NOTICE OF MEETING

Monday, 06 February 2017
Committee Rooms 1 & 2
Civic Centre, Corner of Wood Lane/Rainham Road North, Dagenham, RM10 7BN– 9.30am

Members

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

Mark Ash
Managing Director

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27 January 2017

AGENDA

For Information:	1.	Apologies for absence
For Information:	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.
For Decision:	3.	Minutes – To agree the minutes of the Authority meeting held on 21 November 2016 and authorise the Chair to sign the same. (pages 1-4)
For Information:	4.	Budgetary Control & Contract Monitoring to 31 December 2016. (pages 5-14
For Decision:	5.	Treasury Management Strategy 2017/18. and Prudential Code Indicators 2017/18 to 2019/20 (pages 15-48)
For Decision:	6.	Review of the Corporate Risk Register (pages 49-60).
For Information:	7.	Annual Budget & Service Delivery Plan 2017-2018 (pages 61-64).
For Decision:	8.	Revenue & Capital Budgets and Levy 2017/18 (pages 65-84).
For Information:	9.	Date of next meeting: 19 June 2017. Members are asked to note the date of the next Authority meeting which is the Annual General Meeting.
	10.	Any other public items which the Chair decides are urgent.
For Decision	11.	To consider whether it would be appropriate to pass a resolution pursuant to Section 100A (4) of the Local Government Act 1972. To consider whether it would be appropriate to pass a resolution

		to exclude the public and press from the remainder of the meeting due to the nature of the business to be transacted.

Confidential Business

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

For Information	12.	ELWA Limited 30/01/17 Board Agenda (pages 85-129)
	13.	Any other confidential or exempt items which the Chair decides are urgent.

AUTHORITY MINUTES: MONDAY 21 NOVEMBER 2016 (09.45 AM–10.45 AM)

Present:

Councillor K Clark (Chair), Councillor S Bain (Vice Chair), Councillor I Corbett, Councillor O Dervish and Councillor L Rice.

28. Apologies for Absence

An apology for absence was received on behalf of and Councillor J Howard, Councillor S Kelly and Councillor J Wade. The meeting was confirmed to be quorate.

29. Declaration of Members' Interests

There were none declared.

30. Minutes of previous meeting (12/09/16)

Members confirmed as true and accurate the minutes of the Authority meeting held on 12 September 2016. The Chair was authorised to sign the same.

31. Appointment of Monitoring Officer

Members received the Managing Director's report on the requirement to formally appoint a Monitoring Officer to the Authority on the departure of Eldred Taylor-Camara from his Constituent Council and consequently the position of Legal Advisor and Monitoring Officer to the Authority.

Members noted that Suzan Yildiz, Legal Services Manager and Regeneration Lawyer, London Borough of Barking & Dagenham, had been appointed by her Constituent Council to be the Authority's Legal Adviser.

Members agreed the recommendation to appoint Suzan to the position of Monitoring Officer to the Authority in accordance with the terms of the Constitution.

32. Programme of Meetings 2017/2018

Members received the Office Manager's report with proposals for the Authority to meet to approve key matters in compliance with legal or contractual requirements for the municipal year to June 2018.

Members agreed that they would meet on 06/02/17 (Levy and IWMS Annual Budget & Service Delivery Plan) and 19/06/17 (Annual General Meeting), 11/09/17 (Annual Governance & Statement of Accounts), 20/11/17, 06/02/18 (Levy) and 18/06/18 (AGM.)

Members noted that an informal workshop had been arranged for 14 December to consider ELWA's future strategy.

33. Annual Audit Letter 2015/16

Members received the Finance Director's report and External Auditor's letter which summarises the outcome of the audit work at the Authority in relation to the 2015/16 audit year. Members were reminded that the Auditor's ISA206 report, submitted last meeting, had issued an unqualified opinion on the financial statements and value for money conclusion. She was pleased to report that the Audit letter did not contain any financial recommendations for improvement. One Member enquired and received assurance about the Authority's risk arrangements.

Members noted the report.

34. New Arrangements for the Appointment of an External Auditor

Members received the Finance Director's report setting out three options for new arrangements for the future appointment of ELWA's external auditors, following closure of the Audit Commission and continuation of the contract by the transitional body set up by the Secretary of State, the Public Sector Audit Appointments Ltd (PSAA). The period of transition is due to end 31 March 2018. The timetable for decision is March 2017 for the contact negotiation process to be carried out and final appointment made by end December 2017.

Members received commentary on the advantages and disadvantages of Option 1 - to make a stand-alone appointment, Option 2 – Set up a Joint Auditor Panel / local joint procurement arrangements and Option 3 – Opt into the "appointing person" arrangement offered by PSAA.

The recommendation put to Members was to agree Option 3 based on the greatest economies of scale coming from the maximum number of Authorities acting collectively. The Local Government Association (LGA) was said to be very supportive of the PSAA and believed that Option 3, to appoint auditors through a dedicated sector-led national procurement body, would deliver significant financial benefits for those that opted in by the reduction of set-up costs and potential to negotiate lowest fees. Members were advised that over 200 authorities had indicated a positive interest in this option and it was thought to be more economic to deliver the best value for money.

Members discussed the report and **agreed** to proceed with Option 3.

35. Treasury Management Mid-Year Strategy 2016/17

Members received the Finance Director's report and Appendices, providing a summary of borrowing and investment activity during the past six months.

Members attention was drawn to paragraph 5.1 outlining the negative impact of the European Referendum vote on the Bank rate, Public Works & Loan Board fixed rate, sterling and gilt yields. Interest rates were predicted to go down this year. Paragraph 5.6 referenced the monies loaned to the Icelandic bank and its recovery to date of 0.98p. in the £1. Any further payment made under the extended administration period was unlikely to be of material value. Paragraph 5.10, provided the PWLB summary position, with a more detailed breakdown at Appendix B. Early repayment had been considered but would incur large premiums.

Members received clarification of borrowing allowances and the budget strategy, PWLB borrowing and early repayment, the bank rate position and flare expenditure.

Members noted the report.

36. Budgetary Control & Contract Monitoring to 30 September 2016

Members received the Finance & Managing Directors' joint report, Budget Monitoring Statement, Tonnage Profile and Contract Monitoring Performance update appendices. They received commentary on a forecast overspend of £1.034m at year end because of increased tonnages, an under achievement of efficiency savings and a projected shortfall in royalty income. Tonnages for 2016/17 were expected to be 447,000t but the year-end projection figure was now 454,000. This 7,000t anticipated increase in tonnages was attributed to population waste increases, demographic trends and waste minimisation not being as successful as expected. Members heard that a recovery plan was in place to bring back the overspend and that the £1.5m efficiency target placed on the contract had been ambitious.

Members were advised that the Contract insurance premium might increase with lead insurers potentially leaving the market, creating an un-insurability situation. Reassurance as to the current insurance position, options available in the event of un-insurability and the Authority supporting the financial aspect was provided, following concern raised by one of the Members. This risk would be fed into the Levy.

Some small underspends were projected in relation to employment and premises costs and there were no calls on Contingency.

The Managing Director explained that forecasting tonnages was very difficult because of its volatility. Seasonality impacted on green waste, for example.

Members reported on their own Constituent Council's focus to reduce waste which included green waste collections, a Slim Bin Campaign, schools waste collections, educational programmes and side waste enforcement, 24/7 fly tipping clamp down and enforcement, bulky waste charging and how information is conveyed to the public. The Chair requested that the measures each Constituent Council was taking, together with contact details, should be circulated with a future Monthly Bulletins.

37. Medium Term Financial Strategy 2017/18 to 2021/22

Members received the Medium Term Financial Strategy 2017/18 to 2021/22 (MTFS) report setting out projected financial pressures on the Authority, a strategy for use of reserves and an overall levy increase suggestion of between 4.65% and 9.95% over the five years' period. The report specifically contained details of the general budget strategy, revenue budget projections, contract efficiencies, reserves strategy, closure of landfill sites, determination of the levy and levy apportionment, underlying assumptions in the MTFS, risks and reserves assumptions.

The Finance Director summarised the MTFS 2017/18 to 2021/22 by stating that external auditor's comments would be taken on board and focus was on the medium-term strategy rather than the three-year plan. The strategy projected an average levy increase of 9.95% in 2017/18 with flatter increases in the years to 2021/22, projected overspends of £1.034m would be accounted for when setting the 2017/18 levy. Several factors would impact the five-year plan, including increased tonnages and a significant one off expenditure in relation to the waste management options after 2027. Effective waste minimisation measures and tonnage reductions by the Constituent Councils will impact the Authority's ability to accurately forecast the levy in future years.

Members attention was specifically drawn to the basis and management of each Constituent Council's levy, the Budget strategy, population growth and its knock-on affect and the need to understand each Constituent Council's position. The projected tonnage breakdown per constituent council could be found at paragraph 6.4. Landfill Tax of £86.10 per tonne was assumed for 2017/18. Of the £1.5m efficiency savings, £0.750m had been built into contractor savings and £0.750m was thought unrealistic to achieve but built back in. There was future uncertainty surrounding insurance and premiums, having seen a 27% increase in year, modest assumptions of 5% in the next two years and 10% thereafter had been made.

Members discussed:

- the serious implications that the levy would have on the Constituent Councils both politically and financially;
- the desire to set the right level of reserves to take the Authority into the future with a new waste disposal contract, effective 2027.
- growth and population challenges re increased tonnages, education to manage and influence behaviour;
- the need for sound waste minimisation strategy and policy within the Constituent Councils; and
- the insurance uncertainties and potential of lobbying Government.

Members agreed the report and considered it appropriate that representations are made to Constituent Councils' Leader's Committees on the proposed way forward and the Chair would approach Local London Partnership for its support in lobbying Government.

38. Date of Next Meeting:

Members noted 06 February 2017 as the date of the next Authority meeting and were asked to diarise the same.

39. Any other public items

There were none.

40. Private Business

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

41. ELWA Limited 06 October 2016 Board Agenda

Members noted the contents of the confidential Agenda pack and received a short commentary from the Managing Director regarding installation and operation of the two new Balers.

Minutes agreed as a true record.

Chair: ----------------------------------

Date: ----------------------------------

AUTHORITY REPORT: BUDGETARY CONTROL AND CONTRACT MONITORING TO 31 DECEMBER 2016

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 To note this report.

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3. Purpose

3.1 This budgetary control report compares ELWA's actual expenditure for the period ended 31 December 2016 with the original revenue budget approved in February 2016. It is based on information supplied by Shanks east.london (the Operator), ELWA technical officers and the four Constituent Councils.

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

4. Background

Revenue Budget

4.1 The end of year outturn forecast position is at £0.622m overspend, which has been reduced from the previous financial monitor. This mainly reflects the lower tonnages received during the autumn/winter months to December 2016. Also, included as a continued pressure is the under achievement of efficiency savings and projected shortfall of royalty income.

4.2 Based on the profiled budget of £40.517m and the actual net expenditure on services of £40.859m the position is a net overspend of £0.342m to date. (see Appendix A).

4.3 The principal activity driver on the budget is the level of waste tonnage delivered from the Constituent Councils. The 2016/17 budget and levy setting process assumed 447,000 tonnes in 2016/17.

4.4 There are a number of elements which may affect the 2016/17 tonnage position; the main factors are possible increases in tonnages per household as well as demographic trends. The December Contract Performance bulletin is attached as Appendix C.

4.5 The waste tonnage figure has been volatile over the year with some months above and others below the profile. The unusually hot weather during the early autumn months may have affected consumer purchases. Tonnage for the autumn months was 2,000 tonnes below profile, thus reducing the impact of the higher tonnages received in the earlier months of the financial year.

4.6 The December tonnage was also below profile and as a result of this the end of year tonnage forecast has been reducing from the November estimate of 447,800 tonnes back towards the budget. However due to the volatility of tonnages and the possibility of Christmas waste falling into January; the monetary forecast remains cautiously unchanged at £0.300m overspend for the moment.

4.7 Such volatility and trends will continue to be closely monitored and are reported to Members as part of periodic budget monitoring. Appendix B shows the projected and actual to date monthly tonnages profiles for 2016/17.

4.8 Operator costs include the Authority's April to December 2016 insurance premium contribution of £0.767m (£1.092m full year) for Property Damage & Business Interruption (PDBI) cover. The premium was renewed in late December 2016 and the Managing Director is currently in negotiation with regard to the Authority's portion of charge.

4.9 The 2016/17 budget includes the financial impact of the diversion agreement signed in June 2015. The agreement made provision for revised diversion supplements and was designed to incentivise the operator to divert from landfill as much waste as possible, thus passing the risk of diversion performance on to the operator. Given this, diversion performance is no longer a variable affecting the cost of the contract to ELWA and cost pressures in respect of the contract only relate to tonnage levels.

4.10 There are minor variances on Employee and non-contractor costs to date with some savings identified in the forecast outturn.

4.11 Commercial Waste is forecasting an increase in income of £0.300m. This relates to additional waste received from London Borough of Barking and Dagenham's housing service and an additional amount received which related to the 4th quarter of 2015/16.

4.12 Following the reduction in interest rates, it is unlikely that the income budget will be achieved and the forecast outturn is £0.030m below target.

4.13 Non-contract royalty income is continuing to under achieve against budget due to a reduction of the operator's commercial waste. Following the revised agreement with the operator, the anticipated shortfall this year is forecast to be £0.120m.

