NOTICE OF MEETING

Monday, 21 November 2016
Room WG O6, Newham Dockside, 1000 Dockside Road, London, E16 2QU – 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

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

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 12 September 2016 and authorise the Chair to sign the same. (pages 1-4)

For Decision: 4. Appointment of Monitoring Officer. (pages 5-6)

For Decision: 5. Programme of Meetings 2017/18. (pages 7-10)


For Decision: 7. New Arrangements for the Appointment of an External Auditor. (pages 19-24)

For Information: 8. Treasury Management Mid Year Strategy 201/17. (pages 25-38)


For Decision: 10. Medium Term Financial Strategy 2017/18 to 2021/22. (pages 51-64)

For Information: 11. Date of next meeting: 06 February 2017.
   Members are asked to note the date of the next Authority meeting.
12. Any other public items which the Chair decides are urgent.

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

Confidential Business

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

For Information 14. ELWA Limited 06/10/16 Board Agenda (pages 65-112)

For Information 15. Any other confidential or exempt items which the Chair decides are urgent.
AUTHORITY MINUTES:  MONDAY 12 SEPTEMBER 2016 (09.48 AM–10.32 AM)

Present:
Councillor K Clark (Chair), Councillor S Bain (Vice Chair), Councillor I Corbett, Councillor J Howard, Councillor S Kelly, Councillor L Rice and Councillor J Wade.

16. Apologies for Absence
An apology for absence was received on behalf of Councillor O Dervish and E Taylor-Camara (Monitoring Officer).

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

18. Minutes of previous meeting (20/06/16)
Members confirmed as true and accurate the minutes of the Authority meeting held on 20 June 2016. The Chair was authorised to sign the same.

The Chair was asked to decide if this report, together with late Statement of Accounts and External Audit Report 2015/16 (Supplementary 1 document) could be considered at the meeting as a matter of urgency under the provisions of Section 100B (4) (b) of the Local Government Act 1972 to comply with a statutory deadline of 30 September for the Authority, and through the Chair, to formally sign off the Authority’s accounts.

The Chair discussed the late submission of the late papers with the Managing and Finance Directors and asked for reports be planned and delivered in good time for proper consideration by Members. He agreed to receive the Finance Director’s report on the Statement of Accounts for 2015/16, together with the Statement of Accounts (Supplementary 1) pack and the tabled Auditor’s report.

External Auditors, KMPG attended the meeting to present commentary and detail to those charged with governance. An apology for the late delivery of the audit report was received.

The Finance Director provided brief commentary on her report stating that it focused on contract management and the budget commitment of £1.5m in efficiencies. An over spend in the financial year had been identified and the aim was to recoup this going forward.

The External Auditors confirmed that they anticipated issuing an unqualified opinion on the Authority’s financial statements by the statutory deadline confirming that there had been no audit adjustments made since submission of the draft report. External Auditors praised and thanked officers for the quality and prompt supply of information when addressing the audit. Members were advised that the value for money conclusion referenced the level of reserves held. There had been good discussion around the level of risks and this was supported by an in depth financial strategy.

Members considered the approach by the London Boroughs’ in respect of the levy and smoothing of budgets.

Members enquired and discussed the Auditors’ thoughts on Britain leaving the European Union and what impact it might have on the Authority and Contract, in particular in relation to procurement, OJEU tenders and waste final destinations.

Following lengthy discussion about tonnages, the number of household occupants in Band D properties within the ELWA area, the Finance Director confirmed that she and ELWA officers were remodelling the data received from Constituent Councils to achieve improved forecasts.
She would also be looking at the Authority’s investment strategy and external borrowing ability following an enquiry about the current Public Works Loan Board borrowing.

Members were reminded of their role in approving the financial statements before 30 September 2016 and that once approved, the Annual Governance Statement would be sent for signature by the Chair and Managing Director. External Auditors confirmed the unqualified opinion and that the accounts needed to be adopted by the Authority. The letter of representation would be signed that day. If no queries were received, the accounts could be signed off.

**Members considered** the draft letter of representation and **approved** the Annual Governance Statement and draft Statement of Accounts.

**Members thanked** the External Auditors for their attendance and contribution before the Auditors left the meeting.

### 20. Treasury Management Outturn 2015/16

**Members** received the Finance Director’s report setting out the current portfolio position, borrowing requirements/capital programme 2015/16, capital receipts and prudential indicators.

Specific items drawn to Members’ attention were the latest position with the Heritable Bank investment; the potential arrangement to finance estimated capital expenditure of £0.400m in 2015/16 and a capital receipt of £0.115m in respect of the disposal of Hall Farm landfill site. It was suggested that £0.060m of the £0.400m capital expenditure required be financed from the capital receipt.

Following enquiry, Members also received commentary from the Managing Director on the fire insurance settlement and latest position at Frog Island.

**Members noted** the report.


**Members** received the joint report and appendix presented by the Finance and Managing Directors. This report focused on the financial position and efficiency savings target and contained details of Revenue Budget, Contract performance and prudential indicators to end July 2016.

An over spend of £0.074m had been identified on the profiled budget of £19.499m and actual net expenditure on services of £20.239m. The outturn figure was projected to be £0.835m over budget at year end due to anticipated projected tonnages being 1% above budget at year end and non achievement of efficiency savings.

Members received commentary on the work being carried out in respect of population statistics and Band D council tax properties and the request to Constituent Council’s ELWA officers, for figures to be supplied. Contract diversion continued to be buoyant with the Reuse & Recycling Centres continuing to send virtually nothing to landfill other than hazardous waste to specialist landfill sites. Overall diversion to date is at 93.24%, well above the anticipated 80% target. **Officers agreed** to supply the lead Barking & Dagenham Member with their Council’s percentage figures for hazardous/clinical waste.

Recycling had improved but was still lower than contractual requirements. Receipt of garden wastes had reached plateau. Contract waste tonnage, to date, had increased by 0.6% and was 2.1% more than the previous year.

Members discussed the disjointed approach taken by the Constituent Councils to reduce collected/delivered waste and **Members agreed** to raise this with their officers. **Members would** also stimulate a level of understanding at their Constituent Councils as to the costs involved in waste disposal and its impact on the Levy.
Members were reminded that the shortfall in efficiency savings is dependent on the efforts of the Constituent Councils to reduce waste tonnages delivered to the Authority.

Members noted the report and agreed to raise the Authority’s profile at their Constituent Councils, as outlined above, at the earliest opportunity.

22. Date of Next Meeting:

Members noted 21 September 2016 as the date of the next Authority meeting and were asked to ensure the same was diarised.

23. Any other public items

There were none.

24. 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).

25. Contract Renegotiation & Efficiency Savings (Insurance Dispute)

Members received the Managing Director’s report and commentary outlining opportunities to generate ongoing savings for the Authority. The in-depth report informed Members of the opportunity to end the insurance dispute with the Contractor to avoid costly legal fees and achieve year on year insurance savings. There was also the opportunity to protect non-contract waste royalty income expectations with the Operator and the Contractor.

Members received an update on the closure of the Survival Bag MRF (SBMRF) at Jenkins Lane. It was considered unlikely that savings would be achieved during 2016/17 in this respect.

Members agreed that the Authority should settle the insurance dispute with ELWA Ltd and agree the royalty payments proposal; to delegate power to the Managing Director to formally settle the insurance dispute with ELWA Ltd and to agree and finalise the detail of the agreement (to include Shanks Waste Management) relating to reductions in insurance costs and to prepare, complete and sign all necessary documentation and do all things necessary to facilitate the implementation of the agreement.

Members also agreed to delegate power to the Managing Director to agree and finalise the detail of the agreement with Shanks Waste Management (to include ELWA Ltd) related to guaranteed royalty payments to the Authority and to prepare, complete and sign all necessary documentation and do all things necessary to facilitate the implementation of the agreement.

Members noted the progress of closing the SBMRF at Jenkins Lane.

The Chair and Members commended the Managing Director on his detailed report and expressed appreciation for the hard work carried out by officers.

26. Aveley Methane Limited (AML)

Members received the Managing Director’s report and commentary setting out the history surrounding this report. Members satisfied themselves that Officers had exhausted all alternative options prior to recommending the cessation of operations in connection with Aveley Methane Ltd.

Members agreed to termination of the operations at Aveley 1 Closed Landfill site and the dissolution of Aveley Methane Ltd and termination of the joint venture and collaboration agreement with Infinis/Aveley Methane Ltd, both in accordance with the Heads of Terms at Appendix A.

Members agreed to delegate power to the Managing Director to formally agree and finalise the detail of the terms and to prepare, complete and sign all documentation and do all things necessary to facilitate the transactions referred to in connection with the termination and dissolution referred to above.
Members noted the ongoing site management and husbandry requirements of the Aveley 1 Closed Landfill site and agreed the purchase and installation of equipment, as set out in Appendix C, for ongoing gas management with costs to be met from the capital reserve previously set aside for this purpose.

27. ELWA Limited 19 July 2016 Board Agenda

Members noted the contents of the confidential Agenda pack and received a short commentary from the Managing Director and ‘A’ Director on the latest position. Members noted the Contractor’s focus had been on the insurance dispute and they welcomed the Contractor’s zero tolerance approach to modern slavery.

