller settlement Clean up cost of flytipping Land being placed on Contaminated Land Register Adverse media attention Legal costs	3	2	6		2	2	4	Additional security measures - bunding/fencing/security gates	N	Waste & Recycling Officer	
O4	Closure of a key waste facility Service to Boroughs disrupted Significant costs if a long period.	2	2	4	Business Continuity Plan Contractor contingency plans. Penalty regime on contractor. ELWA Ltd Insurances	2	2	4	Resilience plan	N	Contract Manager	
O5	Major Health & Safety event at a waste site. HSE / Police investigation ELWA Ltd safety provisions called into question Disruption to admin	2	2	4	Contractual requirements. Contract Monitoring Penalty regime on contractor. Contractor Health and Safety procedures monitored. Business Continuity Plan	2	1	2		N	Waste & Recycling Officer	
O5a	Major Health & Safety event at office	1	1	1	Landlord requirements.	1	1	1	First Aid training	Y	Office Manager	
O6	Major failure of contractor's technology Performance is poor Excess waste disposal costs to landfill.	2	2	4	Contractor's risk management regime Penalty regime on contractor. ELWA Ltd insurance cover. Business Continuity Plan	2	2	4		N	Contract Manager	
O7	Service failure due to extreme weather conditions e.g. heavy snow, flood Failure to transfer waste to landfill sites Backlog of waste High cost of clearance	2	1	2	Contractual service requirements. Contractor contingency plans. Borough diversions	2	1	2		N	Contract Manager	
O8	Discovery of hazardous substances Suspension of activities Cost of removal and treatment of substances	2	1	2	Contractual service requirements. Specific contractor arrangements for hazardous waste. Contingency plans.	2	1	2		N	Waste & Recycling Officer	
O9	Failure to meet stakeholder expectations Criticism of ELWA and ELWA Ltd Reputations damaged Customer complaints	2	2	4	Maintain dialogue with stakeholders. Consultation on strategies. Proactive public relations. Further review strategies and service delivery plans.	1	2	2		N	Managing Director	
O10	Increased risk of enforcement notice due to failure to comply with regulations Contractor's costs increase Indicator of that viability of contract is in doubt	2	2	4	Contractor's risk management regime Contract and contract monitoring Penalty regime on contractor. Contract monitoring	1	2	2		N	Contract Manager	
O11	Lone working (both office and site) Personal attack on a member of staff Personal injury/incapacity not discovered	2	1	2	Risk assessments. Security arrangements at Harvey House. Working practices and communication equipment on sites.	2	1	2		N	Office Manager / Waste & Recycling Officer	
O12	Operational incidents on landfill site e.g. leachate overflow High cost of remediation and correction Adverse media attention Legal action/claims against ELWA Placement of land on Contaminated Land Register	2	4	8	Bi-annual testing of gas equipment. Inspection by on-site staff. Insurance re: sudden events	2	4	8	Continued dialogue with Environment Agency Technical report on flytipping Dialogue with Thurrock Council	N	Waste & Recycling Officer	
O13	Fraudulent activity (contract) Termination of contract if contractor Criticism by Government / District Audit Service performance jeopardised	2	2	4	Authority's' anti fraud and corruption strategy. Contractual provisions on corrupt gifts and fraud. Independent weighbridge data check by WCAs under SLA Internal and external audit.	2	2	4		N	Finance Director	
O13a	Fraudulent activity (internal)	1	1	1	Internal audit process. Purchasing controls.	1	1	1		N	Finance Director	
O14	Performance of collection authorities Increased cost of waste disposal. Failure to meet ELWA Pooled/Contractual Targets Failure to meet waste minimisation strategy targets	2	2	4	Requirements upon collection authorities in IWMS Contract. Annual Service Delivery Planning by partners. Monthly provision of information by contractor. Meetings of Board and Directors of Environment. Public & stakeholder pressure on collection authorities to improve	2	2	4		N	Management Board	
O15	Insufficient waste produced to meet contract minimums Cost per tonne increases - inefficiencies arise	1	1	1	Specific arrangements IWMS Contract re minimum tonnages. Service Delivery Planning with Boroughs and Contractor.	1	1	1		N	Managing Director	
O16	Borough delivered waste increases above budgetary assumptions Increased levy costs.	2	2	4	Dialogue with constituent councils. Budgetary Control, including availability of reserves	2	2	4		N	Managing Director / Finance Director	

AUTHORITY REPORT: CONTRACT MONITORING TO 30 NOVEMBER 2014

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to note this report.