4.14 Members are reminded that underpinning the 2016/17 budget and levy is an ongoing efficiency savings target of £1.500m. A recovery plan has been compiled to enable the achievement of the efficiency savings. The year-end projection of £1.009m is based upon ongoing and one off savings achieved to date. Further potential Savings being pursued are approximately £0.405m and if achieved will leave a small shortfall of £0.086m against budget.

4.15 Ongoing contract savings are forecast to achieve £0.441m as follows:

a) Communications spend reduction £0.190m

b) Railhead variation £0.154m

c) Re-use Recycling Centre Materials recycling facility £0.097m

4.16 One off savings achieved to date amount to £0.568m as follows:

a) 2015/16 Contract Saving £0.263m

b) Insurance Negotiation Saving £0.305m.

4.17 Further potential Savings being pursued by the Managing Director are approximately £0.405m, they are as follows:

a) Enforcement of a contract provision to achieve approximately £0.405m 2016/17.

At this stage this has not been included in Appendix A.

4.18 It was noted as part of 2016/17 Levy setting report in February 2016 that achievement of these savings would be dependent on waste minimisation and the efforts of Constituent Councils in reducing waste tonnages delivered to ELWA. This has not materialised and shows no signs of being achieved as waste tonnages overall continue to increase.

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

Prudential indicators

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

5. Conclusion

5.1 Tonnage trends, income collection, insurance costs and the achievement of efficiency savings remain the major influences on the ability to manage resources within budget. The position will continue to be closely monitored on a monthly basis throughout the remainder of the financial year.

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6. Relevant officer:

Maria G Christofi, Finance Director / e-mail: ELWA.Finance@redbridge.gov.uk / 020 8708 3010 and Dave Hawes, Contract Manager / e-mail: dave.hawes@eastlondonwaste.gov.uk / 020 8724 5054.

7. Appendices attached:

7.1 Appendix A: Budget Monitoring Statement to 31 December 2016.

7.2 Appendix B: ELWA Tonnage Profile 2016/17.

7.3 Appendix C: Contract Monitoring Performance Update – December 2016.

8. Background papers:

8.1 08 February 2016 - Revenue & Capital Estimates and Levy 2016/17 Report & Minute 43/2016

9. Legal considerations:

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

10. Financial considerations:

10.1 As outlined in the main body of the report.

11. Performance management considerations:

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

12. Risk management considerations:

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

13. Equalities considerations:

13.1 None.

14. Follow-up reports:

14.1 Budgetary Control Report, next meeting

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

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

16. Glossary:

16.1 ELWA/the Authority = East London Waste Authority

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

16.3 The Operator = Shanks east.london

16.4 PDBI = Property Damage and Business Interruption cover.

16.5 PFI = Private Finance Initiative (Adx A reference)

17. Approved by management board

17.1 23 January 2017

18. Confidentiality:

18.1 Not Applicable.

BUDGET MONITORING STATEMENT TO 31 DECEMBER 2016

	Original Budget 2016/17	Profiled Budget to 31/12/16	Total Actual to 31/12/16	Variance to 31/12/16	Projected Outturn	Outturn Variance
EXPENDITURE	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Employee and Support Services	0.382	0.286	0.279	(0.007)	0.372	(0.010)
Premises Related Expenditure	0.154	0.131	0.130	(0.001)	0.152	(0.002)
Transport Related Expenditure	0.005	0.004	0.002	(0.002)	0.004	(0.001)
Supplies and Services						
Payments to Shanks.East London	59.903	40.555	40.705	0.150	60.203	0.300
Other (inc. cost of Support Costs)	0.436	0.325	0.319	(0.006)	0.430	(0.006)
Payments to Constituent Councils	2.703	2.027	2.027	-	2.703	-
Capital Financing Costs	0.181	0.092	0.092	-	0.181	-
TOTAL GROSS EXPENDITURE	**63.764**	**43.420**	**43.554**	**0.134**	**64.045**	**0.281**
INCOME						
Commercial Waste Charges	(2.466)	(1.233)	(1.533)	(0.300)	(2.766)	(0.300)
Interest receivable	(0.065)	(0.049)	(0.018)	0.031	(0.035)	0.030
Other income	(0.532)	(0.354)	(0.246)	0.108	(0.412)	0.120
Efficiency savings	(1.500)	(1.267)	(0.898)	0.369	(1.009)	0.491
TOTAL INCOME	**(4.563)**	**(2.903)**	**(2.695)**	**0.208**	**(4.222)**	**0.341**
Contingency Allocated	0.150	-	-	-	0.150	-
NET EXPENDITURE ON SERVICES	**59.351**	**40.517**	**40.859**	**0.342**	**59.973**	**0.622**
PFI grant receivable	(3.991)	(2.993)	(2.993)	-	(3.991)	-
Previous year overspend funded	0.757	0.757	0.757	-	0.757	-
Levy Receivable	(56.567)	(42.425)	(42.425)	-	(56.567)	-
Net Contribution to reserves	0.450	0.450	0.450	-	0.450	-
NET	**-**	**(3.694)**	**(3.352)**	**0.342**	**0.622**	**0.622**

ELWA TONNAGE PROFILE 2016/17

	Budget	Actual	Variance
April	38,509	38,214	(295)
May	39,783	39,144	(639)
June	39,603	43,535	3,932
July	41,779	39,792	(1,987)
August	36,969	39,622	2,653
September	38,324	38,829	505
October	38,372	35,041	(3,331)
November	34,850	35,910	1,060
December	34,981	33,294	(1,687)
January	36,143	-	-
February	31,330	-	-
March	36,356	-	-
Total	**446,999**	**343,381**	**211**

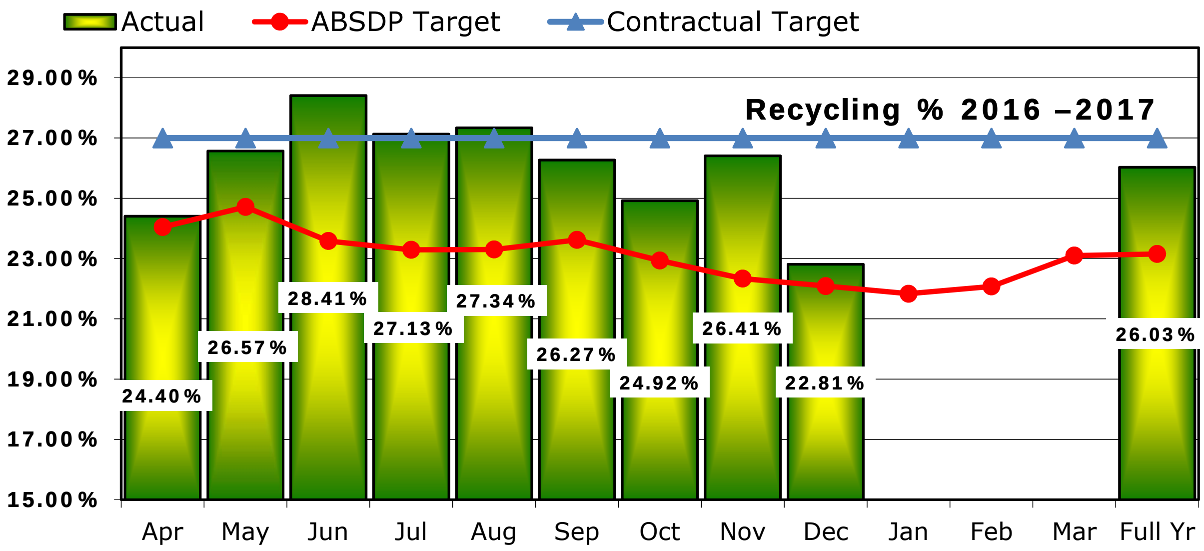
1. Contract Tonnage

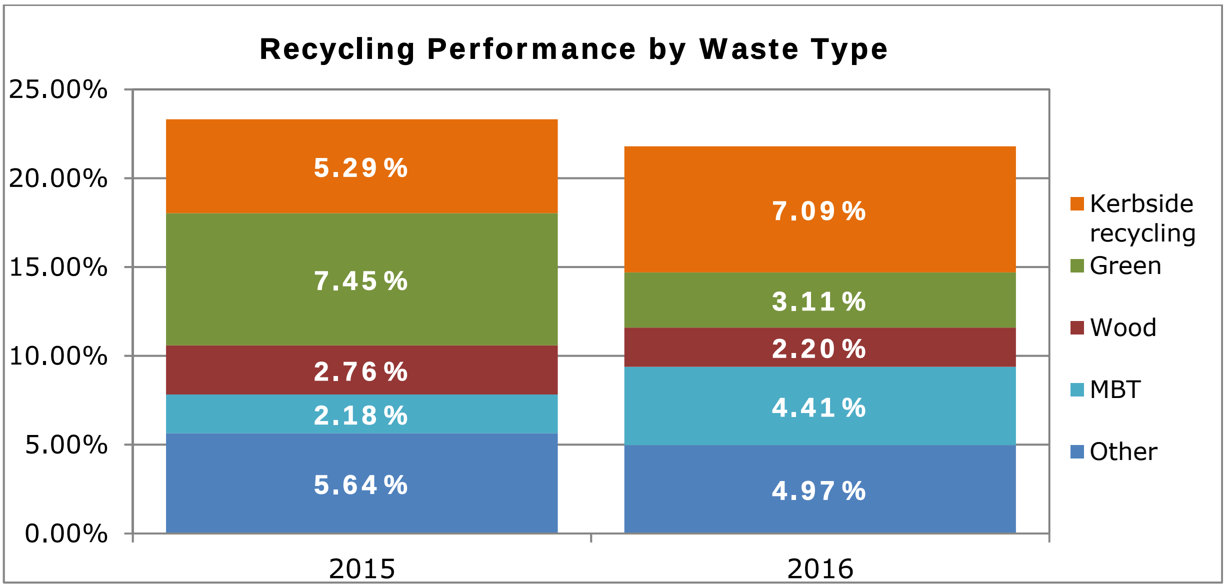
1.1 The December tonnage was 33,294t (tonnes), 1,700t below the expected figure and 2,000t below December last year. Again, this demonstrates the year on year volatility of monthly tonnage statistics and forecasts.

1.2 Contract year to date tonnage to December (343,381t) which brings the year to date figure approximately in line with forecast tonnage and about 1.5% increase on last year's total. Despite this tonnage being higher than last year, this month's tonnage reduction has meant that our year end projection is now moving back towards the anticipated tonnage of 447,000t. The unusual swings in tonnages will continue to be monitored as they are preventing year end forecasting with any degree of certainty. As such, it is considered prudent not to reflect this in the financial consideration below as it was the RRC site tonnage that showed the largest decrease and over the holiday period and this tends to remain on site due to processors not being available.

2. Contract Performance

2.1 December's recycling Figure at 22.8% is lower than contractual requirements and is a reduction on last year's figure of 23.3%. As can be seen in the second table below a considerable proportion of the reduction was in the green waste recycling which is partly due to the boroughs curtailing collections and partly due to the waste being stored at the RRC sites as described above. Overall, the year to date recycling is still slightly ahead of last year.

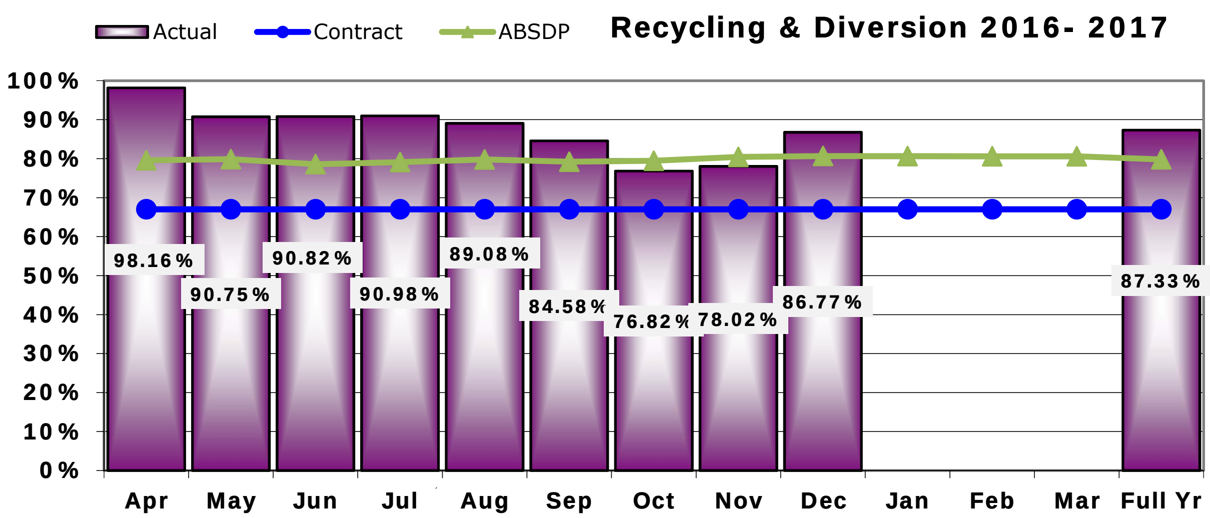




Borough Recycling (NI192)				
	LBBD	LBH	LBN	LBR
December	23.25%	32.66%	15.70%	21.07%
YTD	26.6%	37.8%	15.8%	28.5%

3. Contract Diversion (including Recycling)

3.1 Contract year to date diversion continues to be above expectations. Diversion for December was significantly improved over previous months at 86.77%, this figure may be slightly enhanced by the increased levels of material held on site as a result of Christmas closures of the material offtakers which will be reflected in the January performance. Shanks have advised us that they are confident that going forward the new investment in balers will begin to deliver performances above 90%.



