NOTICE OF MEETING

Monday, 24 November 2014 – 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 13/11/2014
Acting Managing Director

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

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.
3. Minutes – To confirm as correct the minutes of the meeting held on 15 September 2014 (pages 1-4)

Items for information

4. Annual Audit Letter 2013/14 (pages 5-14)
5. Treasury Management Mid Year Strategy Review (pages 15-18)
7. Budgetary Control to 30 September 2014 (pages 37-40)
8. Dates of next meetings:
   09/02/15 Levy (required by 15/02/15) and Annual Budget & Service Delivery Plan
   22/06/15 Annual General Meeting.

Items for decision

9. Appointment of Finance Director (pages 41-42)
11. Programme of Meetings (pages 55-58)
12. Any other public items which the Chair decides are urgent.

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

Confidential Business

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

Confidential items for information

14. Closed Landfill Sites - Update (pages 59-118)
   This report has been restricted to Members and specific officers only.

15. Contract Renegotiation & Efficiencies (pages 119 – 122)
   This report has been restricted to Members and specific officers only.

16. ELWA Limited 21/10/14 Board Agenda (pages 123-164)
   This report has been restricted to Members and specific officers only.

Confidential items for decision

17. Management Arrangements (pages 165-176)
   This report has been restricted to Members, Finance Director, Monitoring Officer and the Authority’s Business Partner, Human Resources only.
   The Authority’s Business Partner, Human Resources, will be in attendance for this item.

18. Any other confidential or exempt items which the Chair decides are urgent.
AUTHORITY MINUTES: MONDAY 15 SEPTEMBER 2014 (09.38AM – 11.02AM)

Present:
Councillor S Bain, Councillor R Benham, Councillor K Clark, Councillor S Kelly, Councillor B Nijjar (Vice Chair) and Councillor J Wade

19. Welcome and Apologies for Absence
In the absence of the Chair, Councillor Nijjar as Vice Chair extended a welcome to all attending the meeting.
An apology for absence was received from Councillor I Corbett (Chair) and Councillor Lynda Rice.

20. Declaration of Members’ Interests
There were none declared.

21. Minutes of previous meeting (23/06/14)
Members confirmed as true and accurate the minutes of the Authority meeting held on 23 June 2014 and the Vice Chair was authorised to sign the same.

22. Statement of Accounts and Auditor’s Report
Members have received and noted the Finance Director’s report attaching the Statement of the Accounts for 2013/14 and the tabled Auditor’s report. He advised that although the audit of the Authority’s accounts would be completed by the statutory deadline discussions with the auditors on the post balance sheet event note relating to the fire at Frog Island was required. The External Auditor was completing the review and planning to provide an unqualified opinion and certificate for the year ended 31 March 2014.

The Vice Chair welcomed the PricewaterhouseCoopers (PwC) External Auditor to the meeting. He attended for this item only. He informed members that the Statement of Accounts for the financial year 2013/14 was in line with indications given at the last meeting and confirmed that an unqualified opinion and certificate of the accounts would be given. There were no recommendations to consider.

He apologised for the late delivery of the ISA 260 report and talked Members through the processes. He advised that three risks had been identified but that no significant concerns had been raised. The disclosures in the financial statements were considered adequate in respect of the fire in the Frog Island MRF.

The Finance Director offered his thanks to the Auditor and commented on the good working relationship and good advice delivered. Members’ thanks were extended to the External Auditor and he left the meeting.

Members noted the report and agreed the Statement of Accounts for the financial year 2013/14.

23. Treasury Management Outturn 2013/14
The Finance Director presented his report containing the outturn figures for the financial year 2013/14. The report contained detail of the Revenue Budget, Prudential Indicators and 2013/14 Financial Statements. He confirmed that the Authority had managed its treasury management arrangements in accordance with strategy and had kept within its prudential indicators and that all investment was carried out in accordance with the approved creditworthiness criteria.

Members noted the report.

24. Budgetary Control to 31 July 2014
The Finance Director presented his regular revenue estimates and prudential indicators report showing a net overspend to date of £11,000. An overspend of £198,000 was projected at year
end as a result of higher than budgeted contract payments. This figure was net of any additional fire related costs. It was expected that the Frog Island incident would lead to increased costs through reduced diversion and the cessation of royalty payments. Recovery of these losses would be included in an insurance claim. Members would receive a more in-depth briefing on the Frog Island fire later in the Agenda.

Members enquired as to the funding options, insurance and tonnages positions and the Finance Director confirmed that he had warned the Directors of Environment and Treasurers of the constituent councils of the cost pressures going forward and of the levy setting risks.

He advised that so far as the Authority was aware, it was fully insured. There would be a considerable claim around the restoration of assets and other costs. The Authority would incur costs as it goes forward but it was expected to get the bulk of these monies back. He was fairly confident that that the core recovery costs would be recovered.

Members noted the report.


The Acting Managing Director presented the Contract Manager’s report showing monitoring, outcomes and actions taken in connection with the Integrated Waste Management Services (IWMS) contract. This report did not take account of activities as a result of the later Frog Island incident.

He advised that contract performance signs had been encouraging and a combination of population growth and increase in economic activity in the retail market had lead to overall contract tonnages delivered into the contract being higher than budgeted. The 1.5% pa predicted increase in tonnage in the long term was in line with housing and population growth. These factors would continue to provide budget pressures.

Given contamination issues, recycling was as expected at 26% being slightly above budget. Heightened focus on diversion from landfill has resulted in a performance of 78%

Concern was raised by one constituent council member that waste not being recycled by householders as it should be. Door knocking exercises were in place to address this issue.

Discussions took place regarding the ‘fines’ trial taking place at a Cumbria compositing facility and the achievement of potential savings. The processing of mattresses and large wood items at RRC sites was also discussed.

Members noted the report and requested a report be brought to the next meeting in respect of the effect of gross domestic product changes and future expansion in the constituent councils, on a per capita basis. A dry recycling composition analysis was also scheduled to be received at the November meeting.

26. Dates of Next Meetings

Members noted the future meeting dates for 2014/15 as being 24 November (Approval of the Annual Budget & Service Delivery Plan), 9 February 2015 ( Levy) and 22 June 2015 (Annual General Meeting). These dates were governed by legal timetables.

Members noted the meeting dates.

27. 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 relating to the financial and business affairs of third parties, an individual, negotiations related to labour relations between the Authority and its employee(s) and subject to an obligation of confidentiality and therefore exempt from publication by virtue of paragraphs 1, 3, 4 and 8 respectively of part 1 of Schedule 12A of the Local Government Act 1972 (as amended).
28. **IWMS Contract – Frog Island**

The Acting Managing Director talked Members through his photographic presentation on the recent events at Frog Island before commenting on his report. This report contained a detailed update on the activities at the Frog Island Mechanical Biological Treatment (MBT) facility, and the operational and financial implications for 2014/15 as well as next steps. Members were advised that the MBT plant could be out of use for approximately 9/12 months. It was anticipated that a 64% diversion rate would now be achieved at contact year end which was 10% below budget performance. Business continuity plans were in place.

Consideration was given to the seeking assistance of North London Waste Authority, Sita, Biffa and Veolia for the purposes of reducing landfill and landfill charges. This would be investigated.

**Members noted** the report.

29. **ELWA Ltd 22/07/14 Board Agenda**

**Members received and noted** the report.

30. **Closed Landfill Sites – Sale of Hall Farm**

Members received the Acting Managing Director’s confidential report and Appendices which contained detailed update on the disposal of the closed landfill site at Hall Farm and request for delegated authority to finalise a sale. Members discussed the implications of the sale with officers and have satisfied themselves as to the transfer of liabilities, overage and value for money and planning issues they had. The Acting Managing Director confirmed that constitutional requirements had been followed throughout the process.

**Members agreed to delegate power** to the Acting Managing Director to formally agree and finalise the detail of all particulars relating to the sale of Hall Farm at the stated price and to prepare complete and sign all necessary documentation and do all things necessary to facilitate the sale as set out in the report.

31. **Management Arrangements**

The Business Partner, Human Resources presented his confidential report setting out the background, current position, legislative requirements and opinion that it was considered the appropriate time to appoint, on a permanent basis, to the post of Managing Director. Members were being asked for a decision to facilitate this process. They were reminded of the terms of the Constitution.

**Members have considered the report and agreed** to the post of Managing Director being filled on a permanent basis and to the post being advertised internally to the staff of ELWA in the first instance and then externally if a suitable candidate could not be appointed.

**Members have also agreed to delegate** all recruitment activities, save the formal decision to appoint, to the Finance Director in consultation with ELWA’s Monitoring Officer and London Borough of Barking & Dagenham’s Human Resources department.

**Members have agreed** to receive a report from the Finance Director with recommendations regarding the recruitment to the Managing Director post for formal decision to the appointment to the post on a permanent basis, at the next meeting.

32. **Other Confidential Business**

None.

Minutes agreed as a true record.

Chair: ............................
Date: .............................
AUTHORITY REPORT:  ELWA ANNUAL AUDIT LETTER 2013/14

1. **Confidential Report**
   1.1 No

2. **Recommendation:**
   2.1 Members are requested to note the Annual Audit Letter.

3. **Purpose**
   3.1 The External Auditor’s letter, attached at Appendix A, is presented to Members for information. The purpose of the letter is to provide a high level summary of the results of the 2013/14 external audit work undertaken at ELWA.

4. **Current Position**
   4.1 The Code of Audit Practice requires the External Auditors to produce a separate Audit Letter.
   4.2 As Members will recall from the September 2014 Authority meeting, the External Auditor issued their ISA 260 report, which noted that ELWA had been issued with an unqualified set of financial statements and value for money conclusion.
   4.3 The difference between the ISA260 report and the Annual Audit Letter report is that the latter can contain financial recommendations for improvement. There are no major issues with good financial controls and value for money at ELWA. The Audit letter contains a recommendation in respect of the componentisation of assets. Officers will put in place arrangements in preparation for and as part of the revaluation of the MRF asset in 2014/15 taking account of the need then to componentise all of ELWA’s assets, for the 2014/15 Statement of Accounts.

5. **Relevant officer:**
   5.1 Geoff Pearce, Finance Director / email: finance@eastlondonwaste.gov.uk / Tel: 020 8708 3588

6. **Appendices attached:**
   6.1 Appendix A: External Auditor’s Annual Audit Letter

7. **Background Papers:**
   7.1 15 September 2014 - Statement of Accounts and Auditor’s Report & Minute 22

8. **Legal Considerations:**
   8.1 The legal requirements and considerations are contained in the body of the report and Appendix A

9. **Financial Considerations:**
   9.1 The Annual Audit Letter confirms the efficiency and effectiveness of the Authority’s financial arrangements.