Minutes agreed as a true record.

Chair: ........................................

Date: ........................................
AUTHORITY REPORT: APPOINTMENT OF MONITORING OFFICER

1. Confidential Report:

1.1 No.

2. Recommendation:

2.1 Members are asked to:

   a) note the appointment of Suzan Yildiz as ELWA’s Legal Advisor and agree to her appointment as ELWA’s Monitoring Officer.

3. Purpose:

3.1 To advise Members of a change in Legal Advisor to East London Waste Authority (ELWA) and to appoint a new Monitoring Officer. (style: Report Text)

4. Background:

4.1 According to the Constitution the Monitoring Officer is a statutory position and the appointment to which is reserved for the Authority.

4.2 Members agreed, as set out in the Constitution, that its Legal Advisor should be appointed as Monitoring Officer to ELWA. Since 2008, the post of Legal Advisor and Monitoring Officer has been held by Eldred Taylor-Camara, London Borough of Barking & Dagenham. Mr. Taylor-Camara has now left this constituent council and it is recommended that Suzan Yildiz, Legal Services Manager and Regeneration Lawyer at the London Borough of Barking and Dagenham, be appointed to this post.

5. Conclusion

5.1 On the departure of the duly appointed Monitoring Officer and the requirement, under the Constitution, to appoint a replacement to that post, the recommendation is to note the appointment of Suzan Yildiz as Legal Adviser and appoint to the position of Monitoring Officer.

6. Relevant officer:

6.1 Mark Ash, Managing Director / e-mail: mark.ash@eastlondonwaste.gov.uk / 020 8724 5614

7. Appendices attached:

7.1 None.

8. Background Papers:

26/03/03 Constitution and Standing Orders – Additional Recommendation Report and Minute No. 1207
25/06/03 ELWA Constitution and Standing Orders Report and Minute No. 1217
29/09/08 Monitoring Officer Report & Minute No. 1603
9. **Legal Considerations:**
9.1 The proposals set out in this report are consistent with the Authority’s Constitution.

10. **Financial considerations:**
10.1 The cost of the Monitoring Officer and support is met from the ELWA support costs budget. As well as being a statutory position the role of the Monitoring Officer promotes probity and good governance in the Authority’s affairs.

11. **Performance management considerations:**
11.1 There are no performance management issues related to this report.

12. **Risk management considerations:**
12.1 None.

13. **Equalities considerations:**
13.1 None.

14. **Follow-up reports:**
14.1 None.

15. **Websites and e-mail links for further information:**
15.1 http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

16. **Glossary:**
16.1 ELWA/the Authority = East London Waste Authority.

17. **Approved by Management Board:**
17.1 07 November 2016.

18. **Confidentiality:**
18.1 Not applicable.
AUTHORITY REPORT: PROGRAMME OF MEETINGS 2017-2018

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to:

a) agree the Authority’s meeting dates for the year 2017/18.

3. Purpose

3.1 To consider and agree the schedule of dates for the Authority to meet for the period to June 2018.

4. Background

4.1 This programme is based around specific dates by which the East London Waste Authority (ELWA) is either legally or contractually required to approve key matters, as referred to below. The schedule of meetings has been revised to take account of:

a) finance and accounting deadlines;

b) the timing of member appointments to ELWA by the constituent councils;

c) purdah pre election period and elections date:

d) organisational and operational demands; and

e) a good spread of meetings across the year.

5. Current agreed dates of future Authority meetings

06/02/2017 Approval of annual Levy (required by 15/02/17) and IWMS Annual Budget & Service Delivery Plan (ABSDP)

19/06/2017 Annual General Meeting

6. Proposed dates of Authority meetings


20/11/2017 Programme of Meetings

05/02/2018 Approval of annual Levy (required by 15/02/18) and IWMS Annual Budget & Service Delivery Plan (ABSDP)

18/06/2018 Annual General Meeting.

7. Authority meetings time & venue

7.1 Authority meetings will be hosted by constituent councils and start, where possible, at 9.30 am on the above dates.

7.2 In addition, an informal workshop has been arranged for Members & Officers to attend on the morning of Wednesday 14 December 2016 to consider ELWA’s Future Strategy.

8. Management Board meetings

8.1 It is usual practice for ELWA Management Board meetings to be held a fortnight prior to the Authority dates. Therefore, the following dates reflect the proposals above for the Authority meetings.
9. **Current agreed dates of Management Board meetings**
   - 23/01/2017 (Levy and IWMS Annual Budget & Service Delivery Plan)
   - 05/06/2017 (Annual General Meeting)

10. **Proposed dates of future Management Board meetings**
    - 29/08/2017 (Annual Governance & Statement of Accounts)
    - 06/11/2017 (Programme of Meetings)
    - 22/01/2018 (Levy and IWMS Annual Budget & Service Delivery Plan)
    - 04/06/2018 (Annual General Meeting)

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

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

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

14. **Appendices attached:**
    14.1 None.

15. **Background Papers:**
    15.1 23 November 2015 – Programme of Meetings Report- & Minute No. 35/2015.

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

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

18. **Performance Management Considerations:**
    18.1 None.

19. **Risk Management Considerations:**
    19.1 Not Applicable.

20. **Equalities considerations:**
    20.1 Not Applicable.

21. **Websites and e-mail links for further information:**
22. Glossary:
ABSDP = Annual Budget & Service Delivery Plan
Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge
ELWA /the Authority = East London Waste Authority
IWMS = Integrated Waste Management Services

23. Approved by Management Board
23.1 07 November 2016.

24. Confidentiality:
24.1 Not Applicable.
AUTHORITY REPORT: ANNUAL AUDIT LETTER 2015/16

1. Confidential Report
1.1 No

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

3. Purpose
3.1 The External Auditor’s letter, attached at Appendix A, is presented to Members for information. The purpose of the letter is to provide a high level summary of the results of the 2015/16 external audit work undertaken at ELWA.

4. Current Position
4.1 The Code of Audit Practice requires the External Auditors to produce a separate Audit Letter.
4.2 As Members will recall from the September 2016 Authority meeting, the External Auditor issued their ISA 260 report, which presented that ELWA had been issued with an unqualified opinion with regard to the financial statements and value for money conclusion.
4.3 The difference between the ISA260 report and the Annual Audit Letter report is that the latter can contain financial recommendations for improvement. The letter does not make any recommendations with regard to the good financial controls and value for money at ELWA.

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

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

7. Background Papers:
7.1 12/09/2016 Statement of Accounts and Auditor’s Report

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

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

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

11. Risk Management Considerations:
11.1 None

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

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

15. Glossary:
   ELWA – East London Waste Authority
   ISA 260 = International Standards on Auditing

16. Approved by Management Board
   16.1 07 November 2016

17. Confidentiality:
   17.1 Not applicable
This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment’s website (www.psaa.co.uk).

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

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

### Headlines

| VFM conclusion | We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2015/16 on 15 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties. |
| VFM risk areas | We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. We did not identify any VFM risks in our External audit plan 2015/16 issued in April 2016. We worked with officers throughout the year to discuss VFM. There were no matters of any significance arising as result of our VFM audit work. However we noted that the Authority’s general reserves balance was less than the minimum as identified in its budget strategy, and that this is also expected to be the case at 31 March 2017. The Authority has re-iterated its approach to ensuring that there are appropriate reserves to manage the risks it faces. We will continue to monitor the position during 2016/17 and the 2017/18 budget and levy setting process. |
| Audit opinion | We issued an unqualified opinion on the Authority’s financial statements on 15 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. |
| Financial statements audit | Our audit did not identify any audit adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the accounts from these presentational adjustments. We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risks in our 2015/16 External audit plan. — Accounting for the PFI scheme. We also identified three areas of audit focus: — Assuring the fair value and impairment of Property Plant and Equipment (PPE); — Fly-tipping at landfill sites; and — Opening balances. We worked with officers throughout the year to discuss these key risks/areas of audit focus. There were no matters of any significance arising as a result of our audit work in these areas. |
| Other information accompanying the financial statements | Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues. |
## Section one

### Headlines (cont)

| High priority recommendations | We have not raised any recommendations as a result of our 2015/16 audit work. |
| Certificate                   | We issued our certificate on 15 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice. |
| Audit fee                     | Our fee for 2015/16 was £18,270, excluding VAT. This is the same as the planned fee and the scale fee set by PSAA Ltd. We did not charge any additional fees for other services. |
Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

**Audit Fee Letter (April 2016)**
The Audit Fee Letter set out the proposed audit work and draft fee for the 2016/17 financial year.

**External Audit Plan (April 2016)**
The External Audit Plan set out our approach to the audit of the Authority’s financial statements and to work to support the VFM conclusion.

**Auditor’s Report (September 2016)**
The Auditor’s Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

**Report to Those Charged with Governance (September 2016)**
The Report to Those Charged with Governance summarised the results of our audit work for 2015/16 including key issues and recommendations raised as a result of our observations. We also provided the mandatory declarations required under auditing standards as part of this report.