4. Financial Implications

4.1 Monthly tonnage projections and actuals in 2016/17 have continued to be variable. December tonnage was lower than the profiled budget and as a result of this the end of year tonnage forecast has been reducing from the November estimate of 447,800 tonnes back towards the budget. However due to the volatility of tonnages and the possibility of Christmas waste falling into January; the monetary forecast remains cautiously unchanged at £0.300m overspend for the moment.

4.2 For the Authority 2016/17 budget as a whole, the end of year outturn forecast position is at £0.622m overspend. This mainly reflects the lower tonnages received during the autumn/winter months to December 2016.

5. Contract Monitoring

5.1 **Frog Island Refinement Commissioning:** As can be seen in the recycling figures the refurbished refinement section is performing to specification and continues to exceed pre fire performance levels.

5.2 **RRC Overhaul Project:** The two new bailing machines at Jenkins and Frog Island are now fully operational.

5.3 **Service Delivery:** All the RRC sites and the main waste facilities continue to operate to specification. The SB MRF at Jenkins is now in the process of being mothballed and will eventually be decommissioned with all recyclate now being processed at more modern larger MRF's off site. As a result of the volumes of waste being delivered some delays were experienced by the boroughs tipping into the BioMrf's at Jenkins Lane, to minimise the delays some vehicles were diverted to other areas at the site.

If you wish to see any specific information included, or shown differently to that already in this bulletin, please let me know. I will do my utmost to accommodate your requests.

Dave Hawes
January 2017

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AUTHORITY REPORT: TREASURY MANAGEMENT STRATEGY 2017/18 AND PRUDENTIAL CODE INDICATORS 2017/18 TO 2019/20

1. Confidential Report

1.1 No.

2. Recommendations

2.1 That Members agree:

a) The Borrowing Strategy for 2017/18 as set out in paragraph 8;

b) The Minimum Revenue Provision Policy Statement for 2017/18 as set out in paragraph 10;

c) The Annual Investment Strategy for 2017/18 as set out in paragraph 11-15 and summarised in paragraph 18;

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

e) The Prudential Indicators for Treasury Management as set out in paragraph 19.

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3. Purpose

3.1 This report sets out ELWA's Treasury Management Strategy for 2017/18 together with the Prudential Indicators for Treasury Management. The report encompasses new borrowing requirements and debt management arrangements, as well as a Minimum Revenue Provision Policy Statement. The report also looks at the annual investment strategy, the Treasury Management Policy Statement and the Prudential Indicators for Treasury Management.

4. Background

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

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

4.3 In 2017/18, the Authority's maximum borrowing requirement to meet new capital expenditure and debt redemptions/replacement is estimated to be £0.4m. The borrowing strategy to meet this requirement is set out in paragraphs 5 to 8.

4.4 ELWA is required to prepare an Annual Minimum Revenue Provision Policy Statement setting out policy for the prudent repayment of debt. The Authority must have regard to statutory guidance issued by the Department for Communities and Local Government (CLG) when preparing this statement. The Authority's Minimum Revenue Provision Policy Statement is set out at paragraph 10.

4.5 Each year the Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. The Authority's investment strategy must have regard to guidance issued by CLG which came into operation 1 April 2010. The Annual Investment Strategy is at paragraphs 11 -15.

4.6 Financial Rule D2, 27.6 requires that the Finance Director present to Members the Treasury Management Strategy for recommendation prior to the start of the Financial Year. The Prudential regime requires that the Prudential Indicators for Treasury Management be considered with the Treasury Management Strategy and that ELWA set these limits. These are detailed at paragraph 19. This is an annual process.

4.7 It is a statutory requirement under Section 32 of the Local Government Finance Act 1992 for the Authority to produce a balanced budget. In particular, the Authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level, which is affordable within the projected income of the Authority for the foreseeable future.

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

5. Borrowing Requirements and Debt Management Arrangements for 2017/18

5.1 ELWA's estimated total borrowing of £1.250m at 31 March 2017 consists entirely of Public Works Loan Board (PWLB) loans. All of these loans are on a fixed rate.

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

6. Prospects for Interest Rates

6.1 As part of the Treasury Management service provided by the London Borough of Redbridge (LBR), economic forecasting is provided to assist the Authority to formulate a view on interest rates. LBR's treasury management advisers Capita have provided forecasts for medium term interest rates (as at December 2016) as shown in the table below.

Annual Average %	**Bank Rate %**	**PWLB Rates* % (includes certainty rate adjustment)**		
		5 year	25 year	50 year
March 2017	0.25	1.60	2.90	2.70
June 2017	0.25	1.60	2.90	2.70
Sept 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
March 2018	0.25	1.70	3.00	2.80

Annual Average %	Bank Rate %	PWLB Rates* % (includes certainty rate adjustment)		
June 2018	0.25	1.70	3.00	2.80
Sept 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
March 2019	0.25	1.80	3.20	3.00
June 2019	0.50	1.90	3.20	3.00
Sept 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
March 2020	0.75	2.00	3.40	3.20

* Borrowing Rates

6.2 In response to its forecast of a sharp slowdown in growth for the second half of 2016, the Monetary Policy Committee, (MPC) cut the Bank Rate from 0.50% to 0.25% on 4th August 2016. It also gave a strong steer that it was likely to cut the Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; inflation forecasts have also risen substantially due to a continuation of the sharp fall in the value of sterling since early August. Consequently, the Bank Rate was not cut again in November or December 2016 and, on current trends it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising the Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in the Bank Rate could be brought forward.

6.3 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

6.4 The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty-five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the

Fed. Rate over the next few years may make holding US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

6.5 PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.

6.6 The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

6.7 Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

a) Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.

b) Major national polls taking place in the Eurozone during 2017:

c) A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats.

d) Weak capitalisation of some European banks, especially Italian.

e) Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

f) UK economic growth and increases in inflation becoming weaker than currently anticipated.

g) Weak growth or recession in the UK's main trading partners – the EU and US.

6.8 The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include:

a) UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.

b) A rise in US Treasury yields as a result of Fed. Funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.

c) The pace and timing of increases in the Fed. Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

d) A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

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

a) Investment returns are likely to remain low during 2017/18 and beyond;

b) Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid-August; they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4 August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a 'hard Brexit', the fall in the value of sterling, and an increase in inflation expectations. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when authorities will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt;

c) There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

7. New Borrowing Requirements

7.1 Every year the Authority is required to inform Government whether there is a possibility that it may need to borrow to fund capital expenditure. The Authority may need to make arrangements to finance expenditure during 2017/18 in respect of any possible capital works identified as a result of the ongoing review of landfill sites. Indicative estimates for production of Prudential Indicators are shown for 2017/18, 2018/19 and 2019/20:

Borrowing Requirement	2017/18 £m	2018/19 £m	2019/20 £m
Potential Capital Spending	0.400	-	-
Maximum Estimated Borrowing Requirement	0.400	-	-

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

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

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

7.5 It is recommended that £0.400m is set as the borrowing requirement for 2017/18. This will only be utilised if needed and Members agree.

8. Borrowing Strategy 2017/18

8.1 Paragraph 7 indicates a potential need to finance £0.400m of capital requirements in 2017/18. The Authority is free to borrow what it deems to be prudent, sustainable and affordable within the Authority's approved Authorised External Debt Limit. See further detail at Paragraph 19.

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

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

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

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

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

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

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

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

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

d) That the maturity schedule is maintained so that no more than 37% of total borrowing is due for renewal in any one year.

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

9. Capital Expenditure

9.1 There may be a requirement to capitalise professional fee expenditure in relation to work on future strategy projects. Members will be kept informed.

10. Minimum Revenue Provision

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

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

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

10.4 Annual Minimum Revenue Provision Statement

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

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

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

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

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

11. Annual Investment Strategy 2017/2018

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

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

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

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

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

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

12. Investment Objectives

12.1 The Authority's investment strategy gives priority to:

a) the security of the investments it makes;

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

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

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

13. Security of Capital

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

13.2 Capita provides information from the above-mentioned rating agencies as part of the creditworthiness service provided to the Authority.

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

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

Long-Term Rating	Percentage Historic Experience of Default				
	Less than 1 year %	1 – 2 years %	2 – 3 years %	3 – 4 years %	4 – 5 years %
AA	0.007	0.024	0.081	0.158	0.234
A	0.067	0.189	0.356	0.551	0.775
BBB	0.150	0.460	0.824	1.257	1.726

13.5 The Authority's credit matrix minimum long term rating for investments with banks (excluding part nationalised banks) is "A". The Authority's investment strategy is therefore considered low risk.

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

a) UK Part Nationalised Banks;

b) AAA rated Money Market Funds;

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

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

e) Enhanced Cash Funds;

f) Other Local Authorities; and

g) Non UK Government and Supranational Institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

c) Comply with Local Authority Capital Finance Regulations.

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

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

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

	%
UK Government	100
Local Authorities	100
UK Banks- Specified	100
Money Market Funds	75
Building Societies - Specified	50
Total Unspecified Investments	50
Non UK Banks – Specified (subject to group limit)	35
Non UK Government and Supranational Bonds (subject to group limit)	35
Total Group Non UK Investments	40
Corporate Bonds	15

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

15. Investment of Cash Balances and the Liquidity of Investments

15.1 Cashflow Management - In order to assist in managing the Authority's finances, a cashflow model is maintained. The model details all known major items of income and expenditure of both a revenue and capital nature, based on Capital and Revenue budget proposals, detailed elsewhere on your agenda. Cash balances can fluctuate significantly during the course of the year due to timing differences between the receipt of cash such as grants and capital receipts and the corresponding expenditure. It is estimated that over the course of the year cash balances will vary between £7.9m and £10.8m. The initial cashflow estimates provide an indication of cash receipts and outgoings on a month-by-month basis.

15.2 Liquidity: The Authority is required to have available, or access to adequate resources to enable it at all times to have available the level of funds which are necessary for the achievement of its service objectives. The cashflow model provides the Authority with information on its cash requirements, detailing immediate cash requirements and indicates cash balances that are available for investment for longer periods. The liquidity of the investment portfolio is monitored regularly and reported at monthly treasury meetings with senior Finance Officers. The minimum amount of cash balances required to support cashflow management on a monthly basis is £6.6m.

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

15.4 To aid cashflow, the February 2015 Levy report proposed a change from the Levy being paid quarterly to monthly from constituent councils. The purpose was to avoid the Authority bank account from being overdrawn and the administrative arrangements that would need to be put into place for charging for any overdraft. This came into effect 1 April 2015.

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

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

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

15.8 Yield - The Authority uses the 7 day The London Interbank Bid (LIBID) rate plus 20 basis points as a benchmark for comparing the return on its investments.

15.9 Interest Rates: As set out at paragraph 6, interest rates are forecast to remain the same at 0.25% until June 2019. Therefore, investment returns are expected to remain low during 2017/18 and beyond continuing to have a significant impact on net interest receipts.

15.10 However, if UK growth expectations disappoint and inflationary pressures are minimal, then Bank Rate increases could be held back. On the other hand, should the pace of growth quicken and / or forecasts for inflation rise, then Bank Rate increases could occur earlier or at a quicker pace.

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

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

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

15.14 Therefore, taking all of the foregoing into consideration and to allow the Authority flexibility for market improvement, it is recommended that the Authority set an upper limit for principal sums to be invested for longer than one year at £1m for 2017/18, £2m for 2018/19 and £2m for 2019/20.

15.15 Accounting treatment of investments: The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Authority. To ensure that the Authority is protected from any adverse revenue impact, which may arise from these differences, the accounting implications from undertaking new transactions will be considered before any investment is undertaken.

16. Provision for Credit-related Losses

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

17. Treasury Management Consultants

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

a) Economic and interest rate analysis;

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

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

d) Debt rescheduling advice;

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

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

18. Member and Officer Training

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

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

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

19. Investment Strategy 2017/18 Summary

19.1 In summary – considering the factors set out in Paragraphs 11 to 15, the recommended Investment Strategy is:

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

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

c) That the minimum amount of short-term cash balances required to support monthly cashflow management is £6.6m;

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

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

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

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

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

i) That all investment is managed within the Authority's approved asset class limits as set out at paragraph 13.16.

20. Prudential Indicators for Treasury Management

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

20.2 Prudential Indicators for Treasury Management relate to:

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

b) Limits for external debt;

c) Interest rate exposures;

d) Maturity structure of borrowings; and

e) Investment for periods of longer than one year.

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

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

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

20.6 Authorised limit for External Debt 2017/18 – 2019/20 - the authorised limit for external debt represents total external debt, gross of investments, and separately identifies borrowing from other long-term liabilities such as PFI Schemes and Finance leasing (see paragraph 19.8 below). The authorised limit is based on the Authority's spending plans, makes allowance for short-term cashflow movements and provides sufficient headroom for unusual cash movements.

20.7 As previously advised, changes in accounting treatment have resulted in ELWA PFI assets and liabilities now being included on the balance sheet. As a result of this the table below now includes a long term liability indicator of £78m relating to the ELWA PFI liability.

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

	2017/18 £m	2018/19 £m	2019/20 £m
Estimated borrowing b/f	1.300	1.700	1.700
Borrowing requirement	0.400	-	-
Less: Maturing debt	-	-	-
Less: Loan Replacement			
Short term/cashflow requirements	6.600	6.600	6.600
Unforeseen cash movements	6.000	6.000	6.000
Total Borrowing	14.300	14.300	14.300
Other long term liabilities	78.000	73.000	73.000
Total External Debt	92.300	87.300	87.300

20.9 It is therefore recommended that the total Authorised Limit for External Debt for 2017/18 set at £92.3m, for 2018/19 £87.3m, and for 2019/20 is £87.3m.