10. **Performance Management Considerations:**
    10.1 As detailed in the Report

11. **Risk Management Considerations:**
    11.1 None

12. **Equalities considerations:**
    12.1 There are no specific equality implications arising from this report.
13. **Follow-up Reports:**
13.1 None

14. **Websites and e-mail links for further information:**
14.1 None

15. **Glossary:**
ELWA – East London Waste Authority
ISA 260 = International Standards on Auditing
MRF = Materials Recycling Facility

16. **Approved by Management Board**
16.1 10 November 2014

17. **Confidentiality:**
17.1 Not applicable
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**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

In April 2010 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.
Introduction

The purpose of this letter
This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Authority in the following reports:

- East London Waste Authority 2013/14 Audit Plan;
- Audit opinion for the 2013/14 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

Scope of Work
The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in June 2014 and is conducted in accordance with the Audit Commission’s Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

<table>
<thead>
<tr>
<th>Audit Responsibility</th>
<th>Results</th>
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<tbody>
<tr>
<td>Perform an audit of the accounts in accordance with the Auditing Practice Board’s</td>
<td>We reported our findings to those charged with governance on 15 September 2014 in our 2013/14 Report to those charged with governance (ISA (UK&amp;I) 260). On 30 September 2014 we issued an unqualified audit opinion.</td>
</tr>
<tr>
<td>International Standards on Auditing (ISAs (UK&amp;I)).</td>
<td></td>
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</table>
Audit Responsibility: Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.

Results: We submitted the assurance statement to the National Audit Office on 2 October 2014. There were no issues to report.

Audit Responsibility: Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.

Results: On 30 September 2014 we issued an unqualified value for money conclusion.

Audit Responsibility: Consider the completeness of disclosures in the Authority’s annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.

Results: There were no issues to report in this regard.

Audit Responsibility: Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.

Results: There were no issues to report in this regard.

Audit Responsibility: Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.

Results: There were no issues to report in this regard.

Audit Responsibility: Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Results: We issued our completion certificate on 30 September 2014.
Audit Findings

Accounts
We audited the Authority’s accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2014.

We noted significant issues arising from our audit within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Authority on 15 September 2014. We wish to draw the following points, included in that report, to your attention in this letter:

We identified the following key issues:
• Component accounting; and
• Valuation of property, plant and equipment and impairment review.

Value for Money
We carried out sufficient, relevant work in line with the Audit Commission’s guidance, so that we could conclude on whether you had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in your use of the Authority’s resources.

In line with Audit Commission requirements, our conclusion was based on:
• reviewing the annual governance statement (AGS);
• reviewing the results of the work of other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditor’s responsibilities at the audited body; and
• other local risk-based work as appropriate, or any work mandated by the Commission.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment. We issued an unqualified conclusion on the ability of the Authority to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Annual Governance Statement
Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts
We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted 30 September 2014. We found no areas of concern to report in this context.
We have set out below the one matter identified during our audit this year we consider to be most significant for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

As part of our audit work in 2014/15, we will follow up the recommendations we have made and report the status of these in future reports.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Management Response</th>
<th>Target Implementation Date</th>
</tr>
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<tbody>
<tr>
<td><strong>Component Accounting</strong>&lt;br&gt;Under the Code of accounting practice, for capital enhancement expenditure incurred since 1 April 2010, the Authority is required to apply component accounting.&lt;br&gt;In applying component accounting, the Authority would need to evaluate the useful life that would be derived from the enhancements. Where the useful life differed significantly for different types of enhancement expenditure (for example roofing and windows), separate assets would need to be recognised and depreciated over their respective lives.&lt;br&gt;In 2011/12, 2012/13 and 2013/14, the Authority has capitalised enhancement expenditure under the PFI agreement, known as 'lifecycle costs', but not treated them as separate components on the basis that the treatment does not result in materially different accounting.&lt;br&gt;This will need to be kept under review as the requirement to component account for all of ELWA’s assets will apply from the next revaluation of the MRF, planned for 2015.</td>
<td>Agreed</td>
<td>March 2015</td>
</tr>
</tbody>
</table>
### Final Fees

#### Final Fees for 2013/14
We reported our fee proposals in our audit plan.

Our actual fees were in line with our proposals at £18,270.

Our fees charged were therefore:

<table>
<thead>
<tr>
<th></th>
<th>2013/14 outturn</th>
<th>2013/14 fee proposal</th>
<th>2012/13 final outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit work performed under the Code of Audit Practice</td>
<td>18,270</td>
<td>18,270</td>
<td>18,270</td>
</tr>
<tr>
<td>- Statement of Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Whole of Government Accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non Audit Work</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>18,270</strong></td>
<td><strong>18,270</strong></td>
<td><strong>18,270</strong></td>
</tr>
</tbody>
</table>
In the event that, pursuant to a request which East London Waste Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. East London Waste Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and East London Waste Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, East London Waste Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for East London Waste Authority and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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AUTHORITY REPORT: TREASURY MANAGEMENT MID YEAR STRATEGY REVIEW 2014/15

1. Confidential Report
1.1 No

2. Recommendation:
2.1 Members are asked to note the report.

3. Introduction
3.1 The Treasury Management Strategy including borrowing and investment strategies is approved by Members on an annual basis. The current Strategy was agreed in February 2014 and this report details the progress against the strategy in the first six months of this financial year.

3.2 Under ELWA’s Constitution, the Finance Director is responsible for all the Authority’s banking, borrowing and investment activities. The Treasury Management function is carried out by the London Borough of Redbridge on behalf of ELWA.

3.3 The Authority’s activities are regulated by statutory requirements, ELWA’s Constitution, and a professional code of practice, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management. The Authority has adopted this code as part of its financial standing orders.

3.4 The Code recommends that Authorities produce a mid year report detailing Treasury Management operational activity for the first half of the year which would include Treasury Management indicators, and variations from agreed policies.

3.5 This report provides Members with a summary review of activity in the first half of 2014/15 and covers all borrowing and investment activities undertaken during this period.

4. Current Portfolio Position

External Borrowing

<table>
<thead>
<tr>
<th>Source</th>
<th>30.09.14 £000’s</th>
<th>Average Rate</th>
<th>31.03.14 £000’s</th>
<th>Average Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Works Loans Board</td>
<td>1,250</td>
<td>10.0%</td>
<td>1,250</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

4.1 These loans were taken out many years ago when interest rates were much higher than they are today. Early repayment/rescheduling has been considered but would incur a large premium.

Investments

4.2 The Authority is required to produce an Annual Investment Strategy that sets out the Authority’s policies in managing its investments. This was approved by Members as part of the Treasury Management Strategy at the Authority meeting in February 2014.

4.3 The main objective of the Investment Strategy is to ensure the security of the investments the Authority makes and also to maintain the liquidity of its investments in order to meet known liabilities. To meet this requirement the Authority has approved creditworthiness criteria which must be strictly adhered to when making investment decisions.

4.4 During the past year most market indicators have improved, however the Eurozone still has the potential to cause market uncertainty. The Authority will continue with its prudent approach to investments, prioritising security of the Authority’s money over yield but seeking to maximise return as markets improve.
4.5 The Authority is seeking to adopt more flexible practices as the world economy continues to move forward still focusing on high quality institutions. As the Authority by commercial standards has modest funds to lend out (£9m to £18m on average), gross returns will be limited, particularly as these sums continue to fall.

4.6 The Authority maintains liquidity through the use of overnight deposits with high credit quality Money Market Funds. In order to maintain flexibility in an environment where investment opportunities are limited, the lending list is reviewed regularly. As at the 30 September 2014, the Bank of England base rate is 0.5% and this is reflected in very low overnight and short-term interest rates.

4.7 The summary position for the Authority in terms of investments at 30th September 2014 is as follows:

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>30.09.14 £000’s</th>
<th>31.03.14 £000’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term</td>
<td>9,330</td>
<td>17,650</td>
</tr>
<tr>
<td>Deposit Account</td>
<td>35</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>9,365</td>
<td>17,662</td>
</tr>
</tbody>
</table>

4.8 As part of this mid-year report, the Investment Strategy needs to be reviewed to assess its continued appropriateness. Whilst markets have improved, Eurozone uncertainty and a sensitive global market have meant that a prudent operational lending strategy is required. This ensures that risks to ELWA’s investments are minimised so that no losses have been incurred. It is appropriate to continue to follow the present Strategy for the remainder of the financial year and the market position will be regularly reviewed and considered.

5. Borrowing Requirements/Capital Programme first half of 2013/14

5.1 In February 2014 the Authority was advised that the estimated total borrowing at 31st March 2014 was £1,250,000 consisting of Public Work Loans Board (PWLB) loans on a fixed rate basis and that the financing of future capital expenditure would be via the temporary use of cash balances or to raise loans via the PWLB and capital markets. The Authority was also advised that ELWA might in certain circumstances need to make arrangements to finance capital expenditure in 2014/15 as a result of the ongoing review of landfill sites. Therefore taking account of borrowing at 31st March 2014 and on grounds of prudence it was recommended that an additional borrowing requirement of £400,000 was set for 2014/15 to be used if needed.

5.2 No capital expenditure has been necessary during 2014/15 to date.

5.3 The financial implications of the fire at Frog Island are being monitored and are discussed elsewhere on the Agenda. There has been no requirement for capital funding to date.

6. Prudential Indicators

6.1 The Authority is obliged by regulation to give due regard to the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, and set Prudential Indicators for Treasury Management prior to the start of the financial year. Prudential Indicators cover borrowing, lending and capital expenditure levels and these are monitored on a monthly basis by the Finance Director.

6.2 In the Finance Director’s report of 10th February 2014, Prudential Indicators for 2014/15 were agreed by the Authority. These are presented at Appendix A to the report.

7. Conclusion

7.1 Although market indicators have improved over the past year, global financial markets still remain sensitive. In order to ensure the security of its investments and maintain liquidity for the Authority, ELWA continues with its strategy of keeping within its
prudential indicators, being prudent on operational lending whilst recognising how the markets are changing.

7.2 Officers will continue to follow the agreed ELWA Strategy for the remainder of the financial year whilst monitoring the market for any developments.

8. Relevant officer:
8.1 Geoff Pearce Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3588

9. Appendices attached:

10. Background Papers:

11. Legal Considerations:
11.1 The legal and constitutional requirements in relation to the Authority’s Treasury Management Strategy are set out in the body of this report and as this is an information report the Legal Advisor has no further legal comment to add.

12. Financial Considerations:
12.1 As outlined in this report.

13. Performance Management Considerations:
13.1 Treasury management operational activity is monitored and reported to Members half yearly.