**Annual Audit Letter (October 2016)**
This Annual Audit Letter provides a summary of the results of our audit for 2015/16.
AUTHORITY REPORT: NEW ARRANGEMENTS FOR THE APPOINTMENT OF AN EXTERNAL AUDITOR

1. Confidential Report:
   1.1 No

2. Recommendation:
   a) To consider and comment on the contents of the report.
   b) To consider and agree acceptance of Option 3 - Opt into the “appointing person” arrangement offered by Public Sector Audit Appointments Ltd (PSAA).

3. Purpose
   3.1 This report sets out the options for the new arrangements for the future appointment of ELWA’s external auditors and seeks comments from the Authority’s Members on the preferred option.

4. Background
   4.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (DCLG) determined that the transitional arrangements for local government bodies would be extended by one year to include the audit of the accounts for 2017/18 (2016/17 for NHS and smaller bodies).
   4.2 The Authority’s current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State. Over recent years the Authority has benefited from a reduction in fees compared with historical levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from the closure of the Audit Commission. The Authority’s current external audit fees are £0.022m.
   4.3 When the current transitional arrangements come to an end on 31 March 2018 the Authority will become responsible for the appointment of the external auditor. There are a number of routes by which this can be undertaken, each with varying risks and opportunities. Current audit fee arrangements are based on discounted rates offered by the audit firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
   4.4 The scope of the audit will still be specified nationally and the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the audit must follow. Not all accounting firms will be eligible to compete for the work, accounting firms will need to demonstrate that they have the required skills and experience, and be registered with a Registered Supervising Body approved by the Financial Reporting Council. Current indications are that fewer than 10 large firms will register, including the Authority’s current auditor, meaning that small local firms will not be eligible to be appointed to local audit roles.
5. Options for local appointment of External Auditors

5.1 There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

Option 1 - To make a stand-alone appointment

5.2 In order to make a stand-alone local auditor appointment the Authority will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former Authority members (or officers) and their close families and friends. This means that Authority members will not have a majority on the panel. The new panel will be responsible for making recommendations on the appointment of external auditors but the decision itself will be made by the Authority.

Advantages/benefit

5.3 Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input in to the decision.

Disadvantages/risks

5.4 Recruitment and servicing of the Auditor Panel, running the procurement exercise and negotiating the contract is estimated by the LGA to cost in the order of £0.015m plus ongoing expenses and allowances. It is also unclear whether the Authority will be able to attract sufficient individuals with the requisite skills and experience to undertake the role of independent members on the new panel.

Option 2 - Set up a Joint Auditor Panel / local joint procurement arrangements

5.5 The Act enables the Authority to join with other Authorities to establish a joint auditor panel. Again as stated at paragraph 5.2 above, this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel. It will be important to assess the appetite for such an arrangement.

Advantages/benefits

5.6 The costs of setting up and servicing the panel, running the procurement exercise and negotiating and managing the contract will be shared across a number of authorities.

5.7 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

5.8 The panel will be appointed by all partner authorities and not just by this Authority. It is possible only one member representing each Authority/Council would be appointment to the panel.

5.9 The choice of auditor could be complicated where the preferred auditor has a conflict of interest in relation to one of the appointed Authorities but not others. This is not insurmountable but it does cause more complications for the participating authorities.
Option 3 - Opt into the “appointing person” arrangement offered by Public Sector Audit Appointments Ltd (PSAA)

5.10 PSAA, the organisation that currently manages the audit contracts under the transitional arrangements, has been specified by DCLG as the appointing person under the provisions of the Act and the Local Audit (Appointing Person) regulations 2015, to make auditor appointments to principal local government bodies. They are the only body appointed to this role and no others are likely to be so appointed in the near future. The regulations allow DCLG to appoint a body not just to procure a framework of external auditors but to then also make the appointment independently of the Authorities to whom they are appointed. This Authority will however be consulted on the appointment.

Advantages/benefits

5.11 The ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of local government bodies.

5.12 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.

5.13 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

5.14 Any conflicts at individual authorities would be managed by the PSAA who would have a number of contracted firms to call upon.

5.15 The appointment process would not be ceded to locally appointed independent members. Instead PSAA would act in the collective interests of the ‘opt-in’ authorities thus resolving the point about conflict and governance that arises from local appointment.

5.16 It could be seen as being more transparent for an entirely independent body to be responsible for appointing the Authority’s auditors, rather than the Authority itself.

Disadvantages/risks

5.17 Individual elected members will have little or no opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

5.18 In order for PSAA to be in the strongest possible negotiating position they will need Authorities to indicate their intention to opt-in before final contract prices are known.

5.19 Fees rates could arguably involve a degree of cross-subsidy from larger authorities to smaller ones. It is difficult at this stage to estimate what, if any, would be the impact of this for this Authority.

5.20 Given the significant economic benefits this would be the preferred option.

6. Public Sector Audit Appointments Information

Procurement Strategy and Contracts

6.1 Under the scheme the PSAA will run the tendering exercise and will evaluate bids and award contracts. Only appropriately credited firms will be able to bid for appointments and PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. At this stage PSAA are minded to let contracts for 5 years in two large contract areas and also to a number of firms to help manage independence issues. PSAA will carry out a collective procurement on behalf of all opted in Authorities to keep the cost of the audit as low as possible for opted in Authorities. Members of the Authority are advised that formal invitation to opt in has been issued and the closing date for acceptance of the opt-in if Members agree to this option is March 2017. This would mean a further report to be considered by Members in February 2017.
Fees Scales

6.2 PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by the scale fees.

6.3 Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. The PSAA expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Timetable

6.4 The expected timetable is as follows:

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closing date for receipt of notices to opt in:</td>
<td>9 March 2017</td>
</tr>
<tr>
<td>Contract notice published:</td>
<td>20 February 2017</td>
</tr>
<tr>
<td>Award audit contracts</td>
<td>By end of June 2017</td>
</tr>
<tr>
<td>Consult on and make auditor appointments:</td>
<td>By end of December 2017</td>
</tr>
<tr>
<td>Consult on and publish scale fees:</td>
<td>By end of March 2018</td>
</tr>
</tbody>
</table>

7. Conclusion

7.1 The Authority has until December 2017 to make an auditor appointment. In practical terms this means one of the options outlined in this report will need to be in place within the next few months in order that the contract negotiation process can be carried out during 2017. The approved option will need to be accepted by March 2017.

7.2 Greatest economies of scale will come from the maximum number of Authorities acting collectively. The LGA is very supportive of the PSAA and believe that the option (3) to appoint auditors through a dedicated sector-led national procurement body will deliver significant financial benefits for those who opt in by reducing set-up costs and having the potential to negotiate lowest fees. Over two hundred authorities have indicated a positive interest. As this is more economic which delivering the best value for money, this is the preferred option and is consequently recommended.

7.3 The Local Audit (Appointing Person) Regulations 2015 require that the decision to opt into the appointing person arrangement would be made by Members at an Authority meeting

7.4 The Authority is requested to consider the content of the report and express a view on a preferred option.

8. Relevant officer:

Maria G Christofi, Finance Director / e-mail: finance@eastlondonwaste.gov.uk / 020 8708 3010

9. Appendices attached:

9.1 None.

10. Background papers:

10.1 CIPFA guidance on new arrangements.

11. Legal considerations:

11.1 These are contained in the report.
12. **Financial considerations:**
   12.1 Comments are contained in the body of the report.

13. **Performance management considerations:**
   13.1 Effective external audit can contribute to overall improved performance.

14. **Risk management considerations:**
   14.1 Members need to balance the various options and the procurement of the appropriate audit service should help to minimise the risk exposure of the Authority.

15. **Equality considerations:**
   15.1 None.

16. **Follow-up reports:**
   16.1 Report on the final appointment.

17. **Websites and e-mail links for further information:**
   http://www.recycleforyourcommunity.com/waste_authority/default.aspx

18. **Glossary:**
   DCLG = Department of Communities and Local Government
   ELWA/the Authority = East London Waste Authority
   LGA = Local Government Association
   NAO = National Audit Office
   PSAA = Public Sector Audit Appointments Limited

19. **Approved by management board**
   19.1 7 November 2016.

20. **Confidentiality:**
   20.1 Not Applicable.
AUTHORITY REPORT: TREASURY MANAGEMENT MID YEAR STRATEGY REVIEW 2016/17

1. Confidential Report

1.1 No

2. Recommendation:

2.1 Members are asked to note the report.

3. Introduction

3.1 The Treasury Management Strategy including borrowing and investment strategies is approved by Members on an annual basis. The current Strategy was agreed in February 2016 and this report details the progress against the strategy in the first six months of this financial year.

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

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

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

3.5 This report provides Members with a summary review of activity in the first half of 2016/17 and covers all borrowing and investment activities undertaken during this period. It also asks members to approve the use of the capital receipt of £0.115m for part funding the repayment of the PFI capital liability for 2016/17.

4. Investments Strategy

4.1 The Authority is required to produce an Annual Investment Strategy that sets out the Authority’s policies in managing its investments. This was approved by Members as part of the Treasury Management Strategy at the Authority meeting in February 2016.

4.2 The main objective of the Investment Strategy is to ensure the security of the investments the Authority makes and also to maintain the liquidity of its investments in order to meet known liabilities. To meet this requirement the Authority has approved creditworthiness criteria which must be strictly adhered to when making investment decisions. The Authority’s Creditworthiness criteria as set out at Appendix A.