20.10 Operational Boundary External Debt 2017/18 – 2019/20 - as with the authorised limit for external debt, the operational boundary represents total external debt, gross of investments, and separately identifies borrowing from other long term liabilities. The operational boundary is based on the same assumptions as the authorised limit but reflects the most likely estimate, i.e. a prudent but not the worst-case scenario of gross debt, as assumed in the authorised limit. This has resulted in a reduction of £2m that is included in the authorised debt calculation for unforeseen cash movements.

20.11 The operational boundary is a key monitoring tool and whilst it may be breached temporarily due to cashflow variations, a sustained or regular trend above the operational boundary would be significant and lead to further investigation and action as appropriate. It is therefore recommended that the total operational boundary for external debt for 2017/18 be set at £90.3m, for 2018/19 £85.3m, and for 2019/20 £85.3m.

20.12 Interest rate exposure 2017/18 – 2019/20 - the management of interest rate risk is a priority for the Authority. This is recognised in the Prudential Code, which requires the Authority to establish operational boundaries on net interest rate exposure. These are set by way of two Prudential Indicators, the upper limit on fixed interest rate exposure and the upper limit on variable rate interest exposure. The indicators are calculated by the netting of maximum borrowing and lending estimates as follows:

	2017/18 £m	2018/19 £m	2019/20 £m
Fixed Rate (borrowing)	7.700	7.700	7.700
Variable Rate (lending)	(22.000)	(22.000)	(22.000)

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

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

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

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

	Upper Limit %	Lower Limit %
Under 12 months	37	-
12 Months and within 2 years	45	-
2 years and within 5 years	60	-
5 years and within 10 years	80	-
10 years and within 20 years	100	-
20 years and within 35 years	100	-
35 years to 50 years	100	-

20.17 Investments for longer than 364 days – within the Annual Investment Strategy, paragraph 14.12, the following amounts have been identified as available for longer term investment: 2016/17 £1m, 2017/18 £2m and 2018/19 £2m.

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

Authorised Limit for External Debt

	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	14.300	14.300	14.300
Other Long Term Liabilities	78.000	73.000	73.000
TOTAL	92.300	87.300	87.300

Operational Boundary for External Debt

	2017/18 £m	2018/19 £m	2019/20 £m
Borrowing	12.300	12.300	12.300
Other Long Term Liabilities	78.000	73.000	73.000
TOTAL	90.300	85.300	85.300

Upper Limits on Interest Rate Exposures

	2017/18 £m	2018/19 £m	2019/20 £m
Fixed Rate	7.700	7.700	7.700
Variable Rate	(22.000)	(22.000)	(22.000)

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

	Upper Limit %	Lower Limit %
Under 12 months	37	-
12 Months and within 2 years	45	-
2 years and within 5 years	60	-
5 years and within 10 years	80	-
10 years and within 20 years	100	-
20 years and within 35 years	100	-
35 years to 50 years	100	-

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

2017/18 £m	2018/19 £m	2019/20 £m
1.000	2.000	2.000

21. Relevant Officer

21.1 Maria G. Christofi, Finance Director / e-mail: ELWA.Finance@redbridge.gov.uk / 020 8708 3010

22. Appendix Attached

22.1 Appendix A Treasury Management Policy Statement

22.2 Appendix B Creditworthiness Criteria

22.3 Appendix C Approved list of specified and non-specified investments

22.4 Appendix D Glossary

23. Background Papers

23.1 CIPFA Code of Practice on Treasury Management – 2011 Edition

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

23.3 CLG Guidance on Local Government Investments – April 2010

23.4 CLG Guidance on Minimum Revenue Provision – 2012 Edition

24. Legal Consideration

24.1 Part 1 of the Local Government Act 2003 (the "Act") requires ELWA as a joint local authority body to each year set out its Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy which sets out ELWA's policies for managing its investments and for giving priority to the security and liquidity of those investments.

24.2 ELWA also has to prepare an Annual Minimum Revenue Provision statement setting out how it proposes to repay its debts. The form of the strategy must accord with prudential public finance accounting principles as espoused by CIPFA. The relevant guidance is set out in the CIPFA Code of Practice on Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities.

24.3 With reference to paragraph 9 of this report, it is recommended that consideration is given at the earliest opportunity to a strategy for capitalising professional fees expenditure to support the future waste strategy for ELWA. In particular, that a report be brought to members as soon as a programme of work and outline business case is distilled.

25. Financial Consideration

25.1 As detailed in the Report.

26. Performance Management Consideration

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

27. Risk Management Considerations

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

28. Equalities consideration

28.1 There are no specific equality implications arising from this report.

29. Follow-up Reports

29.1 Budgetary Control Report, next meeting.

30. Websites and e-mail links for further information

http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx and http://www.cipfa.org.uk/ and http://www.communities.gov.uk/corporate/ and

31. Glossary

31.1 CIPFA - Chartered Institute of Public Finance and Accountancy

31.2 CLG - Department for Communities and Local Government

31.3 ELWA / the Authority – East London Waste Authority

31.4 LBR – London Borough of Redbridge

31.5 LIBID - The London Interbank Bid

31.6 MRP – Minimum Revenue Provision

31.7 PFI - Private Finance Initiative

31.8 PWLB - Public Works Loan Board

32. Approved by Management Board

32.1 23 January 2017

33. Confidentiality

33.1 None

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TREASURY MANAGEMENT POLICY STATEMENT

1. The Authority defines its Treasury Management activities as:

   a) The management of the organisation's investments and cash flows, its banking, money market and capital market transactions;

   b) The effective control of the risks associated with those activities; and

   c) The pursuit of optimum performance consistent with those risks.

2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. The Authority acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. When setting borrowing and lending policies, the Authority adheres to the principles contained within the CIPFA Treasury Management Code of Practice, The Prudential Code and other statutory guidance. These policies are contained within the Authority's Treasury Management Strategy which is approved annually.

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CREDITWORTHINESS

(Extract from Treasury Management Practices)

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

a) Credit quality for selecting counterparties.

b) Credit ratings for institutions and country.

1. Credit Quality

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

Banks with a Good Credit Quality

a) UK banks

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

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

UK Part Nationalised Banks

Royal Bank of Scotland Group whilst it continues to be part nationalised, or meets the requirements of the credit matrices.

The Authority's banker

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

Bank Subsidiary and Treasury Operations

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

Building Societies

The Authority will use Building Societies that:

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

b) Have assets in excess of three billion pounds.

AAA rated Money Market Funds

UK Government (including the Debt Management Account Deposit Facility)

Enhanced Cash Funds

Local Authorities (including GLA, Police and Fire Authorities)

Non UK Government

Supranational Institutions

Corporate Bonds.

2. Credit Criteria

2.1 The Authority adopts a range of credit rating criteria. Creditworthiness is based on the credit ratings supplied by Fitch, Moody's, and Standard & Poor.

Short Term Credit Matrix

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

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

Long Term Credit Matrix

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

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

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

Monitoring of Investment Counterparties

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

Use of additional information other than credit ratings

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

Country Sovereignty Considerations

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

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

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

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

Time and Monetary Limits applying to Investments

Credit Rated Institutions							
Minimum Credit Rating Short Term			**Minimum Credit Rating Long Term**			**Limit**	**Time Limit**
Fitch	**S & P**	**Moody's**	**Fitch**	**S & P**	**Moody's**	**£m**	**Years**
F1	A-1	P-1	A	A	A2	5	1
F1	A-1	P-1	A-	A-	A3	3	1
F1	A-1	P-1	AA-	AA-	Aa3	3	2
F1	A-1	P-1	A+	A+	A1	2	2
F1	A-1	P-1	A	A	A2	1	2
Other Institutions							
Money Market Funds			AAAmf			3	1 Year
Unrated Building Societies			Assets greater £3bn			3	6 Months
Enhanced Cash Funds			AAA/V1			3	2 Years

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

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

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

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

(Extract from Treasury Management Practices)

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

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

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

(Extract from Treasury Management Practices)

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

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

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

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

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

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

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

Investment (All in Sterling)	Security/Credit Rating	Maximum term	Use	Upper Limit % of the Total Principal sums for each year
Non UK Government Bonds	Sovereign rating criteria	1 year	In House / external fund manager	35%
Supranational Bonds	Sovereign rating criteria	1 year	In House / external fund manager	35%
The Authority's own banker	Government backed	1 year	In house	50%
Corporate Bonds	See table and criteria above Long term credit matrix Meets sovereign criteria	2 years	In House / external fund manager	15%

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GLOSSARY

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

Guidance on Local Government Investments	Statutory guidance issued by the Department for Communities and Local Government in respect of local authority investments.
Interest Rate exposures	A measure of the proportion of money invested and what impact movements in the financial markets would have on them.
Limits for external debt	The limit set for the total amount of external debt based on the Authority's spending plans, allowing for cashflow movements and sufficient headroom.
Liquidity	The availability of finance to ensure that the Authority has adequate cash to be able to pay its obligations when they fall due.
Maturity	The date when an investment is repaid or the period covered by a fixed term investment.
Maturity Structure of Borrowings	The composite repayment obligations of the Authority debt portfolio in order of maturity.
Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside to repay debt.
Minimum Revenue Provision Policy Statement	An annual statement which sets out the options available to the Authority to calculate its minimum revenue provision.
Monetary Policy Committee	Bank of England committee that sets the UK's (base) interest rate.
Money Market	The financial markets where investments and loans are traded.
Money Market Funds	An open ended mutual fund that invests in a mix of short term securities.
Moody's	A credit rating agency who provides credit rated worthiness information.
Non Specified Investments	Investments deemed to have a greater element of risk such as investments for longer than one year.
Prudential Borrowing	Borrowing in accordance with the requirements of the Prudential Code.

Prudential Code for Capital Finance in Local Authorities	A professional code of practice for local authorities to meet statutory requirements of the Local Government Act.
Prudential Indicators	Indicators specified in the Prudential Code that are set to ensure that capital investment is affordable, prudent and sustainable.
Public Works Loan Board (PWLB)	Statutory body operating within the UK Debt Management Office, who lend money and collect repayments from local authorities and other prescribed bodies.
Credit Rated	Institutions that possess a credit rating from a credit rating agency such as Fitch, Moody's or Standard and Poors.
Risk Control	Putting in place processes to control exposures to risk.
Security	The safety of an investment and the likelihood that it will be repaid.
Specified Investments	Investments that meet the Authority's high credit quality criteria and repayable within 12 months.

Standard and Poors	A credit rating agency who provides credit rated worthiness information.
Supranational Institutions	Multi national structures - an amalgamation of different countries offering investment opportunities - for example Euro Investment Bank
Treasury Bills	Short term, Government backed debt obligation with a maturity of less than one year. Very liquid and secure.
Unrated Institution	An institution that does not possess a credit rating from one of the main credit rating agencies.
Unsupported Borrowing	Borrowing where costs are wholly financed by the Authority.

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AUTHORITY REPORT: REVIEW OF THE CORPORATE RISK REGISTER

1. Confidential Report

1.1 No.

2. Recommendation:

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

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3. Purpose

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

4. Background

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

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

a) The risk assessment criteria.

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

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

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

5. Current Position

5.1 The complete corporate risk register can be found at Appendices A-C.

Corporate risk register format

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

a) Identification of risks.

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

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

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

e) The risk register format has been updated to include a further column to denote the appetite for a particular risk and specifically whether to accept the risk or to undertake further actions in order to try and reduce the impact or likelihood of the risk occurrence. The recommended position is a balance between the risk exposure and the ability or resource cost of taking further action.

Risk matrix - assessment criteria and scoring

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

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

5.5 An overview of the risk assessment criteria can be viewed at Appendix A.

Risk categories

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

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

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

5.7 It should be noted that these categories are not mutually exclusive and some risks could apply to both Corporate and Operational registers. The purpose of categorising risk is to ensure that risk is considered across a broad range of issues.

Corporate risks (See Appendix B)

5.8 Officers identified and assessed thirteen high level corporate risks and the existing controls and mitigation factors and categorised them as below:

Net Corporate Risks

Likelihood	Likely	**4**				
	Probable	**3**	**C10**			
	Possible	**2**		**C2,C7,C9,C11,C12**	**C8**	**C13**
	Unlikely	**1**		**C1,C6**		**C3,C4,C5**
			1	**2**	**3**	**4**
			Minimal	Moderate	Critical	Calamitous
			Impact			

No.	Description of Risk
C1	Authority does not maintain effective partnership working with constituent councils
C2	Breakdown of relationship with contractor
C3	Termination of IWMS (Integrated Waste Management Service) contract by Authority
C4	Termination of IWMS contract by ELWA Ltd
C5	Termination of IWMS contract by Shanks
C6	The Authority and ELWA Ltd do not adequately anticipate impacts of new legislation or services
C7	The Authority's control systems do not provide timely detection of fraudulent or corrupt acts
C8	The Authority has insufficient funds to meet its obligations
C9	Authority does not have adequate systems in place to ensure continuity of its business operations
C10	Constituent Councils do not have adequate systems in place to ensure continuity of its staff
C11	Increased Cost of working as a result of liquidation of Aveley Methane Limited
C12	Failure to deliver improved levels of contractual performance
C13	Residual waste treatment arrangements not in place when needed

6.1 Of the risks identified and assessed it is considered that current mitigations and controls that are in place are adequate. Only C13 is considered a high risk but this is only due to the high impact of this risk should it occur however the probability of it occurring is considered low.