14. Risk Management Considerations:
14.1 Main objective of the investment strategy is the security of investments.

15. Equalities considerations:
15.1 There are no specific equality implications arising from this report.

16. Previous Reports:


17. Follow-up Reports:

18. Websites and e-mail links for further information:
18.1 None

19. Glossary:
CIPFA = Chartered Institute of Public Finance and Accountancy
ELWA = East London Waste Authority
PWLB = Public Work Loans Board

20. Approved by Management Board:
20.1 10 November 2014

21. Confidentiality:
21.1 Not applicable
Treasury Management Prudential Indicators – 2014/15 Half Yearly Position

<table>
<thead>
<tr>
<th>Authorised Limit for External Debt</th>
<th>Limit 2014/15 £’000</th>
<th>Actual 2014/15 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>14,000</td>
<td>1,250</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>92,000</td>
<td>89,031</td>
</tr>
<tr>
<td>TOTAL</td>
<td>106,000</td>
<td>90,281</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational Boundary for External Debt</th>
<th>Limit 2014/15 £’000</th>
<th>Actual 2014/15 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>12,000</td>
<td>1,250</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>92,000</td>
<td>89,031</td>
</tr>
<tr>
<td>TOTAL</td>
<td>104,000</td>
<td>90,281</td>
</tr>
</tbody>
</table>

Adopt the CIPFA Code of Treasury Management

ELWA has adopted the CIPFA code of Practice in Treasury Management in the Public Services as part of its Financial Standing Orders.

Upper Limits on Interest Rate Exposure (based on net principal outstanding)

<table>
<thead>
<tr>
<th></th>
<th>Limit 2014/15 £m</th>
<th>Actual 2014/15 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate</td>
<td>7.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Variable Rate</td>
<td>(24.0)</td>
<td>(21.3)</td>
</tr>
</tbody>
</table>

Projected borrowing at fixed rates maturing in each period as percentage of total projected borrowing at fixed rates

<table>
<thead>
<tr>
<th></th>
<th>2014/15 Upper Limit</th>
<th>2014/15 Lower Limit</th>
<th>2014/15 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 12 months</td>
<td>35%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>45%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>60%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>80%</td>
<td>0%</td>
<td>35%</td>
</tr>
<tr>
<td>10 and within 20 years</td>
<td>100%</td>
<td>0%</td>
<td>63%</td>
</tr>
<tr>
<td>20 years and within 35 years</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>35 years to 50 years</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Upper Limit for Total Principal sums invested for more than 364 days

<table>
<thead>
<tr>
<th></th>
<th>Limit 2014/15 £m</th>
<th>Actual 2014/15 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>
AUTHORITY REPORT: CONTRACT MONITORING & WASTE MANAGEMENT REVIEW TO SEPTEMBER 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 September 2014 (Half year).
3.2 To update Members with regards to the fire at Frog Island.
3.3 To report back to Members request for information regarding waste growth and contamination in collected dry recyclates.

4.1 Contract waste tonnage for the first half of the year was 234,022 tonnes which is 1.6% (3,700) above forecast and an increase of 7,200 tonnes over the same period last year. This tends to confirm the year on year increase in tonnage analysed later in this report.
4.2 Recycling performance for the half year was 26%, slightly over budget (25%) but on expectation, as first half performance is usually better than the second as a consequence of the green waste collections.
4.3 The fire at the Frog Island facility has had the inevitable effect of lowering diversion with both August and September 12% lower than budget at 62% but due to the previous 4 months of above expected performance the half year figure is only 1% below budget.
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 September and to date for 2014. However, these figures are subject to ratification by Defra.

<table>
<thead>
<tr>
<th>Constituent Council</th>
<th>% Recycling Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 2014</td>
</tr>
<tr>
<td>LB Barking &amp; Dagenham (LBBD)</td>
<td>27.0%</td>
</tr>
<tr>
<td>LB Havering (LBH)</td>
<td>34.5%</td>
</tr>
<tr>
<td>LB Newham (LBN)</td>
<td>18.0%</td>
</tr>
<tr>
<td>LB Redbridge (LBR)</td>
<td>31.4%</td>
</tr>
</tbody>
</table>

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

5.1 With effect from 3rd 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 some 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.

5.4 The ongoing repairs to line 1 and the Refinement section are progressing to schedule and in line with the project plan as attached as Appendix A.

6. **Tonnage projections**

6.1 In recent years ELWA’s budgets have been under increased pressure from increased tonnage collected by the constituent councils and delivered into the contract. A detailed analysis of tonnages, changes in the number of households, Gross Domestic Product (GDP) and other known facts was undertaken and the results of which are attached in Appendix B.

6.2 The outcomes appear to be that the constituent councils have ‘bottomed out’ most of the major waste minimisation activities and that the main driver of additional tonnage appears to be due to population growth in the region.
6.3 The financial consequences of this anticipated growth is included in the Finance Director’s reports elsewhere on the agenda.

7. **Dry Recycling Composition Analysis**

**Background**

7.1 All four constituent councils provide a ‘dry’ recycling collection service, targeting plastic bottles, tins, cans, paper, cardboard and in LBR’s case, glass.

7.2 The collection systems differ slightly in frequency, targeted materials, containerisation, collection method and tipping destination. Any recycling collection will have some degree of contamination of items not designated for that collection; among ELWA’s constituent councils these vary quite widely.

7.3 LBBD and LBN collections are closely aligned, with the main difference being that LBN collect fortnightly rather than weekly. Both boroughs’ material is delivered to the Jenkins Lane Materials Recovery Facility (MRF) where it is either processed on site by Shanks or bulked and sent to a third party MRF.

7.4 LBH collect the same materials but in an orange sack rather than a wheeled bin. This material is delivered to the Frog Island facility where it is bulked and sent to a third party MRF.

7.5 LBR collect glass in addition to the other materials in split-back vehicles. This is delivered to the Ilford Recycling Centre (IRC) where it is processed on site by Shanks.

7.6 Recently introduced MRF sampling regulations require MRF operators to measure and report the quality of inputs to and outputs from their facilities. This will allow ELWA to gather data for both Shanks’ and third party MRFs which will inform future planning.

**Definitions**

7.7 The breakdowns of contamination levels in this report are sourced from sampling data taken in April/May 2014. It should be noted that contamination tends to increase around the Christmas period, so annualised figures would be slightly higher than those shown below.

7.8 Sampled material is sorted into the following categories.

a) Recyclate – items specified for collection by borough.

b) Non-target recyclate – items generally recognised as recyclable but not specified for collection by the borough i.e. rigid plastics, textiles.

c) Spoilt recyclate – items specified for collection but spoilt by contaminants i.e. paper affected by food waste.

d) Contaminant - anything not specifically mentioned as acceptable or generally recognised as recyclable.

**Contamination data**

7.9 The following data reflects approximately 30 days worth of sampling.

7.10 LBBD (Jenkins Lane Materials Recovery Facility):

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recyclate</td>
<td>67%</td>
</tr>
<tr>
<td>Non-target recyclate</td>
<td>16%</td>
</tr>
<tr>
<td>Spoilt recyclate</td>
<td>4%</td>
</tr>
<tr>
<td>Contaminant</td>
<td>13%</td>
</tr>
</tbody>
</table>

7.11 LBBD material is affected by a high level of non-target material, which suggests that residents are trying to recycle but do not fully understand which items are accepted. However, 13% of contaminant is relatively high.
7.12 LBN (Jenkins Lane Materials Recovery Facility):

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recyclate</td>
<td>58%</td>
</tr>
<tr>
<td>Non-target recyclate</td>
<td>13%</td>
</tr>
<tr>
<td>Spoilt recyclate</td>
<td>5%</td>
</tr>
<tr>
<td>Contaminant</td>
<td>24%</td>
</tr>
</tbody>
</table>

7.13 Almost a quarter of Newham’s collected material comprises items which are not generally considered recyclable, pointing to a high level of misunderstanding or lack of enthusiasm for recycling among residents.

7.14 LBBD and LBN (third party MRF) – due to the high levels of contamination present, it is at times not possible to put this material to the market as commercial MRFs do not want it. However, when it is sent to third party MRFs, the contamination levels reported to ELWA are artificially low (circa 15%) as it is blended with cleaner recyclate from other sources. This improves the overall contamination rate for LBBD and LBN material but creates a false impression of the quality.

7.15 LBH (third party MRF):

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recyclate</td>
<td>96%</td>
</tr>
<tr>
<td>Non-target recyclate</td>
<td>2%</td>
</tr>
<tr>
<td>Contaminant</td>
<td>2%</td>
</tr>
</tbody>
</table>

7.16 LBH material is very clean. The majority of non target material is reported as textiles, which suggests this is a sensible area to target. ELWA is aware of plans to incorporate textiles and small electrical equipment into these collections which will have implications on tipping arrangements that will need to be managed, if plans go ahead.

7.17 LBR (Ilford Recycling Centre) - Due to the kerbside sort procedure contamination has not historically been an issue.

7.18 In recent months there have been incidents of cross contamination, whereby target materials have appeared in the wrong compartment i.e. plastic bottles in with paper, which should be kept separate. This can be managed but causes operational issues at the tipping site. The problem appears to be with faulty mechanisms on some of the older vehicles – this is being addressed.

7.19 There are no major concerns regarding LBR material.

8. Conclusion

The overall contract tonnage delivered into the contract was higher than that budgeted for which we consider to be a combination of population growth and the increase in economic activity in the retail environment. 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.

9. Relevant officer:

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

10. Appendices attached:

Appendix A – Shanks Project Phoenix – Reinstatement Programme – v3 30/09/14

Appendix B – Waste Growth Analysis

11. Background Papers:

11.1 None
12. Legal Considerations:
12.1 The Legal Adviser has been consulted in the preparation of this report and confirms there are no legal implications to highlight.

13. Financial Considerations:
13.1 Tonnages levels and landfill tax liabilities are the main driver of costs within the IWMS contract. The impact of the increased tonnages and improved diversion in the earlier part of the year is explained in more detail in the Budgetary Control to 30 September 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.
13.2 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.