5. Current Portfolio Position

5.1 The result of the European Referendum vote prompted concerns that the UK economy would slow down sharply and expectations are that the Monetary Policy Committee will cut the Bank rate further. As the rate is now at 0.25% this could mean a rate of nearly zero. Since the European Referendum vote gilt yields and Public Works Loans Board (PWLB) rates have fallen sharply, sterling has fallen against other currencies. LBR’s treasury management advisers Capita have predicted a decrease in the Bank Rate in December 2016 with the view that the rate will then remain unchanged until June 2018.

5.2 The Authority will continue with its prudent approach to investments, prioritising security of the Authority’s money over yield but seeking to maximise return as markets improve.
5.3 As the Authority by commercial standards has modest funds to lend out (£6m to £12m on average), gross returns will be limited.

5.4 The Authority maintains liquidity through the use of overnight deposits with high credit quality Money Market Funds. In order to maintain flexibility in an environment where investment opportunities are limited, the lending list is reviewed regularly. As per paragraph 5.1, on the 30 September 2016 the Bank of England base rate was reduced to 0.25% and this is reflected in very low overnight and short-term interest rates.

5.5 The summary position for the Authority in terms of investments at 30 September 2016 is as follows:

<table>
<thead>
<tr>
<th>Type of Investment</th>
<th>30/09/16 £m</th>
<th>31/03/16 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term</td>
<td>8.850</td>
<td>7.800</td>
</tr>
<tr>
<td>Deposit Account</td>
<td>0.023</td>
<td>0.113</td>
</tr>
<tr>
<td>Total</td>
<td>8.873</td>
<td>7.913</td>
</tr>
</tbody>
</table>

5.6 In 2008, Heritable Bank went into administration owing ELWA £1.000m principal and £0.055m interest.

5.7 In August 2015 the Administrators, Ernest & Young LLP announced a dividend of £0.042m bringing the total received to £1.034m, equal to 98 pence in the pound.

5.8 The administrators applied to the Court of Session (Scotland) to further extend the administration period for another year, with the intention of making a final monetary distribution to creditors once all matters are concluded. However it can be assumed that this will not be of material value.

5.9 No further dividends have been received.

External Borrowing

5.10 The summary position for the Authority in terms of external borrowing at 30 September 2016 is as follows:

<table>
<thead>
<tr>
<th>Public Works Loans Board</th>
<th>30/09/16 £m</th>
<th>Average Rate</th>
<th>31/03/16 £m</th>
<th>Average Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.250</td>
<td>10.0%</td>
<td>1.250</td>
<td>10.0%</td>
<td></td>
</tr>
</tbody>
</table>

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

5.12 A detailed analysis is provided in Appendix B.

6. External Borrowing Requirements

6.1 In February 2016 the Authority was advised that the estimated total borrowing at 31 March 2016 was £1.250m consisting of Public Work Loans Board (PWLB) loans on a fixed rate basis and that the financing of future capital expenditure would be via the temporary use of cash balances or to raise loans via the PWLB and capital markets. The Authority was also advised that ELWA might in certain circumstances need to make arrangements to finance capital expenditure in 2016/17 as a result of the ongoing review of landfill sites. Therefore taking account of borrowing at 31 March 2016 and on grounds of prudence it was recommended that an additional borrowing requirement of £0.400m was set for 2016/17 to be used if needed.
6.2 As at September 2016 Capita revised their 2016/17 forecast for PWLB rates to 1% for a 5 year loan and 2.3% for 25 year loan. The projected longer run trend is for these rates to rise, however there are a number of factors including changes to the predictions for UK economic growth that could affect this.

6.3 No additional borrowing has been required to date.

7. **Reserves available to fund Capital Expenditure**

7.1 Available capital funds:

<table>
<thead>
<tr>
<th></th>
<th>Earmarked Revenue Contribution to Capital Outlay Reserve (RCCO)</th>
<th>Earmarked Capital Receipts Reserve (CRR)</th>
<th>Total Earmarked Capital Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 April 2016 brought forward</td>
<td>0.400</td>
<td>0.115</td>
<td>0.515</td>
</tr>
<tr>
<td>Levy Funding</td>
<td>(0.300)</td>
<td>-</td>
<td>(0.300)</td>
</tr>
<tr>
<td>Purchase of Flare</td>
<td>(0.052)</td>
<td>-</td>
<td>(0.052)</td>
</tr>
<tr>
<td><strong>Balance at 30 September 2016</strong></td>
<td><strong>0.048</strong></td>
<td><strong>0.115</strong></td>
<td><strong>0.163</strong></td>
</tr>
</tbody>
</table>

7.2 During 2015/16 the Authority disposed of the Hall Farm, North Ockendon, landfill site and received a capital receipt for £0.115m. This has been placed within the Capital Receipts Reserve.

7.3 Movements to date include £0.300m draw down to the revenue reserve in relation to Levy Funding and £0.052m for the purchase of a flare for the Aveley Landfill site.

8. **Capital Expenditure first half of 2016/17**

8.1 As per paragraph 7.3 an order has been placed to purchase a flare for the Aveley landfill site in relation to gas management.

8.2 The Authority proposes to use the capital receipt of £0.115m as a contribution towards the repayment of the Private Finance Initiative (PFI) capital liability for 2016/17. The liability for 2016/17 is calculated to be £5.290m and forms part of the unitary payment made to the operator. Therefore the use of the receipt will free up the equivalent amount within the revenue reserve.

9. **Minimum Revenue Provision**

9.1 The Authority has a statutory requirement to repay an element of accumulated capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). Each year the Authority is required to prepare and approve a Minimum Revenue Provision Policy Statement setting out its repayment basis. The revenue provision to repay capital expenditure debt in 2016/17 is £0.058m and has been calculated in accordance with the policy statement.

9.2 MRP related to Assets financed under the PFI is contained within the existing revenue charge. Mitigating regulations allow this for those PFI assets brought on balance sheet due to accounting changes resulting from the requirement to report in accordance with International Financial Reporting Standards.
10. **Prudential Indicators**

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

10.2 The Prudential Indicators for 2016/17 were agreed by the Authority at the meeting on the 8 February 2016. These are presented at Appendix C to the report.

11. **Conclusion**

11.1 The Authority’s Treasury Management Strategy continues to provide a sound basis for undertaking treasury activities. Borrowing requirements will be monitored closely and financing arranged in accordance with the borrowing strategy. Investments will be managed having regard to the Authority’s investment strategy and creditworthiness criteria. Opportunities to lengthen the period of investments with high quality counterparties will be considered to lock in additional value. The Authority’s treasury activities remain within the limits of all Treasury Prudential Indicators as set by the Authority.

12. **Relevant officer:**

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

13. **Appendices attached:**

Appendix A – Creditworthiness.

Appendix B – External Borrowing.


14. **Background Papers:**


15. **Legal Considerations:**

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

16. **Financial Considerations:**

16.1 As outlined in this report.

17. **Performance Management Considerations:**

17.1 Treasury management operational activity is monitored and reported to Members half yearly.

18. **Risk Management Considerations:**

18.1 Main objective of the investment strategy is the security of investments.

19. **Equalities considerations:**

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

20. **Previous Reports:**

12/09/16  Statement of Accounts 2015/16.

21. **Follow-up Reports:**

06/02/16  Treasury Management Strategy 2017/18.

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

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

23. **Glossary:**

CIPFA = Chartered Institute of Public Finance and Accountancy.

CRR = Capital Receipts Reserve.

ELWA/the Authority= East London Waste Authority.

MRP = Minimum Revenue Provision.

PFI = Private Finance Initiative.

PWLB = Public Work Loans Board.

RCCO = Revenue Contribution to Capital Outlay Reserve.

24. **Approved by Management Board:**

07 November 2016.

25. **Confidentiality:**

25.1  Not applicable.
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 matrixes set out in 2 below.

UK Part Nationalised Banks

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

The Authority’s banker

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

Bank Subsidiary and Treasury Operations

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

Building Societies

The Authority will use Building Societies that:

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

b) Have assets in excess of three billion pounds.
AAA rated Money Market Funds

UK Government

(including the Debt Management Account Deposit Facility)

Enhanced Cash Funds

(CashPlus Fund)

Local Authorities

(including GLA, Police and Fire and Water Authorities)

Non UK Government

Supranational Institutions

Corporate Bonds.

2. Credit Criteria

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

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:

<table>
<thead>
<tr>
<th></th>
<th>Fitch</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>Moody’s</th>
<th>S&amp;P’s</th>
<th>S&amp;P’s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
</tr>
<tr>
<td>Long term credit</td>
<td>AAA</td>
<td>A-</td>
<td>Aaa</td>
<td>A3</td>
<td>AAA</td>
<td>A-</td>
</tr>
<tr>
<td>Short term credit</td>
<td>F1+</td>
<td>F1</td>
<td>P-1</td>
<td>P-1</td>
<td>A-1</td>
<td>A-1</td>
</tr>
</tbody>
</table>
Long Term Credit Matrix

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

<table>
<thead>
<tr>
<th></th>
<th>Fitch</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>Moody’s</th>
<th>S&amp;P’s</th>
<th>S&amp;P’s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
</tr>
<tr>
<td>Long term credit</td>
<td>AAA</td>
<td>A</td>
<td>Aaa</td>
<td>A2</td>
<td>AAA</td>
<td>A-</td>
</tr>
<tr>
<td>Short term credit</td>
<td>F1+</td>
<td>F1</td>
<td>P-1</td>
<td>P-1</td>
<td>A-1</td>
<td>A-1</td>
</tr>
</tbody>
</table>

Long Term – relates to long term credit quality

Short Term – relates to short term credit quality

**Monitoring of Investment Counterparties**

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

**Use of additional information other than credit ratings**

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

**Country Sovereignty Considerations**

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

For countries other than the UK, sovereignty ratings must fall within the ratings matrix below, 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.