3. Purpose

3.1 To provide an update on the monitoring, outcomes and actions taken with regards to the management of the Integrated Waste Management Services (IWMS) contract for the period to 30 November 2014 .

3.2 To update Members with regards to the fire at Frog Island.

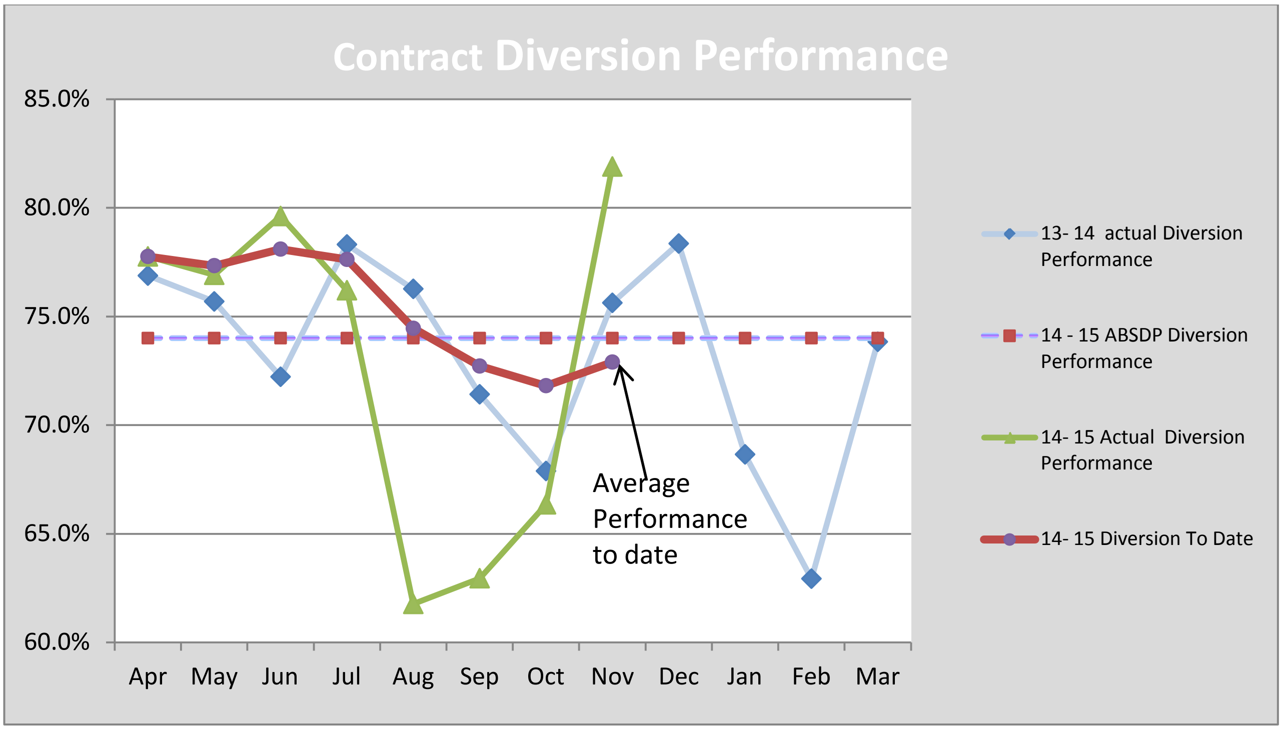
4. Contract Performance to November 2014