14. Performance management considerations:
14.1 None

15. Risk management considerations:
15.1 None

16. Equalities considerations:
16.1 The equalities impact assessment identified no matters of concern.

17. Follow-up reports:
17.1 None

18. Websites and e-mail links for further information:
18.1 None

19. Glossary
ABSDP = Annual Budget & Service Delivery Plan
Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
ELWA / the Authority= East London Waste Authority GDP =Gross Domestic Product
IRC =Ilford Recycling Centre
IWMS = Integrated Waste Management Services
LBBD =London Borough of Barking & Dagenham
LBH = London Borough of Havering
LBN = London Borough of Newham
LBR = London Borough of Redbridge
MBT = Mechanical Biological Treatment
MRF = Materials Recycling Facility
NI192 = National Indicator (Household Waste Recycled or Composted)
RDF = Refuse Derived Fuel
RRC = Reuse & Recycling Centre(s)

20. Approved by management board:
20.1 10 November 2014

21. Confidentiality:
21.1 Not applicable
SHANKS PROJECT PHOENIX – Reinstatement Programme – v3 dated 30/9/14
WASTE GROWTH ANALYSIS

DAVE HAWES
CONTRACT MANAGER
Households

The total number of Households across the ELWA region has increased 6% in the period 2009 -2014.

BARKING & DAGENHAM  7%
HAVERING        6%
NEWHAM        10%
REDBRIDGE        3%

A Total of over 20,500 properties.
Collected Waste
(i.e. Black bag and Kerbside recycling)

During this same period Collected waste had continued the falls shown in previous years (from the start of the contract 2002) despite the increased population.

However over the last two years this trend has reversed and appears to be showing signs of increasing in line with the current economic environment.

2009 Tonnage  355,926t
2014 Tonnage  351,993t

Had collected waste grown in line with the increase in the number of households we would have expected 375,000t.
RRC Tonnage

RRC Tonnage mirrored the general fall in waste with a downward spike at the introduction of the revised entry procedure being put in place.
Average Kilograms Of Waste and Recycling collected from each household

Despite the increase in tonnage and general upturn in economic activity the tonnage collected per household had continued to decline until recent years where at present is appearing to bottom out at current levels.

Apart from Frizlands Lane the RRC tonnage tended to mirror the collected waste Frizlands Lane may be as a result of its location as it serves a catchment area that can attract waste from all four boroughs.
Total Waste tonnage

The Total waste which includes the Collected waste, the RRC waste and also the commercial and municipal waste collected by the boroughs indicates the now year on year tonnage increases.
GDP & Tonnage Growth

It was originally considered that waste growth may be linked to the national recovery in GDP, as it does show some similarity but this is not substantiated by the KG’s / Household and it is now thought to be linked more closely with the areas population growth.

Future Growth

GLA Household Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>BARKING &amp; Dagenham</th>
<th>Havering</th>
<th>NEWHAM</th>
<th>REDBRIDGE</th>
<th>ELWA</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>75,461</td>
<td>101,503</td>
<td>111,316</td>
<td>103,010</td>
<td>391,290</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>77,201</td>
<td>102,704</td>
<td>114,255</td>
<td>103,914</td>
<td>398,075</td>
<td>1.7%</td>
</tr>
<tr>
<td>2016</td>
<td>78,942</td>
<td>103,906</td>
<td>117,195</td>
<td>104,817</td>
<td>404,859</td>
<td>3.5%</td>
</tr>
<tr>
<td>2017</td>
<td>80,272</td>
<td>105,329</td>
<td>119,405</td>
<td>105,495</td>
<td>410,501</td>
<td>4.9%</td>
</tr>
<tr>
<td>2018</td>
<td>81,602</td>
<td>106,752</td>
<td>121,615</td>
<td>106,174</td>
<td>416,143</td>
<td>6.4%</td>
</tr>
<tr>
<td>2019</td>
<td>82,932</td>
<td>108,175</td>
<td>123,826</td>
<td>106,853</td>
<td>421,785</td>
<td>7.8%</td>
</tr>
<tr>
<td>2020</td>
<td>84,262</td>
<td>109,598</td>
<td>126,036</td>
<td>107,532</td>
<td>427,427</td>
<td>9.2%</td>
</tr>
</tbody>
</table>

The Household growth predicted by the GLA for the four boroughs if translated into Tonnages collected would increase our overall figure from:

2013 - 14 @ 434,730 to 2019 - 20 of 475,000 tonnes
Total Number of Households

Collected Tonnage

Total Tonnage

Kgs per H/H (collected waste)

Kgs per H/H (Total)

<table>
<thead>
<tr>
<th>Year</th>
<th>H/H’s</th>
<th>Collected Tonnage</th>
<th>Total Tonnage</th>
<th>Anticipated Tonnage 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-10</td>
<td>70,515</td>
<td>66,314</td>
<td>93,310</td>
<td></td>
</tr>
<tr>
<td>13-14</td>
<td>75,461</td>
<td>71,694</td>
<td>96,607</td>
<td>105,528</td>
</tr>
</tbody>
</table>

Change from 2009 7% 8% 4%
<table>
<thead>
<tr>
<th>Year</th>
<th>H/Hold's</th>
<th>Collected Tonnage</th>
<th>Total Tonnage</th>
<th>Anticipated Tonnage 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-10</td>
<td>99,385</td>
<td>88,612</td>
<td>115,766</td>
<td></td>
</tr>
<tr>
<td>13-14</td>
<td>102,107</td>
<td>94,400</td>
<td>111,948</td>
<td>118,409</td>
</tr>
</tbody>
</table>

Change from 2009: 3% 7% -3%

Total Number of Households

Collected Tonnage

Total Tonnage

Kg’s per H/H (collected waste)

Kgs per H/H (Total)
### Total Number of Households

- **Year**: 09-10, 10-11, 11-12, 12-13, 13-14
- **Values**: 95,000, 100,000, 105,000, 110,000, 115,000

### Collected Tonnage

- **Year**: 09-10, 10-11, 11-12, 12-13, 13-14
- **Values**: 80,000, 90,000, 100,000, 110,000, 120,000

### Total Tonnage

- **Year**: 09-10, 10-11, 11-12, 12-13, 13-14
- **Values**: 500, 700, 900, 1100, 1300

### Kgs per H/H (collected waste)

- **Year**: 09-10, 10-11, 11-12, 12-13, 13-14
- **Values**: 800, 900, 1000, 1100, 1200

<table>
<thead>
<tr>
<th>Year</th>
<th>H/Hold's</th>
<th>Collected Tonnage</th>
<th>Total Tonnage</th>
<th>Anticipated Tonnage 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-10</td>
<td>101,799</td>
<td>119,436</td>
<td>139,810</td>
<td></td>
</tr>
<tr>
<td>13-14</td>
<td>112,472</td>
<td>105,028</td>
<td>117,778</td>
<td>128,655</td>
</tr>
</tbody>
</table>

Change from 2009:
- **Values**: 10%, -12%, -16%
<table>
<thead>
<tr>
<th>Year</th>
<th>H/Hold's</th>
<th>Collected Tonnage</th>
<th>Total Tonnage</th>
<th>Anticipated Tonnage 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-10</td>
<td>99,385</td>
<td>88,612</td>
<td>115,766</td>
<td></td>
</tr>
<tr>
<td>13-14</td>
<td>102,107</td>
<td>94,400</td>
<td>111,948</td>
<td>122,286</td>
</tr>
<tr>
<td>Change from 2009</td>
<td>3%</td>
<td>7%</td>
<td>-3%</td>
<td></td>
</tr>
</tbody>
</table>

![Graphs showing total number of households, collected tonnage, and kg per household.](image)
AUTHORITY REPORT: BUDGETARY CONTROL TO 30 SEPTEMBER 2014

1. Confidential Report
1.1 No.

2. Recommendation:
2.1 To note this report.

3. Purpose
3.1 This budgetary control report compares ELWA’s actual expenditure for the period ended 30 September 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 recent serious fire at Frog Island. Paragraphs 4.1 to 4.7 deal with the position excluding the impact of the fire. The remainder of paragraph 4 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 5 discusses the progress of the insurance claim further.

4. Background

Revenue Budget ongoing variables

4.1 Based on the profiled budget of £29,744,000 and the actual net expenditure on services of £30,482,000 the position is a net overspend of £738,000 to date. (See Appendix A.)

4.2 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 will be between 432,000 and 440,000 tonnes. Therefore for the purposes of this report a year end tonnage at an approximate mid-point of 435,000 tonnes has been assumed. Officers will need to continue to monitor trends to determine possible increases in tonnages per household as well as demographic trends.

4.3 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 the diversion rate for July was 76.2% and 77.6% cumulative for the year.

4.4 Employee and other non-contract costs are projected to be in line with budget at year end with bank interest income making a small recovery due to higher interest rates.

4.5 Based on ELWA technical officer advice commercial waste income is projected to be in line with the Budget at year end.

4.6 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.

4.7 Therefore excluding the impact of the fire the pressure on tonnages is partly offset by the improved diversion in the early months of the year and a £200,000 overspend is projected at year end in respect of payments to the Operator. Taking account of improved interest receipts and a projected underspend in recycling initiatives an overall £153,000 overspend is projected at year end.

4.8 Revenue Budget impact of the fire
4.9 The loss of operations has resulted in more waste being sent to Landfill. This has meant that the Authority has incurred landfill tax on tonnage that otherwise would have been diverted. The Acting Managing Director advises that the actual August figure was 63% and for September 62%. Projected total year diversion has now been revised to 63%, twelve percentage points below the budgeted 75% and consequently this will impact on the projected outturn figure. Additional landfill tax payments (less the diversion supplements which would have been paid) are projected to be £1.8 million at year end.

4.10 However a further impact of the fire is that waste continues to be directed to all available sites which are now working to full capacity. This has meant that the sites have been unable to process additional non-contract waste which has resulted in the loss of royalty income for the remainder of the financial year. This is projected to be £252,000 at year end.

4.11 The value of the loss of business will be claimed from the insurers, these are early projections and therefore provisional. Appendix A assumes that these are recovered. This is developed below.

5. **The Insurance claim**

5.1 At the Authority meeting on 15th September 2014 Members were advised of the impact of the fire. This has particularly affected the refinement section with a loss of all conveyors and most of the attached machines. It could be 12 months before the facility is fully operating again.

5.2 The insurance claim is also for the re-instatement of the asset and business interruption losses. The loss adjusters have put a report to the insurers and their report has yet to be confirmed by the insurers. 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. Members will be briefed as this matter progresses.

5.3 For the future the next insurance renewal date is December 2014 and some very significant changes in premiums and terms must be expected. The renewal work is currently underway.

6. **Prudential indicators**

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

7. **Conclusion**

7.1 Prior to the fire although tonnages were higher than budgeted for this was partly offset by improved diversion rates.

7.2 The recent fire has increased operational costs through reduced diversion and the cessation of royalty payments.

7.3 Excluding fire related costs, the current projections indicate a £153,000 overspend at year end. Fire related losses incurred will be included in the insurance claim.

7.4 The pressure on the levy and the reserves over the next few years has been previously reported. The loss of operational capacity resulting from the fire may contribute to the pressure although it is anticipated that most of this will be covered by insurance.