<table>
<thead>
<tr>
<th></th>
<th>Fitch</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>Moody’s</th>
<th>S&amp;P’s</th>
<th>S&amp;P’s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
<td>Highest</td>
<td>Lowest</td>
</tr>
<tr>
<td>Sovereign ratings</td>
<td>AAA</td>
<td>AA-</td>
<td>Aaa</td>
<td>Aa3</td>
<td>AAA</td>
<td>AA-</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Minimum Credit Rating Short Term</th>
<th>Minimum Credit Rating Long Term</th>
<th>Limit £m</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fitch S &amp; P</td>
<td>Moody’s</td>
<td>Fitch S &amp; P</td>
<td>Moody’s</td>
</tr>
<tr>
<td>F1 A-1 P-1</td>
<td>A- A3</td>
<td>5.0</td>
<td>1 Year</td>
</tr>
<tr>
<td>F1 A-1 P-1</td>
<td>AA- Aa3</td>
<td>3.0</td>
<td>1 Year</td>
</tr>
<tr>
<td>F1 A-1 P-1</td>
<td>AA- Aa3</td>
<td>2.0</td>
<td>2 Years</td>
</tr>
<tr>
<td>F1 A-1 P-1</td>
<td>AA Aa1</td>
<td>1.0</td>
<td>2 Years</td>
</tr>
</tbody>
</table>

#### Other Institutions

<table>
<thead>
<tr>
<th>Other Institutions</th>
<th>Limit £m</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market Funds</td>
<td>AAAmf</td>
<td>3.0</td>
</tr>
<tr>
<td>Unrated Building Societies</td>
<td>Assets greater £3bn</td>
<td>3.0</td>
</tr>
<tr>
<td>Enhanced Cash Funds</td>
<td>AAA/V1</td>
<td>3.0</td>
</tr>
</tbody>
</table>

#### Other

<table>
<thead>
<tr>
<th>Other</th>
<th>Limit £m</th>
<th>Time Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Government – DMADF</td>
<td>30.0</td>
<td>2 Years</td>
</tr>
<tr>
<td>UK Government - Bonds</td>
<td>30.0</td>
<td>2 Years</td>
</tr>
<tr>
<td>UK Government – Part Nationalised Banks</td>
<td>Per group</td>
<td>5.0</td>
</tr>
<tr>
<td>Local Authorities</td>
<td>5.0</td>
<td>2 Years</td>
</tr>
</tbody>
</table>

#### Sovereign Ratings

<table>
<thead>
<tr>
<th>Sovereign Ratings</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-UK Government - Bonds</td>
<td>AA- Aa3</td>
<td>AA-</td>
</tr>
<tr>
<td>Supranational Bonds</td>
<td>AA- Aa3</td>
<td>AA-</td>
</tr>
</tbody>
</table>
### EXTERNAL BORROWING

1. **PWLB LOAN**

<table>
<thead>
<tr>
<th>Period</th>
<th>Maturity Date</th>
<th>Amount</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£m</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Long Term Borrowing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - 5 Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28/03/2021</td>
<td>0.230</td>
<td>8.5%</td>
<td></td>
</tr>
<tr>
<td>28/03/2021</td>
<td>0.220</td>
<td>8.6%</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td>0.450</td>
<td></td>
</tr>
<tr>
<td>More than 10 Years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28/11/2027</td>
<td>0.120</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>28/11/2028</td>
<td>0.240</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>28/10/2029</td>
<td>0.070</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>28/10/2030</td>
<td>0.120</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>28/01/2032</td>
<td>0.020</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td>28/01/2032</td>
<td>0.230</td>
<td>10.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td>0.800</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1.250</td>
<td></td>
</tr>
</tbody>
</table>
### Treasury Management Prudential Indicators – 2016/17 Half Yearly Position

<table>
<thead>
<tr>
<th>Authorised Limit for External Debt</th>
<th>Limit 2016/17 £m</th>
<th>Actual 2016/17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>14.000</td>
<td>1.250</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>84.000</td>
<td>79.771</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>98.000</strong></td>
<td><strong>81.021</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operational Boundary for External Debt</th>
<th>Limit 2016/17 £m</th>
<th>Actual 2016/17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowing</td>
<td>12.000</td>
<td>1.250</td>
</tr>
<tr>
<td>Other Long Term Liabilities</td>
<td>84.000</td>
<td>79.771</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>96.000</strong></td>
<td><strong>81.021</strong></td>
</tr>
</tbody>
</table>

- **Adopt the CIPFA Code of Treasury Management**

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

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

<table>
<thead>
<tr>
<th></th>
<th>Limit 2016/17 £m</th>
<th>Actual 2016/17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Rate (Borrowing)</td>
<td>7.700</td>
<td>1.250</td>
</tr>
<tr>
<td>Variable Rate (Investments)</td>
<td>(22.000)</td>
<td>(13.585)</td>
</tr>
</tbody>
</table>

- **Projected borrowing at fixed rates maturing in each period as percentage of total projected borrowing at fixed rates (includes outstanding interest)**

<table>
<thead>
<tr>
<th>Period</th>
<th>2016/17 Upper Limit</th>
<th>2016/17 Lower Limit</th>
<th>2016/17 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 12 months (o/s interest)</td>
<td>35%</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>12 months and within 24 months</td>
<td>45%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>24 months and within 5 years</td>
<td>60%</td>
<td>0%</td>
<td>35%</td>
</tr>
<tr>
<td>5 years and within 10 years</td>
<td>80%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>10 and within 20 years</td>
<td>100%</td>
<td>0%</td>
<td>63%</td>
</tr>
<tr>
<td>20 years and within 35 years</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>35 years to 50 years</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Limit 2016/17 £m</th>
<th>Actual 2016/17 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.000</strong></td>
<td><strong>-</strong></td>
</tr>
</tbody>
</table>
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AUTHORITY REPORT: BUDGETARY CONTROL AND CONTRACT MONITORING
TO 30 SEPTEMBER 2016

1. Confidential Report
1.1 No

2. Recommendation:
2.1 To note this report.

3. Purpose
3.1 This budgetary control report compares ELWA’s actual expenditure for the period ended 30 September 2016 with the original revenue budget approved in February 2016. It is based on information supplied by Shanks East London (the Operator), ELWA technical officers and the four constituent councils.

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

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

4. Background

Revenue Budget

4.1 The forecast outturn is £1.034m overspend at year end. This is mainly due to a higher tonnage forecast predicting 1.5% above budget at year end, under achievement of efficiency savings and a projected shortfall of royalty income.

4.2 Based on the profiled budget of £30.905m and the actual net expenditure on services of £31.448m the position is a net overspend of £0.543m to date. (see Appendix A).

   a) 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. The end of year projection assumes a tonnage of 454,000 tonnes, which is an increase of 7,000 tonnes. There are a number of elements which can affect the 2016/17 position; the main factors are possible increases in tonnages per household as well as demographic trends. The waste tonnage figure for June 2016 was 10% higher than the profiled budget, the July figure was nearly 5% lower and August was again higher by 7%, an average increase from April of 1.75%. Such volatility and trends need 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.

4.3 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 is due for renewal in late December 2016. However owing to the high risk involved in insuring waste processing sites insurers for PDBI are reviewing their involvement in providing such cover to the waste sector. Therefore there is a risk that the insurance premium may increase or that the lead insurers may exit the market thereby risking un-insurability in respect of PDBI cover as it may prove impossible to attract other insurers into the market.

4.4 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.
4.5 The underpinning operational performance for September’s tonnages, diversion and recycling data is attached at Appendix C.

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

4.7 Commercial Waste is forecasting an increase in income of £0.120m. 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.

4.8 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.

4.9 Non contract royalty income is continuing to under achieve against budget due to a reduction of the operator’s commercial waste. At the current rate the royalty income due would be £0.320m, £0.200m under achieved against budget. Following the revised agreement with the operator, the anticipated shortfall this year is forecast to be less than £0.120m and this income stream will be protected going forward. A receipt of £0.263m relating to 2015/16 contract savings was previously recognised under other income and has now been transferred to efficiency savings.

4.10 Members are reminded that underpinning the 2016/17 budget and levy is an 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. Potential Savings being pursued are approximately £0.405m and if achieved will leave a small shortfall of £0.086m against budget.

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

      (1) Communications spend reduction £0.190m
      (2) Railhead variation £0.154m
      (3) Re-use Recycling Centre Materials Recycling Facility £0.097m

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

      (1) 2015/16 Contract Saving £0.263m
      (2) Insurance Negotiation Saving £0.305m.

   c) Potential Savings being pursued by the Managing Director are approximately £0.405m, they are as follows:

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

   d) 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 continue to increase.