Operational risks (See Appendix C)

6.2 Officers identified and assessed fourteen operational risks and the existing controls and mitigation factors and categorised them as below:

Net Operational Risks

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

No.	**Description of Risk**
O1	Loss of accommodation and documents contained within
O2	Closure of public waste disposal site
O3	Trespass on closed landfill site leading to death / serious injury
O4	Trespass on closed landfill site leading to flytipping/traveller settlement
O5	Enforcement notice to clear up flytipping
O6	Closure of a key waste facility
O7	Major Health & Safety event at a waste site.
08	Major Health & Safety event at offices
O9	Major failure of contractor's technology
O10	Discovery of hazardous substances (key facilities or RRCs – Reuse and Recycling Centres)
O11	Failure to meet stakeholder expectations

O12	Lone working (both office and site)
O13	Operational incidents on landfill site e.g. leachate overflow, gas release
O14	Change in collection methods by constituent council(s)

6.3 Of the risks identified and assessed it is considered that current mitigations and controls that are in place are adequate with no risks identified as being high risk.

7. Conclusion

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

7.2 Maintaining the existing mitigating controls is an important part of managing these risks particularly where there is no appetite to accept a specific risk and further actions have been identified.

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8. Relevant officer:

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

9. Appendices attached:

9.1 Appendix A: Corporate Risk Register Risk Assessment Criteria.

9.2 Appendix B: Corporate Risk Register High Level Corporate Risks.

9.3 Appendix C: Corporate Risk Register High Level Operational Risks.

10. Background Papers:

10.1 None.

11. Legal Considerations:

11.1 The Legal Adviser has been consulted in the preparation of this report. The use of an actively managed risk identification and mitigation scheme is an essential element of the sound governance of a public authority. This is because in the core activities of a waste authority there needs to be vigilance for new and emerging risks to its operations. As in the main body of the report so identifies items C3,4 & C5 which relate to the integrated waste management contract are significant risks in terms of consequences, though low in likelihood. It is confirmed that the key legal risks associated with the several contracts and agreements identified in the risk register have been identified and managed by the respective agreements terms and conditions. The performance of these agreements are kept constantly under review. The Legal Adviser confirms that they are not aware of any additional specific legal implications to highlight at this time.

12. Financial Considerations:

12.1 The regular review of the Authority risk register, as well as the actions that have been put in place to mitigate against these risks, are an important control mechanism in reducing the Authority's exposure to financial risk and loss. Agenda Item 9 of this report contains further details on how the risk analysis of the Authority's budget has impacted on the Authority's policy on reserves.

13. Performance Management Considerations:

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

14. Risk Management Considerations:

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

15. Equalities consideration

15.1 There are no specific equality implications arising from this report.

16. Follow-up Reports:

16.1 None.

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

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

18. Glossary:

18.1 ELWA/the Authority - East London Waste Authority.

18.2 IWMS - Integrated Waste Management Services.

18.3 RRC - Reuse and Recycling Centre.

19. Confidentiality:

19.1 No.

20. Approved by management board:

20.1 23 January 2017.

21. Confidentiality:

21.1 Not Applicable.

Corporate Risk Register Jan 2017
Risk Assessment Criteria

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

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

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No.	Description of Risk	Effect	Gross Risk Assessment			Controls and Mitigation	Net Risk Assessment			Risk response	Residual Risk Assessment			Risk Owner	Date updated
			L	I	Rating		L	I	Rating		L	I	Rating		
C1	Authority does not maintain effective partnership working with constituent councils	Delayed decision making Uncertainty over way forward Failure to agree levy Lack of strategic focus Corporate divisions and disagreements Reputation damage Increased Authority costs	2	4	8	Constitution Joint Waste Management Strategy Open dialogue at all levels within Boroughs IWMS Service Delivery Plans Primary legislation Legal ability to recover Levy Financial strategy & budget planning	1	2	2	Accept - With Controls and Mitigation actions	1	2	2	Managing Director & Management Board	16/01/2017
C2	Breakdown of relationship with contractor	Non co-operation by Contractor Problems not resolved Performance suffers Eventual failure of PFI contract Increased Authority costs	3	2	6	Contractual provisions & penalties/incentives Dispute Resolution Procedures in Contract IWMS Service Delivery Plans Timely legal advice Regular officer contact at various levels	2	2	4	Reduce Maintain professional approach to commercial negotiations	2	2	4	Managing Director	16/01/2017
C3	Termination of IWMS contract by Authority	Re-tender costs for ELWA Ltd Adverse media attention Disruption of services Increased Authority costs	1	4	4	Provisions in IWMS Contract Review financial results and accounts ELWA Ltd contingency plans ELWA files of licences and operation manuals	1	4	4	Accept - With Controls and Mitigation actions	1	4	4	Managing Director	16/01/2017
C4	Termination of IWMS contract by ELWA Ltd	Re-tender costs for ELWA Ltd Adverse media attention Disruption of services Increased Authority costs	1	4	4	Provisions in IWMS Contract Review financial results and accounts ELWA Ltd contingency plans ELWA files of licences and operation manuals	1	4	4	Accept - With Controls and Mitigation actions	1	4	4	Managing Director	16/01/2017
C5	Termination of IWMS contract by Shanks	Re-tender costs for ELWA Ltd Adverse media attention Disruption of services Increased Authority costs	1	4	4	Provisions in IWMS Contract Review financial results and accounts ELWA Ltd contingency plans ELWA files of licences and operation manuals	1	4	4	Accept - With Controls and Mitigation actions	1	4	4	Managing Director	16/01/2017
C6	The Authority and ELWA Ltd do not adequately anticipate impacts of new legislation or services	Urgent investment required. Urgent adjustment to services at higher cost	1	3	3	Maintain high level of national involvement and expertise including lobbying where necessary. Contingency plans Change of law provisions in IWMS Contract Production of new ELWA strategy	1	2	2	Accept - With Controls and Mitigation actions	1	2	2	Managing Director	16/01/2017
C7	The Authority's control systems do not provide timely detection of fraudulent or corrupt acts	Termination of contract Criticism by Government / District Audit Service performance jeopardised Legal action to recover funds	2	3	6	Authority's' anti fraud and corruption strategy. Contractual provisions on corrupt gifts and fraud. Independent weighbridge data check by WCAs under SLA Purchasing controls Internal and external audit.	2	2	4	Accept - With Controls and Mitigation actions	2	2	4	Finance Director	16/01/2017
C8	The Authority has insufficient funds to meet its obligations	Progress is limited by lack of resources Subsequent levy increases are unpredictable Unplanned borrowing Impact on day to day service provision	2	4	8	Medium Term financial strategy. Risk Management strategy. Treasury management regime Annual levy calculation Maintain reserves at adequate level. Keep insurances under review. Awareness of potential new regulations.	2	3	6	Reduce Actively seek to dispose of assets where unpredictable financial risk is identified.i.e. closed landfills	1	3	3	Finance Director	16/01/2017
C9	Authority does not have adequate systems in place to ensure continuity of its business operations	Authority fails to meet statutory requirements Lack of knowledge and experience in monitoring the PFI contract Loss of strategic direction Decision making process impacted Impact on governance Impact on day to day service provision	3	3	9	Approved staffing establishment Succession planning Shared knowledge within team Performance management/appraisal regime Documented processes and procedures Flat organisation structure Greater cross working within organisation Business Continuity Plan	2	2	4	Reduce Review constitution to ensure good governence is maintained. Further succession training to take place to cover pending retirement of Contract Manager (circa 1 year).	2	2	4	Managing Director	16/01/2017
C10	Constituent Councils do not have adequate systems in place to ensure continuity of its staff	Lack of strategic direction Lack of knowledge and experience in monitoring the PFI contract Additional burden on ELWA staff Decision making process impacted Impact on day to day service provision	3	1	3	Established experienced team OMT and Board structures Shared knowledge within team	3	1	3	Accept - With Controls and Mitigation actions	3	1	3	Management Board	16/01/2017
C11	Increased Cost of working as a result of liquidation of Aveley Methane Limited	Landfill gas requires managing at a higher cost Leachate requires managing at higher cost Additional management responsibilities	4	2	8	Technical reports on gas and leachate management Maintenance of existing controls and staff presence Negotiated exit from JV	2	2	4	Reduce Identification of alternative uses of landfill site to mitigate any increased costs Review of operations and management	2	1	2	Managing Director	16/01/2017

Corporate Risk Register Jan 2017
Risk Assessment Criteria

No.	Description of Risk	Effect	Gross Risk Assessment			Controls and Mitigation	Net Risk Assessment			Risk response	Residual Risk Assessment			Risk Owner	Date updated
			L	I	Rating		L	I	Rating		L	I	Rating		
		Increased risk of vandalism				Use of advisors				Correct specification of equipment for monitoring and controls.					
C12	Failure to deliver improved levels of contractual performance	Poor perception of Authority Increased landfill costs	3	2	6	Medium and long term strategy planning with contractor. IWMS Service Delivery Plans Side agreement to contract for increased diversion of coarse SRF to EfW markets	2	2	4	Reduce Engage with contractor to identify performance improvement measures	1	2	2	Managing Director	16/01/2017
C13	Residual waste treatment arrangements not in place when needed	Increased levy Poor perception of Authority	2	4	8	Timely consideration of future strategy Early engagement with stakeholders Option to extend contract	2	4	8	Reduce Take all steps to ensure that planning is progressed to allow for option of replacement facility at an appropriate time.	1	2	2	Managing Director	16/01/2017

No.	Description of Risk	Effect	Gross Risk L	Gross Risk I	Gross Risk Rating	Controls and Mitigation	Net Risk L	Net Risk I	Net Risk Rating	Risk Response	Residual Risk L	Residual Risk I	Residual Risk Rating	Risk Owner	Date Reviewed
O1	Loss of accommodation and documents contained within	Unable to access important documents Loss of critical data Monitoring and reporting are weakened	1	2	2	Landlord responsibilities for accommodation. Daily IT backup by LBBD Key contractual documents held elsewhere (Wragge & Redbridge). IT link up for home-working or hot desking within LBBD. Business Continuity Plan Insurance	1	1	1	Accept - With Controls and Mitigation actions	1	1	1	Office Manager	16/01/17
O2	Closure of public waste disposal site	Unable to receive waste from public Potential for fly tipping near the site Adverse local media attention Poor perception of the Authority	2	2	4	Contractual performance requirements. Penalty regime on contractor. Alternative sites if one closes On site monitoring	1	2	2	Accept - With Controls and Mitigation actions	1	2	2	Contract Manager	16/01/17
O3	Trespass on closed landfill site leading to death / serious injury	HSE / Police investigation Adverse national media attention ELWA security provisions called into question Legal action and costs	2	3	6	Quarterly review of site security. Appropriate signage Insurance cover	2	2	4	Reduce Sell off remote sites Look for alternative uses	2	2	4	Waste & Recycling Officer	16/01/17
O4	Trespass on closed landfill site leading to flytipping/traveller settlement	Clean up cost of flytipping Land being placed on Contaminated Land Register Adverse media attention Legal action and costs Unable to manage site risks	3	2	6	Site staff 2m high bunding Maintain relationships with neighbours	2	2	4	Reduce Sell off remote sites Look for alternative uses	1	2	2	Waste & Recycling Officer	16/01/17
O5	Enforcement notice to clear up flytipping	Clean up cost of flytipping Land being placed on Contaminated Land Register Adverse media attention Legal action and costs	3	4	12	Sensitive management of stakeholders	2	3	6	Reduce Negotiate / agree alternative options other than disposal to landfill Apply for retrospective planning consent	2	2	4	Managing Director and Waste & Recycling Officer	16/01/17
O6	Closure of a key waste facility	Service to Boroughs disrupted Significant costs if a long period. Adverse local media attention Poor perception of the Authority	3	2	6	Business Continuity Plan Contractor contingency plans. Penalty regime on contractor. ELWA Ltd Insurances	2	2	4	Accept - With Controls and Mitigation actions	2	2	4	Contract Manager	16/01/17
O7	Major Health & Safety event at a waste site.	HSE / Police investigation ELWA Ltd safety provisions called into question Disruption to service provision	2	2	4	Contractual requirements. Contract Monitoring Penalty regime on contractor. Contractor Health and Safety procedures monitored. Business Continuity Plan	2	1	2	Accept - With Controls and Mitigation actions	2	1	2	Waste & Recycling Officer	16/01/17
08	Major Health & Safety event at offices	HSE / Police investigation Disruption to service provision	2	1	2	Landlord requirements. Business Continuity Plan	2	1	2	Accept - With Controls and Mitigation actions	1	1	1	Office Manager	16/01/17
O9	Major failure of contractor's technology	Performance is poor Excess waste disposal costs to landfill. Site closure Service to Boroughs disrupted Significant costs if a long period. Adverse local media attention Poor perception of the Authority	3	2	6	Contractor's risk management regime Penalty regime on contractor ELWA Ltd insurance cover Business Continuity Plan	2	2	4	Accept - With Controls and Mitigation actions	2	2	4	Contract Manager	16/01/17
O10	Discovery of hazardous substances (key facilities or RRCs)	Site closure Service to Boroughs disrupted Significant costs if a long period. Unable to receive waste from public Potential for fly tipping near the site Adverse local media attention	2	1	2	Contractual service requirements Specific contractor arrangements for hazardous waste Contingency plans	2	1	2	Accept - With Controls and Mitigation actions	2	1	2	Waste & Recycling Officer	16/01/17
O11	Failure to meet stakeholder expectations	Criticism of ELWA Reputations damaged Customer complaints	2	2	4	Maintain dialogue with stakeholders. Consultation on strategies. Proactive public relations. Further review strategies and service delivery plans.	1	2	2	Accept - With Controls and Mitigation actions	1	2	2	Managing Director	16/01/17
O12	Lone working (both office and site)	Personal attack on a member of staff Personal injury/incapacity not discovered Potential legal action and costs	2	1	2	Risk assessments. Security arrangements at Harvey House. Working practices and communication equipment on sites.	2	1	2	Reduce Review working practices at landfill sites	2	1	2	Office Manager / Waste & Recycling Officer	16/01/17
O13	Operational incidents on landfill site e.g. leachate overflow, gas release	High cost of remediation and correction Adverse media attention Legal action and costs Reputational damage Placement of land on Contaminated Land Register	2	2	4	Bi-annual testing of gas equipment. Inspection by on-site staff. Insurance re: sudden events	2	2	4	Reduce Obtain technical reports and review control methods at sites	2	2	4	Waste & Recycling Officer	16/01/17
O14	Change in collection methods by constituent council(s)	Increased levy costs. Failure to meet ELWA Pooled/Contractual Targets Failure to meet waste minimisation strategy targets Conflicts between partners Legal challenge from Contractor Insufficient reserves	2	4	8	Requirements upon collection authorities in IWMS Contract. Annual Service Delivery Planning by partners. Monthly provision of information by contractor. Meetings of Board and Directors of Environment. Transparent reporting Communications with Contractor	2	2	4	Accept - With Controls and Mitigation actions	2	2	4	Management Board	16/01/17