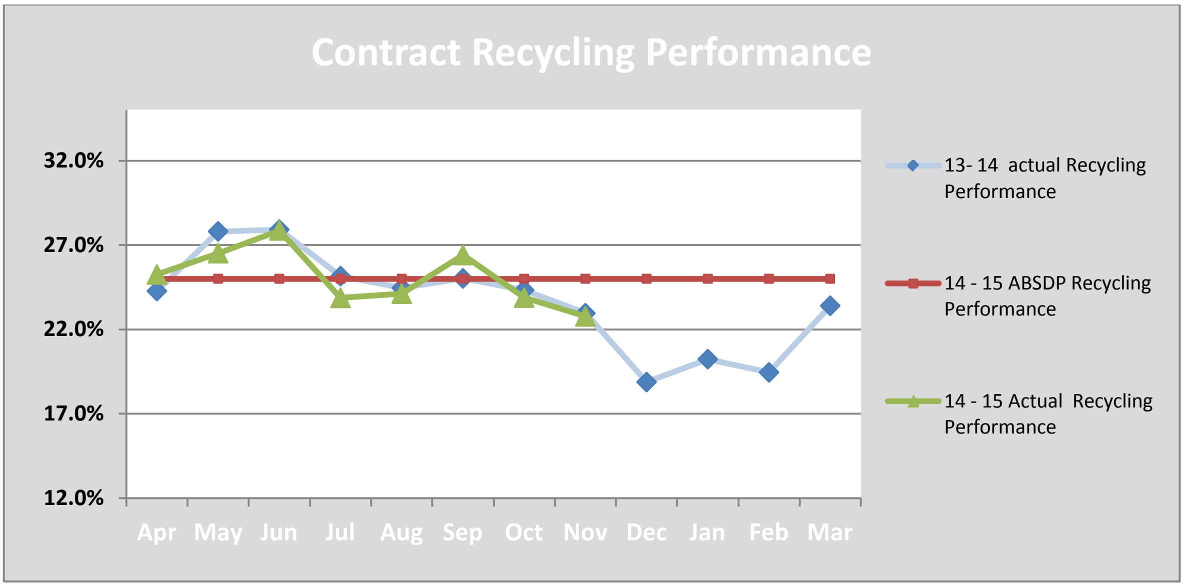
4.1 Contract waste tonnage to November was 305,670 tonnes which is 1.1% (3,400t) above forecast and an increase of 7,050 tonnes over the same period last year. It should also be noted that the last four months of last year was 136,000t which if replicated this year would see a yearend figure of 441,700t a 3% increase on the budgeted figure.

4.2 Recycling performance for the period mirrored the anticipated performance showing only a small decrease (0.3%) over the same period last year. Overall the year to date figures is 25.1% but on expectation, as first half performance is usually better than the second as a consequence of the green waste collections. Year end is forecast at 24%.

4.3 The effect of the fire at the Frog Island facility has now been mitigated with regard to diversion performance, with year to date now at an acceptable level at 73% but not back to the pre fire levels. The November diversion performance of 82% is exceptional and is a direct consequence of restocking the Frog Island BioMrf and future months will stabilise at normal levels.

4.4 The graph below summarises the recycling and diversion performance with a comparison to Annual Budget and Service Delivery Plan (ABSDP) and previous year.





4.5 The table below provides an overview of the National Indicator (NI) recycling performance for November and to date for 2014. However these figures are subject to ratification by Defra.

Constituent Council	% Recycling Performance	
	November 2014	Year to Date
LB Barking & Dagenham (LBBD)	22.4%	25.7%
LB Havering (LBH)	28.9%	34.1%
LB Newham (LBN)	19.0%	16.8%
LB Redbridge (LBR)	26.8%	30.1%

5. Update on the fire at the Frog Island Mechanical Biological Treatment (MBT) facility

5.1 With effect from 3 November 2014 the plant started to receive waste from the constituent councils into lines 2 and 3 of the MBT facility, they are not however fully operational as the refinement section will be out of action for approximately one year.

5.2 This receipt of waste into the MBT plant will allow ELWA to benefit from the diversion gained from the drying process and allow the majority of the material to be processed into Refuse Derived Fuel (RDF). To facilitate this, the contractor had to obtain an Interim Operational plan from the Environment Agency and revised Trans Frontier Shipment consent from both Holland and Germany to allow export of the less refined RDF material.

5.3 The export of this material will improve the diversion performance but the continued loss of the refinement section will suppress the contractor’s recycling capabilities although this is being mitigated due the contractor accessing a facility that can recycle the Fines out of the remaining MBT plant.

5.4 The ongoing repairs to line 1 and the Refinement section are progressing to schedule and in line with the project plan. Attached as Appendix A are the notes from the latest progress meeting.

6. Tonnage projections

6.1 ELWA’s budgets are continuing to be under pressure from increased tonnage collected by the constituent councils and delivered into the contract.