8. **Relevant officer:**

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

9. **Appendices attached:**

Appendix A: Budget Monitoring Statement to 30 September 2014.
10. **Background papers:**

11. **Legal considerations:**
11.1 None.

12. **Financial considerations:**
12.1 As outlined in the report.

13. **Performance management considerations:**
13.1 The financial position and projections should reflect service performance trends.

14. **Risk management considerations:**
14.1 The projected position depends on the performance of the contractor, tonnage levels and the success in achieving budgeted diversion levels. The impact of the fire will be significant unless mitigated by insurance.

15. **Equalities considerations:**
15.1 The equalities impact assessment identified no matters of concern.

16. **Follow-up reports:**
16.1 Budgetary Control Report, next meeting

17. **Websites and e-mail links for further information:**
17.1 None

18. **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

19. **Approved by management board**
19.1 10 November 2014.

20. **Confidentiality:**
20.1 Not Applicable.
## BUDGET MONITORING STATEMENT TO 30 SEPTEMBER 2014

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>Original Budget 2014/15 £'000</th>
<th>Profiled Budget to 30.09.14 £'000</th>
<th>Total Actual to 30.09.14 £'000</th>
<th>Variance to 30.09.14 £'000</th>
<th>Projected Outturn to 30.09.14 £'000</th>
<th>Outturn Variance £'000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee and Support Services</strong></td>
<td>371</td>
<td>185</td>
<td>170</td>
<td>(15)</td>
<td>371</td>
<td>0</td>
</tr>
<tr>
<td><strong>Premises and Transport related Expenditure</strong></td>
<td>156</td>
<td>70</td>
<td>66</td>
<td>(4)</td>
<td>156</td>
<td>0</td>
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<tr>
<td><strong>Supplies and Services</strong></td>
<td><strong>58,075</strong></td>
<td>30,500</td>
<td>30,666</td>
<td>166</td>
<td>58,275</td>
<td>200</td>
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<tr>
<td>Payments to Shanks.east London</td>
<td>0</td>
<td>0</td>
<td>600</td>
<td>600</td>
<td>1,800</td>
<td>1,800</td>
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<tr>
<td>Net additional landfill tax payments</td>
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<td>0</td>
<td>600</td>
<td>600</td>
<td>1,800</td>
<td>1,800</td>
</tr>
<tr>
<td>Other (inc. cost of Support Costs)</td>
<td>462</td>
<td>165</td>
<td>147</td>
<td>(18)</td>
<td>463</td>
<td>1</td>
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<tr>
<td><strong>Third Party Payments</strong></td>
<td><strong>1,980</strong></td>
<td>954</td>
<td>942</td>
<td>(12)</td>
<td>1,957</td>
<td>(23)</td>
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<tr>
<td>Recycling Initiatives</td>
<td>500</td>
<td>250</td>
<td>249</td>
<td>(1)</td>
<td>500</td>
<td>0</td>
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<tr>
<td>Rent payable - property leases</td>
<td>317</td>
<td>158</td>
<td>158</td>
<td>0</td>
<td>317</td>
<td>0</td>
</tr>
<tr>
<td><strong>Capital Financing Costs</strong></td>
<td>186</td>
<td>62</td>
<td>62</td>
<td>0</td>
<td>186</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL GROSS EXPENDITURE</strong></td>
<td><strong>62,047</strong></td>
<td>32,344</td>
<td>33,060</td>
<td>716</td>
<td><strong>64,025</strong></td>
<td>1,978</td>
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<tr>
<td><strong>INCOME</strong></td>
<td><strong>(5,732)</strong></td>
<td><strong>(2,600)</strong></td>
<td><strong>(2,578)</strong></td>
<td>22</td>
<td><strong>(5,505)</strong></td>
<td>227</td>
</tr>
<tr>
<td>Commercial Waste Charges</td>
<td>(2,900)</td>
<td>(1,450)</td>
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<td>(2,900)</td>
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<tr>
<td>Interest receivable</td>
<td>(50)</td>
<td>(25)</td>
<td>(50)</td>
<td>(25)</td>
<td>(75)</td>
<td>(25)</td>
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<tr>
<td>Other income</td>
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<td>(1,032)</td>
<td>(1,032)</td>
<td>0</td>
<td>(2,282)</td>
<td>0</td>
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<tr>
<td>Shortfall of Royalty income</td>
<td>0</td>
<td>0</td>
<td>47</td>
<td>47</td>
<td>252</td>
<td>252</td>
</tr>
<tr>
<td>Efficiency savings</td>
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<td>(93)</td>
<td>(93)</td>
<td>0</td>
<td>(500)</td>
<td>0</td>
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<tr>
<td><strong>TOTAL INCOME</strong></td>
<td><strong>(5,732)</strong></td>
<td><strong>(2,600)</strong></td>
<td><strong>(2,578)</strong></td>
<td>22</td>
<td><strong>(5,505)</strong></td>
<td><strong>227</strong></td>
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<tr>
<td>Contingency Allocated</td>
<td>150</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>150</td>
<td>0</td>
</tr>
<tr>
<td>Less: Projected insurance recoveries</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>NET EXPENDITURE ON SERVICES</strong></td>
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<td><strong>29,744</strong></td>
<td><strong>30,482</strong></td>
<td><strong>738</strong></td>
<td><strong>56,618</strong></td>
<td><strong>153</strong></td>
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<tr>
<td>Previous years net underspend</td>
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<td>(500)</td>
<td>(500)</td>
<td>0</td>
<td>(1,000)</td>
<td>0</td>
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<tr>
<td>PFI Grant Receivable</td>
<td>(3,991)</td>
<td>(1,996)</td>
<td>(1,996)</td>
<td>0</td>
<td>(3,991)</td>
<td>0</td>
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<tr>
<td>Transfer to PFI</td>
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<td>1,996</td>
<td>1,996</td>
<td>0</td>
<td>3,991</td>
<td>0</td>
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<tr>
<td>Contract Reserve</td>
<td>Levy Receivable</td>
<td>(48,060)</td>
<td>(24,030)</td>
<td>(24,030)</td>
<td>0</td>
<td>(48,060)</td>
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<tr>
<td>Transfer from PFI</td>
<td>(5,935)</td>
<td>(2,968)</td>
<td>(2,968)</td>
<td>0</td>
<td>(5,935)</td>
<td>0</td>
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<tr>
<td>Contract Reserve</td>
<td>Contribution from reserves</td>
<td>1,470</td>
<td>(735)</td>
<td>(735)</td>
<td>0</td>
<td>(1,470)</td>
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<tr>
<td><strong>NET</strong></td>
<td>0</td>
<td>1,511</td>
<td>2,249</td>
<td>738</td>
<td>153</td>
<td>153</td>
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</tbody>
</table>
AUTHORITY REPORT: APPOINTMENT OF FINANCE DIRECTOR

1. Confidential Report
1.1 No.

2. Recommendation:
2.1 Members are asked to:
   a) Approve the appointment of Finance Director.

3. Purpose
3.1 This report sets out the current finance management arrangements of the Authority and seeks a decision from the Authority to appoint the Finance Director to the Authority from London Borough of Redbridge (LBR).

4. Background
4.1 The Statutory Officer functions of the authority are assigned in part to the Appointed Officers: the Managing Director is the statutory Head of Paid Service; the Finance Director is the statutory Chief Finance Officer. The legal adviser to the Authority has always been a legal officer from Barking and Dagenham who is appointed the statutory Monitoring Officer.
4.2 The appointment of Statutory Officers is reserved to the Authority by law and or statutory guidance and cannot be delegated.
4.3 The responsibility of these functions is laid out in the scheme of delegation in Part C of the Constitution. Specifically Section C of Part C in the Constitution relates to the Finance Director.
4.4 The role of Finance Director has been held by the Finance Director of LBR since ELWA began.
4.5 LBR also provide other support services to the Authority covered by Service Level Agreements for the functions of budgetary control, treasury management and internal audit functions.

5. Current Position
5.1 The current Finance Director has served the Authority well for 16 years and has provided sound advice to both the Management Board and Members and ensured that financial management remained robust during this time.
5.2 The current Finance Director has made the decision to retire from his role in LBR and as such is no longer able to assume the role of Finance Director for ELWA. As a result Members will need to make the new appointment to the role of Finance Director.
5.3 As outlined in paragraph 4.5 above, LBR provide a significant proportion of the financial management role for ELWA and for this reason, to ensure continuity, it is recommended that the Statutory Officer position of Finance Director remains with LBR until such time as Members may require a review of functions. It is not expected that this will need to be carried out for the foreseeable future.
5.4 The current Finance Director is due to begin his retirement in January 2015 and LBR are in the process of recruiting their Finance Director. At the time of writing this report it has not been possible to put a name to this role however it is expected that this will be put forward at the Authority meeting of November 2014.

6. Conclusion
6.1 It is considered that in order to maintain continuity and effectiveness of the overall financial management arrangements that the appointment of Finance Director to the Authority remains with LBR.
7. **Relevant officer:**
Mark Ash, Acting Managing Director / email. [mark.ash@eastlondonwaste.gov.uk](mailto:mark.ash@eastlondonwaste.gov.uk) / Landline: 020 8724 5614 / Mobile: 07972003874.

8. **Appendices attached:**
8.1 None.

9. **Background Papers:**
9.1 ELWA Constitution

10. **Legal Considerations:**
10.1 The proposals set out in this report are consistent with the Authority’s Constitution.

11. **Financial considerations:**
11.1 The Finance Director is the statutory Chief Finance officer for ELWA. The cost of the ELWA Finance Director and the supporting functions of financial support, Treasury Management and Internal Audit is set by a service level agreement and met from the corresponding budget.

12. **Performance management considerations:**
12.1 There are no performance management issues related to this report.

13. **Risk management considerations:**
13.1 The decision to appoint the Finance Director post from LBR maintains continuity and thereby minimises risk to the Authority.

14. **Equalities considerations:**
14.1 None.

15. **Follow-up reports:**
15.1 None.

16. **Websites and e-mail links for further information:**
16.1 None

17. **Glossary:**
ELWA = East London Waste Authority
LBR = London Borough of Redbridge

18. **Approved by Management Board**
18.1 10 November 2014.

19. **Confidentiality**
19.1 Not applicable
AUTHORITY REPORT: FINANCIAL PROJECTION AND BUDGET STRATEGY 2015/16 TO 2017/18

1. Confidential Report
   1.1 No

2. Recommendation:
   2.1 Members are asked to agree the Financial Projection and Budget Strategy for the years 2015/16 to 2017/18.