4.11 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

4.12 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 rest of the financial year.

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:**

Appendix A: Budget Monitoring Statement to 30 September 2016

Appendix B: Projected and actual to date monthly tonnages profiles for 2016/17

Appendix C: September monthly bulletin report

8. **Background papers:**


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:**

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

16. **Glossary:**

ELWA/the Authority = East London Waste Authority

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

IWMS = Integrated Waste Management Services Contract

The Operator = Shanks east.London

MRF=Materials Recycling Facility

PDBI - Property Damage & Business Interruption
17. **Approved by management board**
17.1 07 November 2016.

18. **Confidentiality:**
18.1 Not Applicable.
### BUDGET MONITORING STATEMENT TO 30 SEPTEMBER 2016

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>Original Budget 2016/17</th>
<th>Profiled Budget to 30/09/16</th>
<th>Total Actual to 30/09/16</th>
<th>Variance to 30/09/16</th>
<th>Projected Outturn</th>
<th>Outturn Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee and Support Services</td>
<td>0.382</td>
<td>0.191</td>
<td>0.183</td>
<td>(0.008)</td>
<td>0.372</td>
<td>(0.010)</td>
</tr>
<tr>
<td>Premises Related Expenditure</td>
<td>0.154</td>
<td>0.093</td>
<td>0.098</td>
<td>0.005</td>
<td>0.152</td>
<td>(0.002)</td>
</tr>
<tr>
<td>Transport Related Expenditure</td>
<td>0.005</td>
<td>0.002</td>
<td>0.002</td>
<td>-</td>
<td>0.004</td>
<td>(0.001)</td>
</tr>
<tr>
<td>Supplies and Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to Shanks.East London</td>
<td>59.903</td>
<td>30.894</td>
<td>31.231</td>
<td>0.337</td>
<td>60.435</td>
<td>0.532</td>
</tr>
<tr>
<td>Other (inc. cost of Support Costs)</td>
<td>0.436</td>
<td>0.216</td>
<td>0.222</td>
<td>0.006</td>
<td>0.430</td>
<td>(0.006)</td>
</tr>
<tr>
<td>Payments to Constituent Councils</td>
<td>2.703</td>
<td>1.352</td>
<td>1.352</td>
<td>-</td>
<td>2.703</td>
<td>-</td>
</tr>
<tr>
<td>Capital Financing Costs</td>
<td>0.181</td>
<td>0.062</td>
<td>0.062</td>
<td>-</td>
<td>0.181</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL GROSS EXPENDITURE</strong></td>
<td>63.764</td>
<td>32.810</td>
<td>33.150</td>
<td>0.340</td>
<td>64.277</td>
<td>0.513</td>
</tr>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Waste Charges</td>
<td>(2.466)</td>
<td>(0.617)</td>
<td>(0.778)</td>
<td>(0.161)</td>
<td>(2.586)</td>
<td>(0.120)</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>(0.065)</td>
<td>(0.032)</td>
<td>(0.003)</td>
<td>0.029</td>
<td>(0.035)</td>
<td>0.030</td>
</tr>
<tr>
<td>Other income</td>
<td>(0.532)</td>
<td>(0.222)</td>
<td>(0.133)</td>
<td>0.089</td>
<td>(0.412)</td>
<td>0.120</td>
</tr>
<tr>
<td>Efficiency savings</td>
<td>(1.500)</td>
<td>(1.034)</td>
<td>(0.788)</td>
<td>0.246</td>
<td>(1.009)</td>
<td>0.491</td>
</tr>
<tr>
<td><strong>TOTAL INCOME</strong></td>
<td><strong>(4.563)</strong></td>
<td><strong>(1.905)</strong></td>
<td><strong>(1.702)</strong></td>
<td><strong>0.203</strong></td>
<td><strong>(4.042)</strong></td>
<td><strong>0.521</strong></td>
</tr>
<tr>
<td>Contingency Allocated</td>
<td>0.150</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.150</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET EXPENDITURE ON SERVICES</strong></td>
<td><strong>59.351</strong></td>
<td><strong>30.905</strong></td>
<td><strong>31.448</strong></td>
<td><strong>0.543</strong></td>
<td><strong>60.385</strong></td>
<td><strong>1.034</strong></td>
</tr>
<tr>
<td>PFI grant receivable</td>
<td>(3.991)</td>
<td>(1.996)</td>
<td>(1.996)</td>
<td>-</td>
<td>(3.991)</td>
<td>-</td>
</tr>
<tr>
<td>Previous year overspend funded</td>
<td>0.757</td>
<td>0.757</td>
<td>0.757</td>
<td>-</td>
<td>0.757</td>
<td>-</td>
</tr>
<tr>
<td>Levy Receivable</td>
<td>(56.567)</td>
<td>(28.283)</td>
<td>(28.284)</td>
<td>-</td>
<td>(56.567)</td>
<td>-</td>
</tr>
<tr>
<td>Net Contribution to reserves</td>
<td>0.450</td>
<td>0.225</td>
<td>0.225</td>
<td>-</td>
<td>0.450</td>
<td>-</td>
</tr>
<tr>
<td><strong>NET</strong></td>
<td>-</td>
<td><strong>1.608</strong></td>
<td><strong>2.151</strong></td>
<td><strong>0.543</strong></td>
<td><strong>1.034</strong></td>
<td><strong>1.034</strong></td>
</tr>
</tbody>
</table>
ELWA TONNAGE PROFILE 2016/17

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>38,509</td>
<td>38,214</td>
<td>(295)</td>
</tr>
<tr>
<td>May</td>
<td>39,783</td>
<td>39,144</td>
<td>(639)</td>
</tr>
<tr>
<td>June</td>
<td>39,603</td>
<td>43,535</td>
<td>3,932</td>
</tr>
<tr>
<td>July</td>
<td>41,779</td>
<td>39,792</td>
<td>(1,987)</td>
</tr>
<tr>
<td>August</td>
<td>36,969</td>
<td>39,622</td>
<td>2,653</td>
</tr>
<tr>
<td>September</td>
<td>38,324</td>
<td>38,829</td>
<td>505</td>
</tr>
<tr>
<td>October</td>
<td>38,372</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>November</td>
<td>34,850</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>December</td>
<td>34,981</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>January</td>
<td>36,143</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>February</td>
<td>31,330</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>March</td>
<td>36,356</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>446,999</strong></td>
<td><strong>239,062</strong></td>
<td><strong>4,095</strong></td>
</tr>
</tbody>
</table>
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1. **Contract Tonnage**

1.1 Contract tonnage to September (239,234 tonnes) is 2.0% above the anticipated tonnage for the period (234,967 tonnes) and this equates to 3.4% more than the 231,297 tonnes for the same period last year.

1.2 The September tonnage was 38,829 tonnes, 500t above budget. Despite this tonnage being higher than expected in the month this has not affected the year end projection significantly and tonnages are expected to be at 454,000t at year end, an increase of 7,000t over budget.

1.3 As tonnages are the main driver in ELWA’s costs, and the resulting Levy charge to the constituent councils, a separate report will be provided at the next Authority meeting outlining the various factors and influences in determining the growth of waste going forward.

2. **Contract Performance**

2.1 Year to date recycling continues to be slightly lower than contractual requirements but is an improvement on last year’s figures. This is mainly due to the reintroduction of recycling output of the Frog Island BioMrf, as can be seen below, contributing 4.32% to the recycling total as opposed to only 2.03% last year.
3. Contract Diversion (including Recycling)

3.1 Contract diversion continues to be above expectations but is showing a slight dip in performance from the levels achieved at the beginning of the year. Shanks have, however, just completed a refurbishment programme with an investment in two new Bailing machines. (Overall diversion to date is at 90.73%, well above the anticipated 80%).

<table>
<thead>
<tr>
<th>Borough Recycling (NI192)</th>
<th>LBBD</th>
<th>LBH</th>
<th>LBN</th>
<th>LBR</th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>24.9%</td>
<td>38.2%</td>
<td>16.3%</td>
<td>29.0%</td>
</tr>
<tr>
<td>YTD</td>
<td>27.3%</td>
<td>38.4%</td>
<td>14.8%</td>
<td>30.4%</td>
</tr>
</tbody>
</table>

Recycling Performance by Waste Type

![Recycling Performance by Waste Type Chart]

Recycling & Diversion 2016-2017

![Recycling & Diversion Chart]
4. **Financial Implications**

4.1 The higher tonnage forecast of 454,000t (budget of 447,000) has resulted in the contract payment forecast outturn increasing to £60.435m. Against a budget of £59.903m; this increases the predicted overspend for the contract to £0.532m.

4.2 Current contract expenditure totals £31.231m, being £0.337m over the profiled budget.

4.3 The overall effect of this additional tonnage along with royalty income and efficiency saving pressures has resulted in the Authority’s total forecast overspend at year end increasing even further to the £0.835m variance reported at the September Authority meeting.

4.4 As at 30 September 2016, the Authority’s current adverse variation for the period to end 30 September 2016 was £0.543m.

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 we are now exceeding pre fire performance levels.