7. Conclusion

The overall contract tonnage delivered was higher than that budgeted for, and the waste delivered in last year. Taking a longer term view the predicted increase in tonnage (1.5% pa) is in line with housing and population growth. These factors will continue to provide budget pressures going forward as detailed elsewhere on the agenda.

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8. Relevant officer:

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

9. Appendices attached:

Appendix A – Shanks Project Phoenix – Reinstatement Programme meeting notes

10. Background Papers:

10.1 None

11. Legal Considerations:

11.1 The Legal Adviser has been consulted in the preparation of this report which is provided to the Authority for information and noting and does not require decision. There are no legal implications to highlight.

12. Financial Considerations:

12.1 Tonnages levels and landfill tax liabilities are the main driver of costs within the IWMS contract. The impact of the increased tonnages and projected improved diversion by year end is explained in more detail in the Budgetary Control to 31 December 2014 report elsewhere on this agenda. The financial and insurance implications arising from the fire at the MBT plant are also detailed in that report.

12.2 Effective contract monitoring procedures allow tonnage levels to be controlled better with consequential financial benefits. The cost of contract monitoring is met by ELWA from its non-contract and service level agreement budgetary provisions.

13. Performance management considerations:

13.1 None

14. Risk management considerations:

14.1 None

15. Equalities considerations:

15.1 The equalities impact assessment identified no matters of concern.

16. Follow-up reports:

16.1 None

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

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

18. Glossary

ABSDP = Annual Budget & Service Delivery Plan
BioMRF = Biological Materials Recycling Facility
Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
ELWA / the Authority= East London Waste Authority
IWMS = Integrated Waste Management Services
MBT = Mechanical Biological Treatment
RDF = Refuse Derived Fuel

Approved by management board:

18.1 26 January 2015

19. Confidentiality:

19.1 Not applicable

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Shanks
Making more from waste

MEETING NOTES

Attendees:	Mark Ash - ELWA Andrew Barker - Shanks Peter Barnsley – Crawford Nigel Catling - Shanks Christian Dietrich - Shanks Mike Leavens – Sweett Group Mark Robinson – Shanks Keith Sinfield - Shanks Richard Tarrant – Project Co Rep Denis Thorpe - Crawford
Apologies:	None
Location:	Frog Island
Subject:	Insurance Claim Update
Date:	14 January 2015

ITEM		ACTION
1.	Cleaning & Debris Removal • Line 1 Reception Pits being cleared by Ebbsfleet – completion w/c 19 January. • When completed scaffolding can be erected to enable Belfor to complete cleaning. • Crane will be jacked down in due course to enable Grab to be emptied and inspected by Burgoynes.	
2.	Update on Ebbsfleet • Removal of plant and equipment has been completed. • Removal of roof has 45% completion but these works have been temporarily suspended as the sub-contractor, Phoenix Claddings have been removed from site owing to health and safety issue in respect of working at height. • Sub-contractor is to submit more detailed RAMs to enable works to recommence – anticipated to restart 19 January.	

Prepared by: Mark Robinson
Issued: 14 January 2015

	• The suspension of works has lead to a 2 week delay although some time would have been lost owing to weather conditions. However this will impact re-cladding, cleaning (40% complete) and new lighting. • Sandberg due by 16 January to complete inspection of steels. • A cladding contractor has been identified – two submissions of circa £900k by Border Steel and £circa £700k by Roof Tech. Roof Tech to be appointed and contract to be entered into. Start date tbc.	
3.	Structural Inspections & Reports • No outstanding reports.	
4.	Reinstatement of Refinement Building • Potential 2 week delay – see 2 above. This should not impact A2A works commencing in April. • All plant & equipment has been removed. • Authority approval - Shanks to submit sufficient information to ELWA to enable ELWA to give approval via Project Co predominantly on the condition of performance testing.	
5.	Reinstatement of Line 1 • Cranes – materials and components have been ordered. • Bio-filter – Osil have investigated and produced a report but the detail is not satisfactory and is being challenged. It is understood that Osil's financial position is not good and another contractor may have to be sourced – alternatives are being pursued. Eco-Deco was the original installer and the media was replaced three years ago by Osil. • The main issue is the condition of the membrane. No samples were taken to establish whether damage is related to fire/heat.	
6.	Contract with A2A and Plant Reinstatement • Contract negotiations progressing well and it is anticipated that a final draft will be issued for review on 19 January with completion on 23 January or early w/c 26 January. • Orders are being placed for the shredders as these have the longest lead time. • Repairs to cranes are being assisted by utilising current spare parts which will be subsequently replaced.	NC/KS