3. Purpose
   3.1 In accordance with good practice and in order to comply with Financial Standing Orders, this report presents the Authority’s Financial Projection and Budget Strategy for the three years from 2015/16 to 2017/18 with particular focus on the 2015/16 financial year.

4. Executive Summary
   4.1 For a number of years ELWA has faced significant cost pressures which would have resulted in unpalatable Levy increases had they not been mitigated by the use of reserves and one off items. The use of reserves has been as part of a plan for the Authority to find long term more sustainable savings mainly from the contract with ELWA Ltd. This level of reserve use is unsustainable in the medium to long term and in this three year strategy it is proposed to bolster reserves.

   4.2 Therefore, unless there are major structural changes to the Integrated Waste Management Strategy (IWMS) contract and/or a large reduction in waste tonnages, we would continue to face levy increases that are difficult for the Constituent Councils to accept in the current economic climate. Against this background the three year budgets assume an additional efficiency savings/contract reduction target of £1.5 million compared to the 2014/15 Budget. As reported to Members at recent Authority meetings the Acting Managing Director has detailed the progress on the existing efficiency savings target in 2014/15 and potential further measures to meet the increased target in subsequent years.

   4.3 Although the Authority has made some progress in limiting increases in overall waste disposal costs and seeking increased diversion from landfill, there remains a continuing impact from previous increases in landfill tax, contractor inflation and the need to reduce dependence on using reserves. It is proposed that no reserves are to be used in 2015/16 onwards to mitigate the Levy increase which is a significant part of the reason for the proposed large increase in the Levy in 2015/16.

   4.4 The IWMS contract continues to be the dominant element of the budget (94%). This in turn is driven by tonnage levels and the in-built contractual costs. The tonnage assumed in the 2014/15 Budget was 429,000 tonnes but officers now expect waste levels could be up to 440,000 tonnes in this year. Based on ELWA technical officer advice the 2015/16 budget assumes 446,000 tonnes with an approximate 1.5% growth in 2016/17 and 2017/18. It is therefore vital that ELWA continues to negotiate with the operator to substantially reduce costs so as to mitigate levy increases.

   4.5 Members have been advised of the impact of the fire at the Frog Island Mechanical Biological Treatment Facility (MBT) and its impact in 2014/15. It is assumed that most losses in 2014/15 are covered by insurance. For the three year Financial Strategy 2015/16 to 2017/18 its main impact has been assumed to be an increase in insurance premiums.

   4.6 The main factors and outcomes within this three year financial plan are as follows:

   a) As required in the IWMS, contract, cost inflation has been built into the projections. This is 80% of the Retail Price Index (RPIX) at the previous October each year. Based on the September figures this is estimated to be 1.9% for 2015/16, and projected to be 2.0% for 2016/17 and 2.0% for 2017/18.
b) Tonnages are assumed to increase to 446,000 tonnes in 2015/16 with a 1.5% annual growth in 2016/17 and 2017/18.

c) A Landfill tax rate of £82 per tonne has been assumed in 2015/16. As part of the 2014/15 Levy setting and Budget Process it was assumed that there would be no further increases in the Landfill Tax rate of £80 per tonne as this was the ceiling in the existing scheme. Subsequently the Government announced that annual increases tied to the retail price index would take place from 2015/16 and these have been incorporated in the three year projections.

d) In the past reserves have been used to dampen down Levy increases. Given that the reserves are already at a level to cover the projected risks then for the 3 year period the Levy projection assumes no reserves are used in 2015/16 and in 2016/17 and 2017/18 it is proposed to increase reserves by £0.5m each year.

4.7 The Local Government Act 2003 lays down that the ‘Chief Finance Officer’ of the Authority has the responsibility to report on the adequacy of the proposed financial reserves. There needs to be a balance between trying to mitigate levy increases and maintaining an adequate level of reserves. The Budget Strategy represents the minimum level of reserves that currently I deem to be adequate given the risks and uncertainties faced by ELWA.

4.8 Given the above it will be necessary for a significant increase in the Levy in 2015/16 but with much smaller increases in 2016/17 and 2017/18. Therefore, the levy increases within this plan are currently projected to be 9.5%, 3.7% and 2.7% in each of the three years 2015/16, 2016/17 and 2017/18 respectively. This compares when the levy was set in February with previous projections of 7.2% for 2015/16 and 3.7% for 2016/17.

4.9 It is important to note that this represents the average increase. The levy for each constituent council will be based on updated tonnage figures and the number of Band D properties, which will be provided in time for the Levy report in February 2015.

4.10 It needs to be stressed once again these projected levy increases need to be considered in the context of the overall financing of the public sector in which Councils are facing significant reductions in Government funding. Projected future levy increases can only be mitigated if ELWA’s savings programme/contract renegotiation delivers significant ongoing results.

5. **Background**

**General Budget Strategy**

5.1 Members will be aware of the extremely difficult financial climate facing all constituent councils. The Budget Strategy aims to explore all avenues of cost minimisation in order to mitigate increases in the levy.

5.2 As part of this Strategy, the Authority will seek new funding and new ways of working as well as pushing forward the ‘savings agenda’/contract re-negotiation as periodically reported to the Authority. Through the latter it will also continue to look at new ways to improve its waste minimisation and diversion performance and review efficiencies and cost savings within the IWMS contract.

5.3 In terms of the levy, the Authority will seek to set a balanced and prudent budget, and to keep any increase in the levy to the lowest possible level. The Authority will also seek to manage the risks it faces through the maintenance of an adequate and prudent level of reserves.

5.4 In September 2010, Members considered a report on the methodologies for calculating the levy. It was agreed at that time the current methodology was the preferred option. Members agreed in December 2012 to continue with the current methodology.
6. **Revenue Budget Assumptions**

**Contractor Costs**

6.1 The ELWA revenue budget has 3 general components: contractor costs, non-contractor costs and income.

6.2 The cost of waste disposal under the contract with ELWA Ltd accounts for approximately 94% of ELWA’s total gross expenditure. For 2014/15 overall tonnage is projected to be approximately 435,000 tonnes although it could be as high as 440,000 tonnes depending on the winter months. Based on this, previous year trends and expected growth in households a total ELWA tonnage figure of 446,000 tonnes has been assumed for 2015/16. The Levy report to be presented in February 2015 will reflect the updated Technical Officers’ reports from the constituent councils.

6.3 The projected breakdown by Constituent Council, based on 2013/14 actuals is as follows:

<table>
<thead>
<tr>
<th>Constituent Council</th>
<th>2015/16 budgeted tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barking and Dagenham</td>
<td>98</td>
</tr>
<tr>
<td>Havering</td>
<td>111</td>
</tr>
<tr>
<td>Newham</td>
<td>122</td>
</tr>
<tr>
<td>Redbridge</td>
<td>115</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>446</strong></td>
</tr>
</tbody>
</table>

6.4 Members are advised that from the 2014/15 financial year the Landfill Tax rate reached the ceiling rate of £80 per tonne following a number of annual stepped increases of £8 per tonne. In the Levy setting report of February 2014 in the absence of information from Central Government at that time, it was assumed that the Landfill Tax rate would remain at £80 per tonne. In March 2014 as part of the Chancellor’s Budget Statement it was announced that any future rise will be related to the retail price index rounded to the nearest 5 pence from 1st April 2015. For the purposes of this report therefore it is assumed the Landfill Tax rate will rise from £80 to £82 in 2015/16 with increases of £2 in 2016/17 and 2017/18. This will add an additional pressure in 2015/16 and 2016/17 of £250,000, £500,000 and £750,000 respectively compared to the position assumed in the February 2014 Levy report.

6.5 At your last meeting an update to Members was provided on the fire at the Frog Island MBT Facility and its impact on ELWA’s operations. Although for this Financial Strategy report it is assumed that the Frog Island MBT will be fully operational in 2015/16. To the extent it is not operational and losses result then it is assumed that these will be covered by insurance.

6.6 It is also anticipated that following the fire at the Frog Island MBT the Authority’s insurance premium will increase. At this stage based on Insurance officer advice which inevitably at this stage is to an extent speculative, it is assumed that the Authority’s contribution to the premium will increase from £175,000 to £500,000 from 2015/16. Discussions are continuing with the Insurers on the cost of future cover, risk and the excess payable and Members will receive an update on this as part of the Levy report to be considered in February 2015.

**Revised diversion arrangements**

6.7 ELWA Technical Officers advise that there are new arrangements for diversion supplements and these should significantly benefit ELWA financially. Up to the 2015/16 financial year ELWA would pay an incentive payment of £10.81 per tonne (at 2014/15 prices) for the first 23% diverted and a higher amount of £16.22 above this. The new arrangements for 2015/16 onwards assumes the lower rate for all performance up to 45%. Therefore regardless of other variables, for 2015/16 and future years there will be
an inbuilt annual saving to ELWA based on current tonnage levels of approximately £450,000 per annum.

6.8 There is also an incentive for the Operator’s performance on diversion not to fall below 67% as such performance will result in the Operator incurring the whole of the resulting Landfill tax liability rather than (their) small proportion.

6.9 There is also the possibility that new diversion arrangements similar to the current agreement could be put into place to incentivise the contractor to deliver performance above the base figure of 67% which could lead to further significant savings as the relatively small increase in incentive payments is greatly exceeded by the reduction in the Landfill Tax liability. Negotiations are currently ongoing with the operator on how these savings will be shared between ELWA and the operator.

6.10 It is proposed that for this Three Year Financial Strategy the diversion rate is set at 70% with the assumption that ELWA benefits from the saving resulting from the improved diversion over the base level up to 70%. Any savings resulting from a diversion performance above 70% may need to be shared with the Operator following appropriate negotiations. The ELWA share would then be available as a contribution to meeting the Managing Director’s efficiency savings target of £2,000,000 from 2015/16 onwards.

Non-Contractor Costs

6.11 It is assumed that the pay offer to be consulted on of 2.2% for 2014/15 and 2015/16 is built into employee budgets with a 1% increase assumed after 2015/16. Other non-contractor budgets have been kept at 2014/15 levels with any inflationary pressures thus being contained. It is proposed that the current provision for the contingency is maintained at £150,000.

6.12 The revenue maintenance costs of landfill sites are met from the non-contractor costs budget. Should these be sold then there will be a revenue saving in this budget.

Income

6.13 ELWA receives income from the Constituent Councils in respect of commercial waste tonnage. It is proposed that the budgeted income figure for 2015/16 remains the same as in 2014/15. This assumes the existing commercial waste arrangements continue for the next three years. Any change to this position will be reflected in future Levy setting and Financial Projection and Budget Strategy reports.