5.2 **RRC Overhaul Project:** The installation of the two new Bailing machines one at both Jenkins and Frog Island (at an estimated investment of £2m) is now complete. The shredder which will process all the residual RRC waste and Constituent Council bulky waste is in situ and is scheduled to become operational in November.

5.3 **Service Delivery:** All the RRC sites and the main waste facilities continue to operate to specification with the exception of Jenkins Lane MBT that had waste acceptance problems during August that led to higher than normal turn around time penalties being applied in September.

*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  
September 2016
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AUTHORITY REPORT: MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2021/22

1. Confidential Report

1.1 No.

2. Recommendation:

2.1 Members are asked to agree the Medium Term Financial Strategy (MTFS) for the years 2017/18 to 2021/22.

3. Purpose

3.1 This report presents the Authority’s Medium Term Financial Strategy (MTFS) for the five years from 2017/18 to 2021/22 with particular focus on the 2017/18 financial year.

4. Executive Summary

4.1 This report as part of the MTFS is projecting levy increases of 9.95% in 2017/18 with projected flatter increases in the future years to 2021/22.

4.2 This five Year MTFS reflects a number of factors to be provided for in the MTFS including increasing tonnages and significant one off expenditure that will take place in respect of the Waste Management Options after 2027.

4.3 The ability to forecast the levy in the future years for constituent councils will depend on effective waste minimisation measures and waste tonnage reductions where possible.

5. Background

General Budget Strategy

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

5.2 As part of this Strategy, the Authority will seek new funding and new ways of working. It will continue to look at ways of working with the constituent councils to improve their waste minimisation and take advantage of efficiencies and cost savings within the Integrated Waste Management Strategy (IWMS) contract.

5.3 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.

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

5.5 Although the Authority has made some progress in limiting increases in overall waste disposal costs and has in place a diversion agreement which means that the risk of low diversion rates is incurred by Shanks Waste Management Ltd (the Operator), there remains a continuing impact from inflationary increases in landfill tax, contract inflation as well as increased overall tonnages and insurances.

5.6 The MTFS takes account of the need to maintain as a minimum the general reserves balance 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.
5.7 The IWMS contract continues to be the dominant element of the budget (approximately 94%). This in turn is driven by tonnage levels and the in-built contractual costs. The tonnage assumed in the 2016/17 Budget was 447,000 tonnes. The forecast position is 454,000 in the current year, which indicates the rising tonnage pressures continuing. The 2017/18 budget assumes 469,000 tonnes rising to 549,000 in 2021/22. It is therefore vital that ELWA continues to negotiate with the Operator to substantially reduce costs so as to mitigate levy increases.

5.8 Members have been advised of in year budget pressures in 2016/17. Although there has been a recovery plan in 2016/17 it is proposed that the Levy setting in this MTFS takes account of the structural shortfall in the Budget.

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

   a) As required in the IWMS contract, cost inflation has been built into the projections. This is 80% of the Retail Price Index (RPIX) at the previous October each year. This is estimated to be 2.0% for 2017/18, and is projected to be 2.6% for remaining years.

   b) Constituent councils’ population and household increases 2016-20 are projected as follows

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>%</td>
</tr>
<tr>
<td>LBBD</td>
<td>0.207</td>
<td>0.211</td>
<td>0.215</td>
<td>0.219</td>
<td>0.223</td>
<td>7.7</td>
</tr>
<tr>
<td>LBH</td>
<td>0.252</td>
<td>0.254</td>
<td>0.258</td>
<td>0.261</td>
<td>0.264</td>
<td>4.7</td>
</tr>
<tr>
<td>LBN</td>
<td>0.341</td>
<td>0.347</td>
<td>0.353</td>
<td>0.358</td>
<td>0.363</td>
<td>6.7</td>
</tr>
<tr>
<td>LBR</td>
<td>0.304</td>
<td>0.309</td>
<td>0.314</td>
<td>0.318</td>
<td>0.323</td>
<td>6.5</td>
</tr>
<tr>
<td>Total</td>
<td>1.104</td>
<td>1.121</td>
<td>1.140</td>
<td>1.156</td>
<td>1.173</td>
<td>6.4</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Household projections</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>increase</th>
</tr>
</thead>
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<tr>
<td></td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>m</td>
<td>%</td>
</tr>
<tr>
<td>LBBD</td>
<td>0.077</td>
<td>0.078</td>
<td>0.080</td>
<td>0.081</td>
<td>0.083</td>
<td>8.1</td>
</tr>
<tr>
<td>LBH</td>
<td>0.102</td>
<td>0.104</td>
<td>0.105</td>
<td>0.106</td>
<td>0.107</td>
<td>4.7</td>
</tr>
<tr>
<td>LBN</td>
<td>0.116</td>
<td>0.119</td>
<td>0.121</td>
<td>0.124</td>
<td>0.127</td>
<td>9.0</td>
</tr>
<tr>
<td>LBR</td>
<td>0.110</td>
<td>0.112</td>
<td>0.114</td>
<td>0.116</td>
<td>0.119</td>
<td>8.2</td>
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<tr>
<td>Total</td>
<td>0.405</td>
<td>0.413</td>
<td>0.420</td>
<td>0.427</td>
<td>0.436</td>
<td>7.5</td>
</tr>
</tbody>
</table>
The graphs illustrate this.

**ELWA region population numbers**

<table>
<thead>
<tr>
<th>Year</th>
<th>LBBD</th>
<th>LBH</th>
<th>LBN</th>
<th>LBR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>20,000</td>
<td>40,000</td>
<td>60,000</td>
<td>80,000</td>
</tr>
<tr>
<td>2015</td>
<td>25,000</td>
<td>50,000</td>
<td>70,000</td>
<td>90,000</td>
</tr>
<tr>
<td>2016</td>
<td>30,000</td>
<td>60,000</td>
<td>80,000</td>
<td>100,000</td>
</tr>
<tr>
<td>2017</td>
<td>35,000</td>
<td>70,000</td>
<td>90,000</td>
<td>110,000</td>
</tr>
<tr>
<td>2018</td>
<td>40,000</td>
<td>80,000</td>
<td>100,000</td>
<td>120,000</td>
</tr>
<tr>
<td>2019</td>
<td>45,000</td>
<td>90,000</td>
<td>110,000</td>
<td>130,000</td>
</tr>
<tr>
<td>2020</td>
<td>50,000</td>
<td>100,000</td>
<td>120,000</td>
<td>140,000</td>
</tr>
</tbody>
</table>

**ELWA region Household numbers**

<table>
<thead>
<tr>
<th>Year</th>
<th>LBBBD</th>
<th>LBH</th>
<th>LBN</th>
<th>LBR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>80,000</td>
<td>100,000</td>
<td>120,000</td>
<td>140,000</td>
</tr>
<tr>
<td>2017</td>
<td>90,000</td>
<td>110,000</td>
<td>130,000</td>
<td>150,000</td>
</tr>
<tr>
<td>2018</td>
<td>100,000</td>
<td>120,000</td>
<td>140,000</td>
<td>160,000</td>
</tr>
<tr>
<td>2019</td>
<td>110,000</td>
<td>130,000</td>
<td>150,000</td>
<td>170,000</td>
</tr>
<tr>
<td>2020</td>
<td>120,000</td>
<td>140,000</td>
<td>160,000</td>
<td>180,000</td>
</tr>
<tr>
<td>2021</td>
<td>130,000</td>
<td>150,000</td>
<td>170,000</td>
<td>190,000</td>
</tr>
</tbody>
</table>
Tonnages are assumed to increase to as in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>447,000</td>
<td>469,000</td>
<td>489,000</td>
<td>509,000</td>
<td>529,000</td>
<td>549,000</td>
</tr>
<tr>
<td>Annual % increase</td>
<td>4.9</td>
<td>4.3</td>
<td>4.1</td>
<td>3.9</td>
<td>3.8</td>
<td></td>
</tr>
</tbody>
</table>

c) A Landfill tax rate of £86.10 has been assumed for 2017/18. Annual increases in Landfill tax are tied to the retail price index and these have been included in the 3 year projections.

d) 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 to increase this by £7.234m over the next four years.

5.10 It is important to note that the proposed levy increase in 4.1 represents the average increase, not the specific increase for each constituent council. The levy for each constituent council will be based on updated tonnage figures and the number of Band D properties, which will be provided in time for the Levy report in February 2017.

5.11 Projected future levy increases can only be mitigated if ELWA’s contract costs are minimised and significant progress is made in constituent authorities’ waste minimisation measures.