	• A2A will commence works in April – a proposed incentivisation has been agreed of 2,000 euro per day in respect of Line 1 and 1,000 euro per day in respect of the Refinement Section. It is proposed that A2A will work 5 days per week with two shifts. • Funders' approval will be on the basis that the Authority has no issues. RT will be meeting Jim Crossman of Currie & Brown w/c 19 January to discuss. • It was noted that David Scott of Project Co carries out a weekly site inspection. • Additional costs to be claimed – Funders will more than likely levy charges on Project Co for appointment of TA.	
7.	Value at Risk for Plant • KS via MR submitted schedule of values showing plant and equipment to be replaced and items to be retained versus declared value. • Gus Dewing of Crawford in process of reviewing.	
8.	Interim Operations Lines 2 & 3 • CD reported that Lines 2 and 3 are operational and producing RDF. No major operational issues. • Application of Neporex (fly control) has ceased until early March.	
9.	Review Programme • ML to provide a revised programme by 23 January.	ML
10.	Business Interruption • AB had a meeting with John Mitchell of Crawford and RGL on 13 January. The various models are in accord for August to November inclusive. Figures for December are being prepared. • PB queries as to whether there were any impacts on Jenkins Lane – any changes in profits. Main observations are maintenance costs have increased but no real increases in terms of power usage etc. • AB has arranged provisionally to meet with John Mitchell and RGL on 10 February.	
11.	Costs to Date • The amount allocated from the first on account payment	

	has been transferred from Project Co to Shanks. • MR confirmed that second payment on account had been paid to Project Co. • RT requested that Shanks make a formal application to Project Co to release funds relating to reinstatement [Business Interruption amounts are released on the submission of pro forma invoices]. • PB requested that a projected cash-flow is prepared to assist with monthly payments going forwards. • It was confirmed that A2A will be paid on mile-stone payments.	MR ML
12.	Next Report & Expected POA • Crawford to submit report mid February with POA to follow as soon as practicable.	
13.	AOB & Date of next meeting • It was agreed that the next meeting will concentrate on reviewing costs to date and therefore require reduced attendees. • It was agreed that there is no requirement for a full 'catch up' unless issue(s) arise that need to be addressed by the wider attendees. • Wednesday 4 February at 1000 – Frog Island	PB/ML/MR/RT & Davina Williams

AUTHORITY REPORT: BUDGETARY CONTROL TO 31 DECEMBER 2014

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 ELWA's actual expenditure for the period ended 31 December 2014 with the original revenue budget approved in February 2014. 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 Members will be aware of the serious fire at Frog Island during the summer. Paragraphs 5.1 to 5.7 deal with the position excluding the impact of the fire. The remainder of paragraph 5 details the projected revenue position which includes losses to the Authority resulting from the fire. Officers are pursuing a full reimbursement through the insurance claim. Paragraph 6 discusses the progress of the insurance claim further and other insurance issues.

4. Executive Summary

4.1 The projected financial position at the year-end is an overspend of £200,000. This is after absorbing the impact of increased tonnages and increased insurance costs during the year.

4.2 The projection is based on using the contingency in the budget and assumes that business losses arising from the fire at Frog Island are recovered from insurance.

4.3 The Authority remains within its Prudential Indicators.

5. Background

<u>Revenue Budget ongoing variables</u>

5.1 Based on the profiled budget of £39,598,000 and the actual net expenditure on services of £40,056,000 the position is a net overspend of £458,000 to date. (See Appendix A.)

5.2 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 2014/15 Budget and Levy setting process assumed 429,000 tonnes. ELWA technical officers advise that projected tonnage levels at year end will be 440,000 tonnes. Officers will continue to monitor trends to determine possible increases in tonnages per household as well as demographic trends.