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AUTHORITY REPORT: ANNUAL BUDGET AND SERVICE DELIVERY PLAN 2017-2018

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to note that:

a) Officers continue to have concerns relating to some aspects of the details of the submitted Annual Budget and Service Delivery Plan (ABSDP) 2017-18 and officers are therefore not able to recommend that the Authority gives approval of these documents as currently drafted;

b) It is not necessary for the Authority to formally reject the Plans at this stage as to do so could disrupt the discussions and trigger the Dispute Resolution Procedure (DRP) which is unlikely to be favourable to the Authority; and

c) Officers are continuing to engage with ELWA Limited (the Contractor) regarding these plans to ensure that the final documents reflect the Integrated Waste Management Services (IWMS) Contract requirements including a recycling improvement plan to move towards Contract targets.

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3. Purpose

3.1 To consider the ABSDP produced by the Contractor.

4. Background

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

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

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

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

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

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

4.7 Officers have been unable to recommend to the Authority that the last four consecutive ABSDPs and the latest SDP should be approved. In fact, at last year's meeting of the Authority Officers recommended that the Authority should formally reject the ABSDP for 2016-17 to enable Officers to escalate the issue with ELWA Ltd, this recommendation was approved.

4.8 The lack of agreement of these plans does not prevent the Authority from setting its budgets and levy as the overall diversion performance, which is the major financial driver for the Authority, is acceptable to officers within the submitted ABSDP. Projected recycling performance remains the contentious issue for officers.

5. Current Position - ABSDP

5.1 The Contractor submitted its plan to ELWA Officers in accordance with contractual requirements in October 2016.

5.2 The plan takes account of current and planned waste tonnages and operational performance in determining likely recycling and diversion rates for the coming year and the associated financial Contract costs.

Tonnages

5.3 The Operator's forecast tonnage for 2017-18 is 452,803 tonnes. The 2017-18 ABSDP estimates anticipate an overall increase from the tonnage forecast for 2016-17. However, this tonnage does not take into consideration the forecast housing growth and associated tonnages which is understandable. After consulting with Constituent Council Officers regarding regeneration and housing growth projections and collection service provisions, Officers are recommending a tonnage figure of 469,000t to allow for this growth.

Recycling Performance

5.4 The subject of recycling is the area of significant dispute. There are two targets within the IWMS contract, 22% is the target in the Payment Mechanism and 30% is the target in the Specification. The ABSDP indicates a recycling rate of c.26% for the year, and the Contractor maintains that they view the Specification target of 30% to be aspirational.

5.5 ELWA officers have been looking for this continuous improvement in recycling performance to move towards the Specification targets. The Frog Island BioMRF is producing more recycling and there are positive results from the mothballing of the SB MRF and the externalising of this material to third parties. It is recognised though that a step change in performance is required to improve recycling levels to the levels set out in the Contract Specification.

5.6 Following the rejection of the ABSDP for 2016-17 the ELWA Managing Director has had a constructive and positive meeting with the Contractor's representative with an in-principle agreement to develop an improvement programme. The Contractor has engaged with the Operator to develop this plan and their discussions are ongoing. However, the fact remains that these discussions have not been translated or included in the submitted ABSDP for 2017-18.

5.7 Members are reminded that there are no financial penalties that can be applied for the failure of the achievement of these contractual targets and the formal DRP could be an expensive process with no certain outcome or improvement in performance.

5.8 It is considered that the best outcome from any route would be the issuing of an improvement plan and current discussions are leading to this without triggering the DRP and associated costs. Formally rejecting the ABSDP at this point could risk DRP being triggered and this is not being recommended at this point.

Diversion Performance

5.9 Overall diversion of waste from landfill is currently at 86%. The Operator has indicated that as a result of the reinstatement of Frog Island BioMRF (Biological Materials Recovery Facility) and the installation of two new balers, they will be able to maintain and build upon this increased diversion. The 2017-18 ABSDP diversion rate for the year is anticipated to be 91.76%. The agreed diversion agreement that is in place means that the Authority's financial position is protected from any volatility in relation to actual Contractor performance.

5.10 It should also be noted that the agreement allows for material to be diverted from landfill by recycling should this avenue be followed but it is likely that given the markets and waste composition the diversion from landfill will predominantly be achieved by the production of RDF.

Contractual Cost

5.11 The effect of increasing forecast tonnages as outlined in 5.3 above will have the impact of raising the contract sum figure provided in the ABSDP. The levy report elsewhere on the agenda provides the detailed financial position.

Communications Plan 2017-18

5.12 The ELWA partnership communications programme will continue into 2017-18. The programme will have the following focus:

a) Engaging with primary and secondary school children on the Reduce, Reuse, Recycle message, encouraging children to take that message home;

b) Working with schools as hubs in the community, helping them reduce waste and increase recycling through specialised programmes;

c) Developing and delivering new projects and initiatives which support pupils, teachers, parents and schools in the above;

d) MuRFY's World at Jenkins Lane will continue to be made available to school groups as an interactive learning centre.

6. Conclusion

6.1 Officers consider that the ABSDP does not meet the contractually agreed target of 30% and the recycling projection is disappointing especially as the new agreement does increase the incentive to reuse/recycle as well as divert from landfill by other means such as Refuse Derived Fuel (RDF).

6.2 Officers recognise the ABSDP reflects a realistic position for the coming year and understand the reasons for a recycling rate projection of 26%. Whilst it is disappointing and does not meet the contractually agreed target of 30%, there are no effective contractual remedies ELWA can enforce to improve this position.

6.3 There are several aspects that officers agree with and generally this is a reasonable plan, but due to the forecast recycling officers are unable to recommend to Members that this plan be formally accepted.

6.4 Considering the information in this report, Members are asked to agree the recommendation as outlined at 2.1 above.

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7. Relevant officer:

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

8. Appendices attached:

8.1 None.

9. Background papers:

9.1 None.

10. Legal considerations:

10.1 The legal provisions relating to the provision of the waste disposal services delivered by the Contractor are set out in the waste management contract between the parties. The Contract makes provision for the preparation and submission by the Contractor of Annual Budget, and SDP to be agreed with ELWA, the contents of which the Contractor will be bound and held to account over the period covered by the plan. At the time of writing the Officers of ELWA are not minded to recommend the Annual Budget and Service Delivery Plan (ABSDP) 2017-18 to receive unqualified approval. The reason is set out elsewhere in the body of this report. In the event there is not an informal resolution the Contract documentation sets out a procedure for resolving disputes. Inevitably costs of resolving a dispute using the prescribed procedure may be quite significant, if contested through the full procedure. Officers of ELWA will keep the board of directors and members informed of progress and implications for ELWA's finances.

11. Financial considerations:

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

12. Performance Management considerations:

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

13. Risk Management considerations:

13.1 The risks associated with this reports are detailed in the corporate risk register elsewhere on this agenda.

14. Equalities considerations:

14.1 The equalities impact assessment shows that this does not particularly affect any one group as defined by equalities legislation.

15. Follow-up Reports:

15.1 None.

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

16.1 None.

17. Glossary:

17.1 ABSDP - Annual Budget & Service Delivery Plan

17.2 BioMRF - Biological Materials Recovery Facility

17.3 Constituent Councils – London Boroughs of Barking & Dagenham (LBBD), Havering (LBH), Newham (LBN) & Redbridge (LBR)

17.4 Contractor – ELWA Ltd

17.5 DRP – Dispute Resolution Procedure

17.6 ELWA / the Authority – East London Waste Authority

17.7 IWMS - Integrated Waste Management Services Contract

17.8 Operator – Shanks east.london

17.9 OSDP - Overall Service Delivery Plan

17.10 RDF – Refuse Derived Fuel

17.11 SDP – 5 years' Service Delivery Plan

18. Approved by management board:

18.1 23 January 2017

19. Confidentiality:

19.1 Not Applicable

AUTHORITY REPORT: REVENUE & CAPITAL BUDGETS AND LEVY 2017/18

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to agree:

a) The revenue budget for 2017/18, totalling £63.561m as set out in Appendix A to the report;

b) The charges for commercial and industrial waste for 2017/18

Commercial & Industrial Waste – recycled	£81 per tonne,
Commercial & Industrial Waste – other	£149 per tonne,

c) That on the basis of a) and b) above, ELWA determines its levy for 2017/18 as the sum of £61.542m an average increase of 8.79%,

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

	£m	% Increase
Barking and Dagenham	11.652	7.10
Havering	14.925	9.18
Newham	18.048	9.71
Redbridge	16.917	8.67

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

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

3. Purpose

3.1 To agree the revenue budget for 2017/18.

3.2 To determine the ELWA levy for 2017/18.

4. Executive Summary

4.1 This report provides the Authority with information to agree the ELWA revenue budget for 2017/18 and to determine the levy for each constituent council.

4.2 The proposals set out in this report have been prepared against the background of the 2017/18 to 2021/22 Medium Term Financial Strategy (MTFS) as reported at the 21st November 2016 Authority meeting. The variables impacting on the Levy reported were projected tonnages, inflation, insurance costs and reserves and contingency movements. The MTFS report projected an indicative average increase in the ELWA levy of 9.95% for 2017/18 and the variables remain broadly the same as previously reported. The impact of the increase would be different for each constituent council dependent on those constituent councils' tonnages and Council Tax bases.

4.3 It is proposed that the levy is set at an average of 8.79%. However, this is an average and not the specific level for each constituent council.

4.4 The table below summarises the movement and the increase in net cost pressures which will have a direct impact on the levy for 2017/18.

	£m	**Reference para.**
Original Budget 2016/17	59.351	
Shanks contract –tonnage /contract	1.802	6.4, 6.24
Shanks contract – Increase due to inflation	1.300	6.8, 6.10
Contingency and de minimis changes increase	0.358	6.26
Efficiency savings adjustment	0.750	6.15
Proposed Budget for 2017/18	**63.561**	

4.5 There has been some mitigation of these pressures as a result of a lower RPIX increase in October 2016 than forecast in the MTFS report in November 2016. This is 1.75% compared to 2.0% assumed in November 2016. Elsewhere on the agenda is a report which details the budgetary position up to December 2016 and the projected outturn position at 31 March 2017. This shows a projected outturn overspend for 2016/17 of £0.622m. This is a smaller projected overspend than that projected in the November 2016 meeting and has been taken account of when setting the Levy for 2017/18.

4.6 Tonnages are still projected to be 469,000 tonnes in 2017/18, with projected increases of 20,000 tonnes per annum over the next 4 years. These reflect a year on year increase of about 4%-5% year on year. This takes into account the forecasts for population increases and household projections.

4.7 The levy has been set on the basis that general revenue is increased at the end of 2017/18 to £3.0m and maintained over the five years period. The assumption is also that the strategy reserve is built up over stages so it reaches £9.66m at the end of 2021/22. The capital reserve is to be maintained at £0.163m.

4.8 Ongoing efficiencies which the Managing Director has achieved of £0.75m have been built into the contract sum. Constituent Councils have seen different changes in their comparative waste tonnage levels and Council Tax Base. As a result, there is some variation around the averages amongst the four constituent Councils. The current projections for the ELWA levy increase in 2018/19 to 2021/22 are set at rates between 4.79% and 6.13%.

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

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

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

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

5. Background

5.1 This report sets out the background to determining the Authority's levy including cost pressures, and the need to build up reserves for strategy development in relation to the Waste strategy after 2027. Members are asked to consider these matters and determine the levy for 2017/18.

5.2 This report builds on the MTFS 2017/18 to 2021/22 report as presented at the meeting of this Authority on 21 November 2016. The constituent councils were made aware of this and an indicative levy increase of 9.95% in 2017/18 was projected in November.