6.14 There is also some other income, for example, investment income and trade waste royalty income. It is proposed that investment income will remain the same as the budget was significantly reduced in 2014/15. For 2015/16, based on previous experience royalty income is projected to be £522,000 with inflation uplifts in 2016/17 and 2017/18.

6.15 The assumptions in the above paragraphs on income assume that the Frog Island MBT is fully operational from 2015/16 onwards. To the extent that it is not then it is assumed that the shortfall of income is considered as a business loss and covered by insurance.

7. Contract Renegotiations/Efficiency Savings

7.1 As part of the 2014/15 Budget Setting Process the Authority agreed an efficiency savings target of £500,000 and in the 2014/15 budget monitoring reports the Acting Managing Director advises that this target will be achieved in the current financial year.

7.2 The Levy setting process also assumed that for the 2015/16 levy and in future years efficiency savings of £2 million would be required. Such a target will be challenging and may require not only structural changes to the contract, but also seeking more waste minimisation measures which would largely be influenced by the Constituent Councils. As explained in paragraphs 6.9 and 6.10 above it is proposed that any cost reduction to ELWA in the contract arising from improved diversion over 70% would be a contribution to the £2 million target. The Acting Managing Director in partnership with the Department of Environment, Food and Rural Affairs is reviewing options for savings and has reported progress to Members.
7.3 The Acting Managing Director advises that although it may be possible to generate £1 million of efficiency savings it is unlikely that the target of £2 million will be achieved in 2015/16 and in future years. It should be noted that any shortfall in the efficiency target in 2015/16 will lead to further pressure on the levy as the £2 million ongoing target is built into the levy projections in this report. To avoid this eventuality it is important that this target remains an aspiration for the Authority and all options are considered to generate this level of saving.

8. Reserves Strategy

8.1 As part of the Levy Setting report in February 2014, it was agreed that the minimum level of general reserves needed to cover risks facing the Authority was £3.5 million. But this must be seen as a minimum with a need for the Authority to increase it. It was also agreed that the Private Finance Initiative (PFI) reserve would be discontinued from the end of 2014/15.

8.2 As part of this three year Financial Strategy, at the end of 2017/18 there will be general reserves of £4.5 million. This is broadly a continuation of the position I reported as part of the levy setting in February 2013 and February 2014 and recognises the need to build up the reserves in the medium term. Further details and the basis for the proposed level of reserves are in paragraph 9.

8.3 The former PFI reserve existed to smooth the IWMS contract step price increases in the early years of the contract. It was good financial practice and agreed ELWA policy that a suitable level of PFI contract reserve be set aside in the years prior to such changes to avoid large step increases in the levy in future years. As there will be no further step increases in the cost of the contract, and as part of the contract ELWA will pay less in diversion supplements from 2015/16 onwards, then Members agreed to discontinue this reserve in February 2013. This Financial Strategy report assumes this same position.

9. Revenue Reserves - Assumptions

9.1 The Authority accepted in the early years of the contract that a minimum level of normal operational revenue balances should be set aside and the suggested approach is a risk-based one. Reserves may also be needed to help implement new developments. The Local Government Act 2003 indeed requires Authority Chief Finance Officers to maintain an adequate level of reserves.

9.2 The risks are detailed in paragraph 13 but in summary these relate to tonnages being higher and diversion lower than projected, a shortfall of commercial waste and royalty income, and particularly the risk of delays in the assumed efficiency savings.

9.3 As agreed as part of the 2014/15 Levy setting process the general reserve would be at a minimum of £3.5m at the end of 2015/16 and £4m at the end of 2016/17. It is now proposed that general reserves are increased by £0.5m to £4.5m by the end of 2017/18. This is to reflect the more volatile environment for the Authority and the risks inherent in the generation of efficiency savings. This further increase is also recommended against the background of the fire at the Frog Island MBT.

10. Closure of Landfill Sites

10.1 The responsibility for, and maintenance of, four closed landfill sites continues to carry a significant financial risk for ELWA including the cost of potential damage to third parties. Currently maintenance operations are at relatively low cost but the nature of the sites creates some financial uncertainty for the future. At your last meeting Members were advised of the current position in respect of the disposal of the Hall Farm closed landfill site.

10.2 Members will be aware that there is a £400,000 capital reserve earmarked for future costs at the Aveley site. Should this site be sold then there will no longer be a need for this capital reserve. It is proposed that this reserve is written back to revenue if the site is disposed of.
11. **Other Assumptions**

11.1 In February 2014 as part of the 2014/15 Budget and Levy report Members agreed to use £200,000 from the 2012/13 and 2013/14 underspends to help mitigate the Levy increase in 2015/16. In the last quarter of 2013/14 tonnages for the period were higher than anticipated and the final tonnage for the year was 434,600 compared to the budgeted tonnage of 426,000. The less favourable outturn position means that the £200,000 is no longer available for this purpose.

12. **Determination of the Levy and Levy apportionment**

12.1 The calculation of the levy is determined by the costs and income detailed in paragraph 6, and the use of reserves as described in paragraphs 8 to 9.

12.2 Based on the analysis in paragraphs 6 to 11 a levy increase of 9.5% in 2015/16 is projected.

12.3 Key projections such as tonnages will need to be reviewed by ELWA officers to ensure they are accurate before the 2015/16 levy report is presented.

12.4 The reconciliation of the updated projected levy increase in 2015/16 with that projected in the February 2014 levy report is detailed below.

<table>
<thead>
<tr>
<th>Original projection 2015/16 (£m)</th>
<th>Updated projection 2015/16 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15 levy</td>
<td>48.1</td>
</tr>
<tr>
<td>IWMS contract</td>
<td></td>
</tr>
<tr>
<td>• tonnages &amp; inflation</td>
<td>1.1</td>
</tr>
<tr>
<td>• diversion</td>
<td>(0.4)</td>
</tr>
<tr>
<td>• insurance</td>
<td>0.3</td>
</tr>
<tr>
<td>Landfill taxes inflation</td>
<td>0.3</td>
</tr>
<tr>
<td>Reduction in the use of reserves</td>
<td>3.4</td>
</tr>
<tr>
<td>Use of previous year underspend</td>
<td>0.8</td>
</tr>
<tr>
<td>Efficiency savings</td>
<td>(1.5)</td>
</tr>
<tr>
<td>Projected 2015/16 levy</td>
<td>51.5</td>
</tr>
</tbody>
</table>

12.5 The table below summarises the draft financial plan for the next three years, highlighting the expenditure budget requirements, the projected levy increases and draw down of reserves.

<table>
<thead>
<tr>
<th>Summary Budget</th>
<th>2015/16 £’000</th>
<th>2016/17 £’000</th>
<th>2017/18 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Budget</td>
<td>58,634</td>
<td>60,079</td>
<td>61,574</td>
</tr>
<tr>
<td>Annual PFI Grant</td>
<td>(3,991)</td>
<td>(3,991)</td>
<td>(3,991)</td>
</tr>
<tr>
<td>Efficiency savings</td>
<td>(2,000)</td>
<td>(2,000)</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Sub Total</td>
<td>52,643</td>
<td>54,088</td>
<td>55,583</td>
</tr>
</tbody>
</table>

**Financed By**

| Transfer(from)/to General Reserve   | 0             | 500           | 500           |
| Levy                               | 52,643        | 54,588        | 56,083        |
| Levy Increase over previous year   | 9.5%          | 3.7%          | 2.7%          |
12.6 ELWA Members will understand the impact of its levy on the Constituent Councils’ budgets and it is important to keep any annual increases to a minimum subject to the continual need for financial prudence and operational viability. These two pressures must be balanced and Members must also take a three-year view on the budget strategy. It is likely that ELWA will continue to face uncertainty in the future and financial pressures cannot be ruled out for the remainder of the current year and for the 2015/16 to 2017/18 period that follows.

12.7 The table below shows the impact of the projected levy increases by Constituent Council, based on the 2013/14 household tonnages and 2014/15 Band D figures. Appendix A to the report shows the build up of the projected increase in the Levy in 2015/16 by individual borough.

<table>
<thead>
<tr>
<th>Constituent Councils - Levy</th>
<th>2014/15 Actual £’000</th>
<th>2015/16 £’000</th>
<th>2016/17 £’000</th>
<th>2017/18 £’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barking &amp; Dagenham</td>
<td>9,429</td>
<td>10,286</td>
<td>10,666</td>
<td>10,958</td>
</tr>
<tr>
<td>Havering</td>
<td>11,990</td>
<td>12,769</td>
<td>13,241</td>
<td>13,604</td>
</tr>
<tr>
<td>Newham</td>
<td>13,389</td>
<td>15,186</td>
<td>15,747</td>
<td>16,178</td>
</tr>
<tr>
<td>Redbridge</td>
<td>13,252</td>
<td>14,402</td>
<td>14,934</td>
<td>15,343</td>
</tr>
<tr>
<td>Total</td>
<td>48,060</td>
<td>52,643</td>
<td>54,588</td>
<td>56,083</td>
</tr>
</tbody>
</table>

12.8 It is important to stress that these estimates are likely to change when the February 2015 Levy report is produced. At that stage up to date Band D figures will have been confirmed by the constituent councils. Work on the updated revised split for the Levy report will be delivered in conjunction with the Finance and Environment Directors of Constituent Councils. Any ongoing impact of the fire could affect the overall figures.

12.9 This Financial Projection and Budget Strategy highlight various complex issues facing ELWA, which necessitates a prudent approach to its Projection and Strategy. Waste management generally continues to be subject to many changes, a number of which are beyond ELWA’s control. The Projection and Strategy has been prepared in conjunction with, and are supported by all of the ELWA Directors.

12.10 When considering these Financial Projections and Budget Strategy, Members will need to have regard to the Authority’s longer-term position and the level of its reserves over the next few years.

12.11 The levy forecasts for 2016/17 and 2017/18 clearly can only be taken as an attempt to provide the most helpful indication presently possible for planning purposes, together with an explanation of some of the relevant factors concerned. However, a change in any of a number of uncertain factors, for example waste growth, inflation assumptions and any new legislation could significantly impact on the overall projections.

12.12 In summary the proposal is to finance the overall increased net costs by levy increases of 9.5%, 3.7% and 2.7% in the years 2015/16 to 2017/18.