5.3 The diversion from landfill rate assumed in the 2014/15 Budget is 75%. Any improvement in the diversion rate has a favourable impact on the Budget position as the diversion supplements paid to the operator are less than the landfill tax that would have been paid if the waste had been landfilled. Before the fire at Frog Island MBT diversion rates had been higher than target. As a result of the fire rates dipped during the months of August to October. However they recovered from November onwards due to an Interim Operational plan from the Environment Agency allowing the export of less refined RDF material. The December diversion rate is 78.3% and it is projected that diversion rates for the remainder of the financial year will be on average 74%. Thus diversion rates excluding the period affected by the fire are projected to be 77%. This will help to mitigate the budget pressure caused by the higher than budgeted tonnage levels.

5.4 Other non-contract costs are projected to be £65,000 underspent at year end. This is mainly made up of various administrative savings including professional fees as well as a renegotiated service level agreement relating to a reduction in ICT costs. Bank interest income is continuing to recover due to higher interest rates obtained by the Treasury Management team. Recycling initiatives expenditure was mainly reduced by a waste reduction government grant.

5.5 Based on ELWA technical officer advice commercial waste income is projected to be slightly below budget at year end.

5.6 Members are reminded that underpinning the 2014/15 Budget and Levy is an efficiency savings target of £500,000. The Managing Director advises that progress is being made towards achieving this saving and he anticipates that this will be achieved by the end of the financial year.

5.7 Therefore excluding the impact of the fire the projected end of year pressure on tonnages will be partly offset by the improved diversion in the early months of the year and in the months after the fire and a £421,000 overspend is projected at year end in respect of payments to the Operator. Taking account of improved income and a projected underspend in recycling initiatives and support costs an overall £200,000 overspend is projected at year end.

Revenue Budget impact of the fire

5.8 The loss of operations due to the fire resulted in more waste being sent to Landfill. This meant that the Authority incurred landfill tax on tonnage that otherwise would have been diverted. The Managing Director advises that the actual diversion figures during the three months from August to October were 61%, 62% and 66% respectively. Projected total year diversion including this period has now been revised to 75%. Additional landfill tax payments (less the diversion supplements which would have been paid) are projected to be £300,000 at year end.

5.9 The special dispensation from the Environment Agency with regards to the diversion of less refined material has had a favourable effect on diversion. As a result, from November onwards operations at the Frog Island facility are at a level equivalent to the higher diversion rates achieved in the first few months of the financial year.

5.10 An additional impact of the fire was that waste was directed to all available sites which consequently were working to full capacity between August and November. This meant that the sites were unable to process additional non-contract waste which resulted in the loss of royalty income for this period. This is projected to be £158,000 at year end.

5.11 The value of the loss of business is in the process of being claimed from the insurers, and projections at this stage are therefore provisional. Appendix A assumes that these are recovered. This is developed below.

6. Insurance

6.1 At the Authority meeting on 15th September 2014 Members were advised of the impact of the fire. This particularly affected the refinement section with a loss of all conveyors and most of the attached machines.

6.2 The insurance claim is for the re-instatement of the asset and business interruption losses. The Managing Director advises that the insurers have so far paid £1.5 million on account and this covers the ELWA losses as well as the losses of the Special Purpose Vehicle and the operator. The final claim will be made once Frog Island is fully reinstated and operational and then a final full reconciliation can be undertaken. Members will be briefed as this matter progresses.

6.3 ELWA's insurance was renewed in December 2014. The total cost of the new premium to ELWA and the contractor is £2,058,000 (compared to the previous year's total premium of £742,000). ELWA's share of the new premium is £985,000.

6.4 The revised insurance policy also includes a rise in deductibles (from £10,000 to £1 million). For the next 12 months the increase in deductibles will be covered by the contractor who it is anticipated will seek to renegotiate this positon.

6.5 The portion of the new premium which relates to the final quarter of this financial year will need to be met from the 2014/15 revenue budget. There is a budget of £175,000 in the current year to part cover this cost, but since there is no specific provision within the 2014/15 budget for the balance this will need to be met from the contingency which in the attached statement is projected to be fully spent.

6.6 The Managing Director advises that ELWA is carrying out due diligence with regards to the insurance premium and is receiving professional advice from specialists in public sector insurance and risk management.

6.7 In respect of the landfill sites, there is a potential risk of the need for remediation works.

7. Prudential indicators

7.1 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.