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

5.4 The power to set the levy is established in the Waste Regulation and Disposal (Authorities) Order 1985 regulation 7. This enables ELWA to make levies on the constituent councils to meet all liabilities falling to be discharged by it for which provision is not otherwise made.

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

6. Revenue Budget & Medium Term Financial Strategy (MTFS)

6.1 The Authority will seek to set a balanced and prudent budget and to keep any increase in the levy to reflect the levels required to deliver this. The Authority will manage the risks it faces through the maintenance of an adequate and prudent level of reserves.

6.2 It is considered appropriate to retain the existing methodology for calculating the levy.

6.3 The Integrated Waste Management Services contract (IWMS) continues to be the dominant element of the budget and the ability to use/add to reserves to mitigate against cost pressures or build reserves to meet the risks facing the Authority. The following paragraphs detail the main cost pressures.

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

6.4 The key item within the revenue budget is ELWA Ltd's Annual Budget and Service Delivery Plan (ABSDP) which forms approximately 94% of ELWA's total gross expenditure. The provisional ABSDP for 2017/18 assumes a total ELWA waste figure of 452,803 tonnes. Elsewhere on the agenda is the ABSDP report. In recent years, actual tonnage has been different to that projected in the ABSDP and a prudent view has been taken for budget purposes. At the meeting on the 21 November 2016, which considered the MTFS 2017/18 to 2021/22, based on ELWA technical officer advice as well as population and household data projections a tonnage of 469,000 tonnes was projected for 2017/18. Based on the latest ELWA technical officer advice the projected tonnage in 2017/18 continues to be 469,000 tonnes and this has been assumed in the 2017/18 contractor costs budget.

6.5 As a consequence of additional LFT rate rises, the revenue budget has assumed subsequent increases in commercial waste disposal charges in 2017/18 to the constituent councils of the equivalent amount.

6.6 Managing waste levels is a key pressure for constituent councils and it will be affected by the pace of development of the ELWA region as well as general population growth in the constituent councils which could significantly add to waste growth over the next decade. Members were presented with details of the pressures affecting waste levels in the report on the MTFS in November 2016 and are included again below. Based on these annual increases of 20,000 tonnes have been included in the projections for 2018/19 to 2021/22.

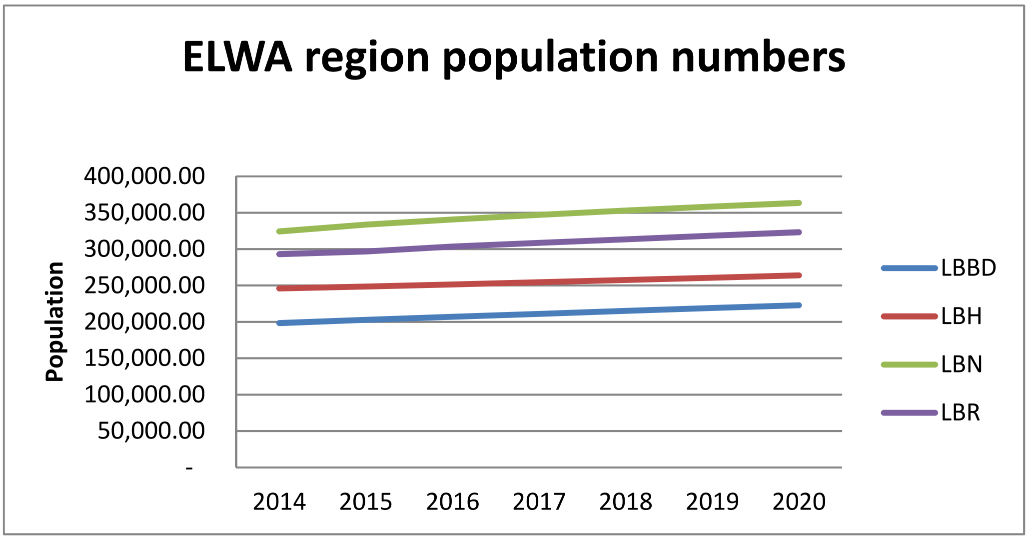
6.7 Constituent councils' population and household increased 2016-20 are projected as follows

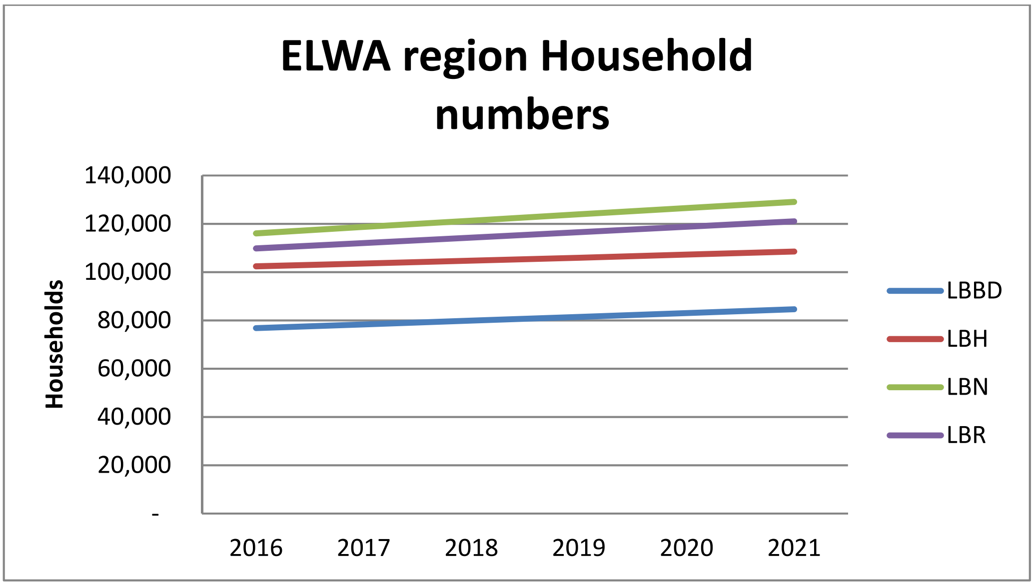
Population projections	**2016** **m**	**2017** **m**	**2018** **m**	**2019** **m**	**2020** **m**	**increase** **%**
LBBD	0.207	0.211	0.215	0.219	0.223	7.7
LBH	0.252	0.254	0.258	0.261	0.264	4.9
LBN	0.341	0.347	0.353	0.358	0.363	6.7
LBR	0.304	0.309	0.314	0.318	0.323	6.5
Total	**1.104**	**1.121**	**1.140**	**1.156**	**1.173**	**6.4**

Key: LBBD = London Borough of Barking & Dagenham
LBH = London Borough of Havering
LBN = London Borough of Newham
LBR = London Borough of Redbridge

Household projections	**2016** **m**	**2017** **m**	**2018** **m**	**2019** **m**	**2020** **m**	**increase** **%**
LBBD	0.077	0.078	0.080	0.081	0.083	8.1
LBH	0.102	0.104	0.105	0.106	0.107	4.7
LBN	0.116	0.119	0.121	0.124	0.127	9.0
LBR	0.110	0.112	0.114	0.116	0.119	8.2
Total	**0.405**	**0.413**	**0.420**	**0.427**	**0.436**	**7.5**

The graphs illustrate this.





Tonnages are assumed to increase to as in the following table:

2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
447,000	469,000	489,000	509,000	529,000	549,000
Annual % increase	4.9	4.3	4.1	3.9	3.8

6.8 The revenue budget has accounted for further increases in landfill tax which will go up from £82.60 to £84.40 per tonne. Under the IWMS contract, the operator is only liable for a small element of the landfill tax whilst ELWA bears the majority of costs provided the operator has achieved the contracted diversion from the landfill target.

6.9 The Local Government Act 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 suggested level in the MTFS represents the minimum level of reserves that are currently deemed to be adequate given the risks and uncertainties faced by ELWA. As part of the continuing policy on the Strategy Reserve it is proposed to continue

6.10 As required in the contract, annual cost inflation has been built into the projections. This is based on the Retail Price Index excluding mortgages (RPIX) at the previous October each year (at the 80% level). At this level, it is 1.75% for 2017/18. Based on information in the Government's 2016 Autumn Statement Consumer Prices Index (CPI) inflation ranges from 2.3% to 2.0% in the period 2017-21. As the RPIX in general tends to run at a higher level than the CPI it is proposed to continue to use the RPIX inflation assumed in the 2017/22 MTFS report agreed by Members in November 2016. This was an assumption of 3.3% over the period (at the 80% level this is 2.6%).

6.11 Previous diversion agreements with ELWA Limited (the Contractor) have had a financial impact for ELWA. The current agreement which is effective until 2027 passes the financial risk onto the operator giving an incentive for the operator to landfill as little as possible. The percentage diversion rate is therefore no longer a variable in the projection of the contractor costs budget as the total of the LFT and diversion supplements are the same at diversion levels of 67% and above. Also under these arrangements a flat rate rebate rising to £0.5m per is payable by the operator to ELWA.

MTFS

6.12 Movements in the levy since the comprise of the following:

	Updated Levy projection 2017/18 £m	Paragraph Ref:
2016/17 levy	56.57	
IWMS contract		
• tonnage increase	1.93	6.4
• contract inflation	1.06	6.10
Landfill taxes inflation	0.23	6.8
Removal of efficiencies target	0.75	6.15
Non-contract adjustments	(0.11)	
Contingency increase	0.35	6.26
Reserves movements	0.90	7
Adjustment for previous year (under)/over spend:		
2015/16 overspend £0.76m included in levy		
2016/17 estimated overspend £0.622m	(0.14)	4.5
Proposed 2017/18 levy	**61.54**	

Non-Contract Costs

6.13 Salaries and related costs are assumed to increase by 1% per annum over the 5 years period. The ongoing saving arising from the staff restructuring (£0.115m) remains built into the budget. Other non-contract costs are kept at existing levels.

Insurance Costs

6.14 Insurance premium costs for ELWA have risen significantly in recent years. This is partly due to the impact of the fire at the Frog Island facility in 2014 but also due to the fact there is limited provision in the market place for such insurance. Members will also be aware that as part of the Chancellor's 2016 Autumn Statement, Insurance Premium Tax will increase to 12% from June 2017. Taking all this into account the budget will be maintained at £1.334m in 2017/18 with 5% increases in the four subsequent years.

In built contract efficiencies

6.15 An efficiencies target of £1.5m was assumed in the calculation of the 2016/17 Budget and levy. As advised in the MTFS report in November 2016 ongoing savings of £0.750m have been built into the contractor payments budget. This represents the savings achieved by the Managing Director as part of the various contract negotiations.

Landfill sites

6.16 ELWA still retains some closed Landfill sites and the general policy is to dispose of these. The cost of maintenance at the Aveley site is funded from ELWA's revenue budget and includes the cost of 2 full time staff.

Capital Financing charges

6.17 Through the IWMS contract, ELWA Ltd has delivered a major capital investment for the provision of waste disposal facilities and the refurbishment of existing ones in the ELWA area. The costs of this are reflected within the contract.

6.18 In addition, consideration will be given by ELWA Officers to making bids for additional funding in appropriate circumstances including recycling and composting initiatives. Currently no funding has been identified.

6.19 Existing capital financing charges are taken account of in the revenue budget. In 2017/18 these are slightly reduced from the 2016/17 budget level due to some debt being paid off.

Income

6.20 ELWA receives interest on its balances and the total income generated depends on the level of balances and interest rates. ELWA's Treasury Management Strategy continues to focus on security and maintaining liquidity for the Authority. In recognition of projected lower interest rates it is proposed that this budget is set at a lower level than in 2016/17. Depending on future years' outturns and taking account of projected increase in reserves this budget would be subject to review.

Commercial and Royalty charges

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

6.22 ELWA makes charges to constituent councils for commercial and industrial waste disposal based on the tonnage disposed. Under the IWMS contract Shanks must accept and deal with this waste. It is assumed that volumes remain constant over the 5 years' period.

6.23 To reflect the increased cost of landfill tax (in 2016/17) and inflation within the IWMS contract it is the view of the ELWA technical officers that the normal charge for 2016/17 is increased from £146 to £149 per tonne. £1.50 of the increase relates to inflation and £1.50 to the landfill tax. The charge for recycled waste is recommended to increase from £79 to £81.

6.24 The Authority receives royalty income in respect of non-contract waste that the operator processes in any of ELWA's key facilities. In principle, this is determined by the amount of excess capacity as well as having contracts to fill this capacity. Members have been advised of the loss of contracts. The Managing Director advised Members of an agreement with the contractor to take up all excess capacity regardless of whether there were sufficient contracts for this. For 2017/18 this would mean an estimated income of £0.403m, As ELWA's tonnage increases over the subsequent years the amount of excess capacity will reduce and therefore the budgeted income over these years reflects this.

Contingency

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

6.26 The contingency assumed in the 2016/17 Budget was £0.015m. Given the pressures on the revenue budget in recent years Members agreed in November 2016 as part of the MTFS to increase this to £0.5m.

Summary

6.27 Details of the recommended budget for 2017/18 are at Appendix A. This is compared on a line by line basis with the budget agreed for 2016/17.

7. Reserves Strategy

Revenue Reserve

7.1 Members will be aware that in previous budget reports the Authority agreed to set a minimum of £3.0m. A higher level of reserves was put in at the start of the contract due to the uncertainty around the innovative nature of the contract, the technologies used and planning risk. Once the contract was established, reserves were reduced in stages to an appropriate level. At the meeting in November 2016 on the MTFS Members agreed to keep the level of general reserves at £2.0m rising to £3.0m from 2017/18 onwards. These can be split into general reserves of £2.0m and a business risk reserve of £1.0m from the end of 2017/18.