13. **Risks**

13.1 The setting of the levy and the determination of the level of reserves needs to take account of the risks facing the Authority. These are detailed below.
East London Waste Authority  
24 November 2014  

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a) Waste volumes could increase at a different rate than that assumed in these figures. The extra cost is £0.4m per 1% increase in waste.  
b) Impact of the population increase and projections for the future.  
c) Retail Price Inflation at greater than RPIX (at 80%) in 2014/15 will increase these costs. The extra costs are £0.6m per 1%.  
d) Landfill Tax will increase these costs in 2015/16. Every £1 per tonne on landfill tax increases costs by approximately £0.15m per annum. The position for 2015/16 and onwards is that the tax will increase in line with the retail price index. The previous arrangement was for the tax to go up in stepped annual increases of £8 per tonne. Any move back to a similar arrangement would have a significant impact on costs.  
e) New Regulations over waste, for example, the definitions of household waste, could increase waste and therefore increase costs.  
f) Problems around contract delivery and / or the need to change the contract.  
g) Risks of not achieving diversion rates/ unfavourable outcomes from the negotiations on the new diversion arrangements.  
h) An issue of concern for the future will be the pace of development of the Thames Gateway as well as general population increases. All four Constituent Councils are predicting population increases over the next few years.  
i) The willingness of constituent councils to fund the ongoing increases in the ELWA levy, particularly as these Councils continue to face budget reductions.  
j) The risk that the generation of efficiency savings at the level required takes longer than projected or delivers less.  
k) Any residual problems caused by the fire at the Frog Island MBT.  

13.2 A thorough review of the likelihood of risk will be built into the calculations of an adequate reserve level and this will be presented in detail in the levy report to be considered by Members in February 2015.  

14. Next Steps  

14.1 Early January 2015 – Tonnage figures updated based on information from ELWA and Constituent Council officers as well as each Council’s updated Band D figures.  
14.2 Early February 2015 – Members consider the 2015/16 Revenue Budget and set the levy.  
14.3 The table at 12.7 shows the impact of the increases by Constituent Council based on the 2014/15 apportionment rate. The split between Constituent Councils will change when further tonnage and population information becomes available.  

15. Conclusion  

15.1 Waste Disposal has been subject to much legislation and regulation over many years and there is potential for further legislation on this area. Coupling this agenda with the dramatic cuts in council funding means the focus on sizeable cost reductions will be an ongoing and potentially volatile theme.  
15.2 ELWA, by letting an IWMS contract and gaining PFI support has put itself in a better position than others who have no PFI funding. However the need to re-negotiate the contract is clear. This report sets out the projected financial pressures on ELWA, proposes a Strategy for the use of reserves and suggests that the overall levy increase will be between 2.7% and 9.5% over the three year period.  
15.3 The increase in 2015/16 does not use any reserves to dampen down the increase in the Levy. The significant increase in year 1 of the Three Year Financial Strategy results mainly from the movement from a Budget supported by net reserves of £3.4 million to one which is not supported by reserves. The further Levy increases in years 2 and 3 therefore only reflect increases in tonnages and inflationary cost pressures. The Finance Director will continue consulting with Constituent Councils’ Directors during the next couple of months regarding the details of this Financial Projection and Budget Strategy.
Detailed calculations of actual levy increases will be considered at the February meeting of the Authority prior to the start of the 2015/16 financial year.

15.4 However, it is the view of the Finance Director that the projected future increases in the levy will be extremely challenging for the four constituent councils in the existing financial climate. Therefore it is vital that ELWA’s saving plans deliver significant and ongoing savings. In this report the Budget already assumes £2 million of such savings. However, more efficiency savings will be needed if levy increases are to be kept to an affordable level or halted.

15.5 The Budget Strategy recommended in this report will need to be kept under review in the light of any new circumstances.

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

17. Appendices attached:
17.1 Appendix A - Split of levy increase 14/15 to 15/16 by Constituent Council

18. Background Papers:
27 September 2010 – Alternative Methodology for Calculating the ELWA Levy - Report and Minute 2010/29

26 September 2011 – Utilisation of SRF Markets to increase contract diversion performance – Confidential report and Minute No. 2011/26


19. Legal Considerations:
19.1 None.

20. Financial considerations:
20.1 As detailed in the report.

21. Performance management considerations:
21.1 As detailed in the report.

22. Risk management considerations:
22.1 As detailed in the report.

23. Equalities considerations:
23.1 The proposals and recommendation in this report are to agree the Financial Projection and Budget Strategy for the next three years. The Acting Managing Director advises that the proposals do not particularly affect any one group as defined by the equalities legislation.

24. Follow-up reports:
24.1 Levy setting report February 2015

25. Websites and e-mail links for further information:
25.1 www.eastlondonwaste.gov.uk
26. **Glossary:**
26.1 ELWA = East London Waste Authority
26.2 Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge
26.3 IWMS = Integrated Waste Management Strategy
26.4 MBT = Mechanical Biological Treatment Facility
26.5 PFI = Private Finance Initiative
26.6 RPIX = Retail price index excluding mortgages

27. **Approved by Management Board**
27.1 10 November 2014

28. **Confidentiality:**
28.1 None
## SPLIT OF LEVY INCREASE 14/15 TO 15/16 BY CONSTITUENT COUNCIL

<table>
<thead>
<tr>
<th></th>
<th>Barking &amp; Dagenham</th>
<th>Havering</th>
<th>Newham</th>
<th>Redbridge</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
<td>£m</td>
</tr>
<tr>
<td>IWMS contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tonnages and inflation</td>
<td>0.33</td>
<td>0.13</td>
<td>1.03</td>
<td>0.45</td>
<td>1.94</td>
</tr>
<tr>
<td>diversion</td>
<td>-0.17</td>
<td>-0.21</td>
<td>-0.24</td>
<td>-0.24</td>
<td>-0.86</td>
</tr>
<tr>
<td>insurance</td>
<td>0.06</td>
<td>0.07</td>
<td>0.11</td>
<td>0.09</td>
<td>0.33</td>
</tr>
<tr>
<td>Landfill taxes inflation</td>
<td>0.05</td>
<td>0.05</td>
<td>0.09</td>
<td>0.06</td>
<td>0.25</td>
</tr>
<tr>
<td>Reduction in the use of reserves</td>
<td>0.68</td>
<td>0.86</td>
<td>0.95</td>
<td>0.93</td>
<td>3.42</td>
</tr>
<tr>
<td>Use of prev. years overspend</td>
<td>0.2</td>
<td>0.25</td>
<td>0.28</td>
<td>0.27</td>
<td>1.0</td>
</tr>
<tr>
<td>efficiency savings</td>
<td>-0.3</td>
<td>-0.37</td>
<td>-0.42</td>
<td>-0.41</td>
<td>-1.5</td>
</tr>
<tr>
<td><strong>Projected 2015/16 Levy</strong></td>
<td><strong>10.28</strong></td>
<td><strong>12.77</strong></td>
<td><strong>15.19</strong></td>
<td><strong>14.4</strong></td>
<td><strong>52.64</strong></td>
</tr>
</tbody>
</table>
AUTHORITY REPORT: PROGRAMME OF MEETINGS 2014-2015

1. Confidential Report
   1.1 No

2. Recommendation:
   2.1 Members are asked to:
      a) agree the Authority meeting dates for the year 2015/16 and provision for an informal workshop in March 2015.

3. Purpose
   3.1 To consider and agree the schedule of meetings for the Authority meetings for the period to June 2016.

4. Background
   4.1 This programme is based around specific dates by which the East London Waste Authority (ELWA) is either legally or contractually required to approve key matters, as referred to below. The schedule of meetings has been revised to take account of:
      a) finance and accounting deadlines;
      b) the timing of member appointments to ELWA by the constituent councils;
      c) purdah pre election period and elections date;
      d) organisational and operational demands; and
      e) a better spread of meetings across the year.

5. Current agreed dates of future Authority meetings
   09/02/2015 Approval of annual Levy (required by 15/02/13)
   22/06/2015 Annual General Meeting

6. Proposed dates of Authority meetings
   14/09/2015 Annual Governance Report & Statement of Accounts (required by 30/09/2014)
   23/11/2015
   08/02/2016 Approval of annual Levy (required by 15/02/15) and IWMS Annual Budget & Service Delivery Plan (ABSDP)
   20/06/2016 Annual General Meeting

   6.1 It is proposed that an informal half day workshop take place in March 2015 for Members to receive presentations from Constituent Council officers on their strategies and aspirations for waste management post the Integrated Waste Management Services (IWMS) Contract. ELWA Officers will then be in a position to prepare the way forward for Members, at a future Authority meeting, to agree the Strategy for ELWA.

   6.2 Members will continue to receive the monthly bulletin between Authority meetings, in accordance with their wishes in September 2012. This document will contain information about the actual and projected performance and relevant news.

   6.3 As happens now, the Chair, Vice-Chair and ELWA Ltd ‘A’ director will be invited to attend a monthly briefing based on the information provided in the bulletin.

7. Authority meetings venue
   7.1 Authority meetings will continue to be hosted by constituent councils and start, where possible, at 9.30 am on the above dates.
8. Management Board meetings
8.1 It is usual practice for ELWA Management Board meetings to be held a fortnight prior to the Authority dates. Therefore, the following dates reflect the proposals above for the Authority meetings.

9. Current agreed dates of Management Board meetings
   26/01/2015 (Levy)
   08/06/2015 (AGM)

10. Proposed dates of future Management Board meetings
   27/08/15 or 01/09/2015 (Annual Governance & Statement of Accounts)
   09/11/2015
   25/01/2016 (Levy & ABSDP)
   21/03/2016
   06/06/2016 (AGM)

11. Management Board Meetings venue
11.1 It is proposed to continue to hold all Management Board meetings at the offices of the Authority.

12. Conclusion
12.1 The revised schedule of meetings fulfils our obligations and better meets the needs of the Authority.

13. Relevant officer:
Shirley-Ann Gray / e-mail Shirley.gray@eastlondonwaste.gov.uk / 020 8724 5803

14. Appendices attached:
14.1 None

15. Background Papers:
15.1 25 November 2013 – Programme of Meetings Report- & Minute No. 35/2013

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

17. Financial Considerations:
17.1 The report highlights dates for Authority meetings where key documents such as ELWA’s Levy and the Statement of Accounts need to be agreed by the Authority. It is important to ensure that Authority meetings are held on or around these proposed dates so that the Authority meets key financial statutory deadlines.

18. Performance Management Considerations:
18.1 None

19. Risk Management Considerations:
19.1 Not Applicable

20. Follow-up Reports:
20.1 None
21. Websites and e-mail links for further information:
21.1 None

22. Glossary:
Constituent Councils = the London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge
ELWA /the Authority = East London Waste Authority
IWMS = Integrated Waste Management Services

23. Approved by management board
23.1 Not Applicable

24. Confidentiality:
24.1 None
NOT FOR PUBLICATION
By virtue of paragraph(s) 1, 2, 3 and 4 of

THE FOLLOWING DOCUMENTS ARE RESTRICTED

   Agenda Items 14, 15, 16 & 17