8. Conclusion

8.1 Prior to the fire and since November higher than budgeted for tonnage rates have been partly offset by improved diversion rates.

8.2 Following the fire for the period August to October 2014 operational costs increased through reduced diversion and to November the cessation of royalty payments.

8.3 Excluding fire related costs, the current projections indicate a £200,000 net overspend at year end. All fire related losses incurred will be included in the insurance claim. The net revenue position in 2014/15 will need to be taken account of in the 2015/16 budget and levy setting process.

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9. Relevant officer:

9.1 Richard Szadziewski, Interim Finance Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588

10. Appendices attached:

Appendix A: Budget Monitoring Statement to 31 December 2014.

11. Background papers:

10 February 2014 - Revenue & Capital Estimates and Levy 2014/15 Report & Minute No/2014.

12. Legal considerations:

12.1 The Legal Adviser has been consulted in the preparation of this report which is provided to the Authority for information and noting and does not require decision. There are no legal implications to highlight.

13. Financial considerations:

13.1 As outlined in the report.

14. Performance management considerations:

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

15. Risk management considerations:

15.1 The projected position depends on the performance of the operator, tonnage levels and the success in achieving budgeted diversion levels. The impact of the fire will be significant unless mitigated by insurance.

16. Equalities considerations:

16.1 The equalities impact assessment identified no matters of concern.

17. Follow-up reports:

17.1 Provisional outturn 2014/15

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

18.1 None

19. Glossary:

Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
ELWA = East London Waste Authority
Operator = Shanks east.london
MBT=Mechanical Biological Treatment Facility
RDF = Refuse Derived Fuel

20. Approved by management board

20.1 26 January 2015.

21. Confidentiality:

21.1 Not Applicable.

BUDGET MONITORING STATEMENT TO 31 DECEMBER 2014

EXPENDITURE	Original Budget 2014/15 £'000	Profiled Budget to 31.12.14 £'000	Total Actual to 31.12.14 £'000	Variance to 31.12.14 £'000	Projected Outturn to 31.03.15 £'000	Outturn Variance £'000
Employee and Support Services	371	247	227	(20)	362	(9)
Premises and Transport related Expenditure	156	118	117	(1)	155	(1)
Supplies and Services						
Payments to Shanks.east London	58,075	40,403	40,557	154	58,496	421
Net additional landfill tax payments	0	0	300	300	300	300
Other (inc. cost of Support Costs)	462	233	181	(52)	397	(65)
Third Party Payments						
Recycling Initiatives	1,980	936	924	(12)	1,907	(73)
Tonne Mileage	500	250	249	(1)	500	0
Rent payable - property leases	317	190	190	0	317	0
Capital Financing Costs	186	82	82	0	186	0
TOTAL GROSS EXPENDITURE	**62,047**	**42,459**	**42,827**	**368**	**62,620**	**573**
INCOME						
Commercial Waste Charges	(2,900)	(1,450)	(1,444)	6	(2,886)	14
Interest receivable	(50)	(38)	(69)	(31)	(85)	(35)
Other income	(2,282)	(1,375)	(1,418)	(43)	(2,334)	(52)
Shortfall of Royalty income	0	0	158	158	158	158
Efficiency savings	(500)	(123)	(123)	0	(500)	0
TOTAL INCOME	**(5,732)**	**(2,986)**	**(2,896)**	**90**	**(5,647)**	**85**
Contingency Allocated	150	125	125	0	150	0
Less: Projected insurance recoveries	0	0	0	0	(458)	(458)
NET EXPENDITURE ON SERVICES	**56,465**	**39,598**	**40,056**	**458**	**56,665**	**200**
Previous years net underspend	(1,000)	(750)	(750)	0	(1,000)	0
PFI Grant Receivable	(3,991)	(2,993)	(2,993)	0	(3,991)	0
Transfer to PFI Contract Reserve	3,991	2,993	2,993	0	3,991	0
Levy Receivable	(48,060)	(36,045)	(36,045)	0	(48,060)	0
Transfer from PFI Contract Reserve	(5,935)	(4,451)	(4,451)	0	(5,935)	0
Contribution from reserves	(1,470)	(1,103)	(1,103)	0	(1,470)	0
NET	**0**	**(2,751)**	**(2,293)**	**458**	**200**	**200**

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