Strategy Reserve

7.2 Members previously agreed the policy of holding a strategy reserve to cover costs arising out of the post 2027 waste disposal arrangements. At the Authority meeting of 21 November 2016 Members were advised that the Strategy Reserve will be used for revenue costs including feasibility works relating to site options and appraisals, pre planning work and elements of the planning approval process e.g. procurement of design, build and operate contract. The agreed Strategy is to build reserves up over five years to enable expenditure to be funded up to a total of £9.66m (before any expenditure is taken into account).

Capital Reserve

7.3 As part of the 2016/17 Budget and levy process a capital reserve of £0.1m was agreed. This is for potential future costs at Aveley. The sale of Hall Farm increased this reserve by £0.115m. Taking account of spend against this, the balance will stand at £0.163m at the end of 2017/18.

Private Finance Initiative (PFI) Funding

7.4 Although there is no longer a PFI reserve the Authority continues to receive PFI grant funding of £3.991m per annum. The Department of Communities and Local Government in January 2011 advised that the annual PFI grant would be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. The main impact of this is that for the five years commencing 2017/18, the Authority will receive £10.3m extra compared to the position if the grant had continued to be paid on the declining balance basis and it is proposed that this continues to be utilised to reduce the levy requirement.

Other Assumptions within the MTFS

7.5 Volumes have been based on 2016/17 tonnages with an estimation of growth for population and household increases.

7.6 The following inflation rates have been used in the calculations in MTFS

a) Contractor and Landfill inflation 2.85%

b) 1% general inflation for non contract costs

c) 5% insurance inflation, 10% has been assumed for 2020/21 onwards

d) 1.38% 2017/18 and 2.6% thereafter – commercial waste inflation

7.7 Bank interest is assumed at 0.6%.

7.8 It has been assumed the initial expenditure required for the waste option 2027 will initially be revenue

Summary of Reserves position

7.9 Reserves table

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
Strategic Reserve						
Opening balance	-	-	1.550	3.310	5.660	7.660
In year movement	-	1.550	1.760	2.350	2.000	2.000
Closing balance – Strategy Reserve	**-**	**1.550**	**3.310**	**5.660**	**7.660**	**9.660**
Revenue Reserve						
Opening balance	1.793	2.578	3.000	3.000	3.000	3.000
In year movement	0.785	0.422	-	-	-	-
Closing balance – Revenue Reserve	**2.578**	**3.000**	**3.000**	**3.000**	**3.000**	**3.000**
Capital Reserve						
Opening balance	0.400	0.163	0.163	0.163	0.163	0.163
Sale of hall farm/flare	0.063	-	-	-	-	-
In year movement	(0.300)	-	-	-	-	-
Closing balance - Capital Reserve	**0.163**	**0.163**	**0.163**	**0.163**	**0.163**	**0.163**

8. Levy for 2017/18 and Subsequent Years

2017/18 Levy

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

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

8.3 The levy for 2017/18 is recommended to be £61.542m including the contingency of £0.5m. This is an average 8.79% increase.

Levies 2018/19 to 2021/22

8.4 The table below highlights potential levies of £64.642m for 2018/19 up to £75.670m for 2021/22. The reserves position at the end of 2021/22 is projected to be £3.0m for Revenue Reserves, and a Strategy Reserve of £9.66m. The PFI contract reserve remains at zero.

8.5 The levy forecasts for 2018/19 to 2021/22 clearly can only be taken as an indication for planning purposes. However, a change in any of a number of uncertain factors, for example changes in landfill tax legislation, waste growth, inflation assumptions and any new legislation could impact on the overall projections.

8.6 The summarised indicative levy position and reserves figures for the next five years are summarised in the following table:

Summary Budget	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Revenue Budget	63.561	66.873	70.247	73.884	77.661
Annual PFI Grant	(3.991)	(3.991)	(3.991)	(3.991)	(3.991)
Sub Total	59.570	62.882	66.256	69.893	73.670
Financed By/Funded					
Transfer to/ Reserve	1.350	1.760	2.350	2.000	2.000
Previous /current years overspend	0.622	-	-	-	-
Levy	**(61.542)**	**(64.642)**	**(68.606)**	**(71.893)**	**(75.670)**
Levy Increase over previous year	**8.79%**	**5.04%**	**6.13%**	**4.79%**	**5.25%**

8.7 Increases in the levy in future years are likely to put pressure on the budgets of the constituent councils. If increases of this level are to be avoided ELWA should continue to work with the Operator and Contractor to find further ways to substantially reduce costs and with the constituent councils to reduce tonnages.

8.8 Public sector financial constraint remains a key feature of Government policies. This reinforces the need for ELWA to seek ways to limit future levy increases as far as possible.

8.9 Any changes in the budgets provided in the recent MTFS will be reflected in the next MTFS review due in November 2017.

Apportionment of the 2017/18 levy and monitoring arrangements

8.10 The basis of the apportionment of the levy is explained in paragraphs 4.9 of the report. The detailed apportionment is given in the table below:

Actual Levy 2016/17	Estimated Levy per November 2016 Report		Tonnages	Apportion Tonnages	Band D Basis	Apportion Band D	Proposed Levy 2017/18	Percentage increase in 2017/18
£m	£m			£m		£m	£m	%
10.880	11.807	LBBD	70,957	9.899	45,846	1.753	11.652	7.10
13.670	15.101	LBH	83,195	11.606	86,821	3.319	14.925	9.18
16.450	18,213	LBN	110,018	15.348	70,610	2.700	18.048	9.71
15.567	17.075	LBR	97,797	13.643	85,627	3.274	16.917	8.67
56.567	62.196	**Total**	361,967	50.496	288,904	11.046	61.542	8.79

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

8.12 The proposed levy for each borough show some variation around the 8.79% average increase. Members will recall that the household waste element of the levy (the major part) is calculated on the relative tonnages of the last complete year. Therefore, the household part of the 2017/18 levy is based on 2015/16 household tonnages. The variation around the average rise of 8.79% largely reflects the borough movements from the 2014/15 tonnages to 2015/16 tonnages.

8.13 For 2015/16 Members agreed that the levy be paid in twelve monthly instalments to assist ELWA's cash flow and it is proposed that this is continued.

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

9. Referendum

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

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

10. Risks

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

10.2 There are a number of risks that ELWA faces, these are detailed below.

a) Waste volumes could increase at a different rate than that assumed in these figures. The extra cost is £0.400m per 1% increase in waste. Impact of the population increase and urban development projections could vary from actuals.

b) Landfill Tax will increase these costs in the five years 2017/18 to 2021/22. Every £1 per tonne on landfill tax increases costs by approximately £0.100m per annum. The previous arrangement was for the tax to go up in stepped annual increases of £8 per tonne. Should a similar arrangement be required in the future then this would have a significant impact on costs.

c) The risk that the generation of efficiency savings at the level required takes longer than projected or delivers less.

d) Potential large scale increases in insurance costs.

e) New regulations over waste. Problems around contract delivery and / or the need to change the contract.

f) Monies required for waste options post 2027 are a prudent estimate however some of these costs may be able to be capitalised. Any monies not required will be given back to constituent councils.

g) The additional risk regarding housing growth across the constituent councils.

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

10.4 A key longer term risk is dealing with/preparing for the post 2027 position and a specific Strategy reserve which is to build reserves up over five years to enable expenditure to be funded up to a total of £9.66m.

11. Robustness of budget and adequacy of reserves

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

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

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

11.4 The proposals for 2017/18 are prudent and reasonable given the process for preparing the budget.

11.5 ELWA Directors have reviewed the MTFS for 2017/18 to 2021/22 and specifically have reviewed the draft budget and proposed levy for 2017/18 at their meeting on 23 January 2017. The view of ELWA Directors is that the proposed budget is robust.

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

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

11.8 The Authority's reserves are a vital part of its financial management arrangements. They cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and cushion the impact of unexpected events or emergencies. Appendix B quantifies the potential impact of known risks and gives an indication of the level of reserves required, which sets general reserves at £2.0m rising to £3.0m from 2017/18 onwards. These can be split into general reserves of £2.0m and a business risk reserve of £1.0m from the end of 2017/18.

11.9 The Authority maintains a Revenue Reserve (also described as the Working Balance or General Fund Reserve) which sets at a minimum of £2.0m rising to £3.0m at the end of 2017/8 (ELWA expenditure of approximately 2.5 weeks) and reflects the fact that the likelihood of all risks materialising in one year is low. In addition, it is proposed to continue to build up a Strategy Reserve which is to build reserves up over five years to enable expenditure to be funded up to a total of £9.66m.

11.10 In my view, having consulted relevant colleagues and following an analysis of the strategic, operational and financial risks and uncertainties facing ELWA, which are set out in this report, the risks and uncertainties are adequately addressed in the setting of the 2017/18 budget and levy and the proposed level of reserves, subject to the various remarks about mitigation in this report. The level of reserves for future years will need to be kept under constant review in the light of any new developments which may impact on the Authority.

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

12. Conclusion

12.1 Based on the MTFS and risk analysis the report recommends a 2017/18 Budget and an average levy increase of 8.79% for ELWA. The proposed levy charge for each constituent council varies from the average reflecting changes in relative tonnages and Council Tax bases.

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13. Relevant officer:

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

14. Appendices attached:

14.1 Appendix A: Summary of Revenue Budgets for 2016/17 and Forward Budget for 2017/18

14.2 Appendix B: Financial Risk Analysis 2017/18

15. Background papers:

15.1 Return from constituent councils

15.2 Budget working papers

15.3 21/11/16 – Medium Term Financial Strategy 2017/18 to 2021/22 and Budget Strategy Report & draft minute No. 37

16. Legal considerations:

16.1 As set out in the main body of this report as a Statutory Waste Authority ELWA has the power to make levies on its constituent councils each year to meet all liabilities falling to be discharged by it for which provision is not otherwise made.

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

16.3 By law, the levy needs to be made by a demand stating the date by which a payment or payments in respect of the levy are required to be made and the amount of such payment(s). The Waste Regulation and Disposal (Authorities) Order 1985 regulations require that the demand must be issued, or information as to the amount to be subsequently demanded must be given, to each constituent council not less than twenty-one days before the beginning of the financial year to which the levy relates. ELWA has determined that the demand for the 2017/18 financial year be made by 15 February 2017.

17. Financial considerations:

17.1 As detailed in the report.

18. Performance management considerations:

18.1 As detailed in the report

19. Risk management considerations:

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

20. Equalities considerations:

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

21. Follow-up reports:

21.1 20/11/17 – Medium Term Financial Strategy 2018/19 to 2022/23

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

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

23. Glossary:

23.1 Constituent Councils - London Boroughs of Barking & Dagenham (LBBD), Havering (LBH), Newham (LBN) & Redbridge (LBR).

23.2 ABSDP=Annual Budget and Service Delivery Plan

23.3 Contractor - ELWA Ltd

23.4 CPI - Consumer Price Index

23.5 ELWA / the Authority - East London Waste Authority

23.6 IWMS - Integrated Waste Management Services

23.7 MTFS – Medium Term Financial Strategy

23.8 Operator - Shanks.east.london

23.9 PFI - Private Finance Initiative

23.10 RPIX - Retail Price Index excluding mortgages

24. Approved by management board

24.1 23 January 2017

25. Confidentiality:

25.1 None.

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SUMMARY OF REVENUE BUDGET

	Budget 2016/17	Draft Budget 2017/18
EXPENDITURE	**£m**	**£m**
Employee and Support Services	0.375	0.376
Premises Related Expenditure	0.154	0.158
Transport Related Expenditure	0.005	-
Supplies and Services		
IWMS Contract Payments	59.903	62.154
Supplies -other	0.109	0.100
Payments to Constituent Councils	3.037	3.032
Capital Financing Costs	0.181	0.179
TOTAL GROSS EXPENDITURE	**63.764**	**65.999**
Income		
Commercial Waste Charges	(2.466)	(2.509)
Bank Interest Receivable	(0.065)	(0.026)
Other Income	(0.532)	(0.403)
Efficiency savings	(1.500)	-
TOTAL INCOME	**(4.563)**	**(2.938)**
Contingency	0.150	0.500
NET EXPENDITURE ON SERVICES	**59.351**	**63.561**
Overspend previous years	0.757	0.622
PFI Grant Receivable	(3.991)	(3.991)
Levy Receivable	(56.567)	(61.542)
Transfer to Strategy Reserve	0.750	1.350
Transfer from Capital Reserve	(0.300)	-
Contribution (from)/to General Reserves		
REVENUE DEFICIT/(SURPLUS) FOR PERIOD	**-**	**-**

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FINANCIAL RISK ANALYSIS FOR 2017/18 TO 2021/22 (AS AT JANUARY 2017)

Risk	Rating	Worst Case £m	Likelihood %	Value of Risk £m
Waste increases above service plan assumptions	AMBER	0.5	20	0.1
Changes to waste collection methodologies	AMBER	0.5	20	0.1
Landfill sites - fly tipping and pollution costs	AMBER	5.0	25	1.3
IWMS - liability for uninsured losses and deductibles	AMBER	1.0	20	0.2
Authority liabilities for uninsured losses and deductibles	AMBER	1.0	20	0.2
Cuts in Government funding	AMBER	4.0	25	1.0
Law changes/ legal action	AMBER	2.0	5	0.1
TOTAL		**14.0**		**3.00**

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