6. Revenue Budget Projections

6.1 Movements in the levy comprise of the following:

<table>
<thead>
<tr>
<th>Updated projection 2017/18 £m</th>
<th>Paragraph Ref:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016/17 levy</strong></td>
<td></td>
</tr>
<tr>
<td>IWMS contract</td>
<td></td>
</tr>
<tr>
<td>• tonnage increase</td>
<td>1.93</td>
</tr>
<tr>
<td>• levy inflation</td>
<td>1.22</td>
</tr>
<tr>
<td>Landfill taxes inflation</td>
<td>0.23</td>
</tr>
<tr>
<td>Insurance costs</td>
<td>0.37</td>
</tr>
<tr>
<td>Removal of efficiencies target</td>
<td>0.75</td>
</tr>
<tr>
<td>Contingency increase</td>
<td>0.35</td>
</tr>
<tr>
<td>Reserves movements</td>
<td>0.50</td>
</tr>
<tr>
<td>Adjustment for previous year (under)/over spend: 2015/16 overspend £0.76m included in levy 2016/17 estimated overspend £1.04m</td>
<td></td>
</tr>
<tr>
<td>Projected 2017/18 levy</td>
<td>62.20</td>
</tr>
</tbody>
</table>
Contractor Costs

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

6.3 The cost of waste disposal under the contract with ELWA Ltd is approximately 94% of ELWA’s total gross expenditure. For 2016/17 overall tonnage is projected to be as high as 454,000 tonnes with the final outturn dependent on the severity of the winter or otherwise. Based on this, and expected growth in households, a total ELWA tonnage figure of 469,000 tonnes has been assumed for 2017/18. The Levy report to be presented in February 2017 will reflect the updated Technical Officers’ reports from the constituent councils. It should be emphasised that ELWA has no direct control over the waste tonnage which is delivered for disposal. The overall waste level is influenced by population increases and the pace of new development as well as the constituent councils’ monitoring and enforcement of waste collection.

6.4 The projected breakdown by constituent council, based on 2015/16 actuals is as follows:

<table>
<thead>
<tr>
<th>Constituent Council</th>
<th>2017/18 Forecast Tonnes (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBBD</td>
<td>97</td>
</tr>
<tr>
<td>LBH</td>
<td>113</td>
</tr>
<tr>
<td>LBN</td>
<td>137</td>
</tr>
<tr>
<td>LBR</td>
<td>122</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>469</strong></td>
</tr>
</tbody>
</table>

6.5 Contract inflation is set at 80% of the RPIX from October 2016. A rate of 2.0% has been applied for 2017/18 (80% of expected October RPIX of 2.2%). With rates of 2.6% in 2018/19 and 2021/22.

Revised Diversion arrangements

6.6 In June 2015 a three year agreement was signed between ELWA and the Operator and the aim of this was to incentivise the Operator to increase diversion from landfill as far as possible through the development of solid recovered fuel (SRF) and RDF production capacity without any net impact on the Authority. The main features of the agreement were as follows.

a) The payment of an additional category of supplement to the Operator for higher than contracted diversion of 67%.

b) A flat rate rebate of £0.275m payable by the Operator to ELWA regardless of diversion performance, and this would rise in annual steps up to £0.500m.

c) Where diversion performance falls below 67% the Operator would pick up the whole of the landfill tax liability with no additional supplements being due.

6.7 The arrangements relating to this Diversion agreement were built into the 2016/17 Budget. For future years the additional benefit of the increasing annual rebate will be built into subsequent years’ budgets.

Non-Contractor Costs

6.8 It is proposed that inflation is added to other non-contract costs as appropriate.
6.9 Non contractor costs include constituent council costs funded from the ELWA levy such as tonne mileage payments, some recycling initiatives and service level agreements and these amount to approximately £2.7m per annum. If arrangements were such that constituent councils met these costs directly then there would be a reduction in the overall levy and a corresponding increase in constituent councils’ direct costs. It has been the practice to account for these costs within ELWA ever since the Authority was established, such that all waste disposal costs are accounted for in one entity.

6.10 Given the pressures on the revenue budget in recent years it is proposed to increase the contingency to £0.5m.

6.11 The revenue maintenance costs of landfill sites are met from the non-contractor costs budget. Should these be sold then there will be a revenue saving in this budget. It is proposed that any such savings are treated as a contribution to any efficiencies required.

Aveley Methane

6.12 Members have been advised of the winding up of Aveley Methane Ltd. The staff costs will be met from the ELWA budget. As also reported it is anticipated that any additional revenue costs of ongoing gas maintenance can be met from the £0.250m provision set aside on the balance sheet or from existing revenue budgets.

Income

6.13 ELWA receives income from the constituent councils in respect of commercial waste tonnage. It is proposed that the budgeted income figure for 2017/18 remains the same as in 2016/17 but with an uplift based on the RPIX. This assumes the existing commercial waste arrangements continue for the next three years and volumes remain relatively constant. Any change to this position will be reflected in future Levy setting and MTFS reports.

6.14 There is also some other income, for example, investment income and trade waste royalty income. It is proposed that the investment income is reduced to reflect income and interest rate trends. For royalty income for 2017/18 the budget is set at the £0.403m guaranteed royalty payment with reductions in the following years reflecting a smaller availability of excess capacity as contract tonnage increases.

Landfill Tax Inflation

6.15 Members are advised that from the 2014/15 financial year the Landfill Tax (LFT) rate reached the rate of £80 per tonne following a number of annual stepped increases of £8 per tonne. Subsequent to this the LFT rate was to be increased in line with the Retail Price Index. The table below summarises the position:

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td>£84.40</td>
<td>£86.10</td>
<td>£88.95</td>
<td>£91.89</td>
<td>£94.92</td>
<td>£98.05</td>
</tr>
<tr>
<td>% increase</td>
<td>2.4</td>
<td>4.0</td>
<td>4.0</td>
<td>4.0</td>
<td>3.9</td>
<td></td>
</tr>
</tbody>
</table>

6.16 This will add an additional pressure of £0.229m in 2017/18, rising to £1.780m in 2021/22 (through LFT or additional diversion supplements), compared to the position assumed in the February 2016 Levy report.

Insurance Costs

6.17 In respect of the contract Members will be aware that insurance premiums have increased significantly in recent years due partly to the major incident in 2014 at the
Frog Island Waste facility, but also due to the market place for insurance where because of the overall number of fires there are very few providers of this type of insurance. A significant increase has therefore been assumed for the 3 year period. By the time the Levy report is produced for the February 2017 Authority meeting further details on this will be available. For the purposes of this report it is assumed that the arrangements in relation to broker fees etc. will be a contribution to overall efficiency savings, which will be built into the contract payment budget.

7. **Contract Efficiencies**

7.1 The 2016/17 Levy setting process assumed that an ongoing efficiency savings of £1.5m would be achieved, However this has not been possible since it was originally included in the budget. On-going savings of £0.750m have been built into the contractor payment budgets for 2017/18 ongoing and as a result £0.750m has been built back in.

8. **Reserves Strategy**

8.1 As part of the Levy Setting report in February 2016, it was agreed that the minimum level of usable reserves needed to cover risks facing the Authority was £3.0m.

8.2 A second strand to the Reserves Strategy was the establishment of a Strategy Reserve to cover costs arising out of the post 2027 waste disposal arrangements. 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 (procurement of design, build and operate contract). The Strategy was to build reserves up over five years leading to a total of £9.4m after five years (before any expenditure against this is taken into account).

8.3 The final element of the Strategy was the reduction of the capital reserve from £0.400m to £0.100m. This would be for potential costs at Aveley. The sale of Hall Farm landfill site has increased this reserve by £0.115m.

9. **Other Assumptions**

9.1 This MTFS takes account of the projected overspends of £1.034m which will need to be taken account of in the setting of the Levy for 2017/18.

10. **Closure of Landfill Sites**

10.1 The responsibility for, and maintenance of the three remaining closed landfill sites continues to carry a significant financial risk for ELWA including the cost of potential damage to third parties. Currently maintenance operations are at relatively low cost but the nature of the sites creates some financial uncertainty for the future. Recent problems, such as the significant fly-tipping, demonstrate the need for ongoing resources and therefore it is proposed to retain the current existing budgets.

10.2 Further disposal of sites may affect revenue budgets.

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

11.1 The calculation of the levy is determined by the costs and income detailed in paragraph 6 and 7, and the use of reserves as described in paragraphs 8 and 14.

11.2 Based on the analysis in the previous paragraphs a levy increase of 9.95% in 2017/18 is projected.

11.3 Key projections such as tonnages will need to be reviewed by ELWA officers to ensure they are accurate before the 2017/18 levy report is presented.
11.4 The reconciliation of the updated projected levy increase in 2017/18 with that projected in the February 2016 levy report is detailed below.

11.5 The table below summarises the draft financial plan for the next five years, highlighting the expenditure budget requirements, the projected levy increases and increase in reserves.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross revenue</td>
<td>£65.237</td>
<td>£67.525</td>
<td>£70.920</td>
<td>£74.598</td>
<td>£78.422</td>
</tr>
<tr>
<td>Net movement</td>
<td>0.950</td>
<td>1.8</td>
<td>2.450</td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>reserves</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub Total</td>
<td>66,187</td>
<td>69.325</td>
<td>73.370</td>
<td>76.598</td>
<td>80.422</td>
</tr>
<tr>
<td>Financed By</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PFI grant</td>
<td>(3.991)</td>
<td>(3.991)</td>
<td>(3.991)</td>
<td>(3.991)</td>
<td>(3.991)</td>
</tr>
<tr>
<td>Levy</td>
<td>(62.196)</td>
<td>(65.334)</td>
<td>(69.379)</td>
<td>(72.607)</td>
<td>(76.431)</td>
</tr>
<tr>
<td>Levy Increase</td>
<td>9.95%</td>
<td>5.05%</td>
<td>6.19%</td>
<td>4.65%</td>
<td>5.27%</td>
</tr>
<tr>
<td>over previous</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>year</td>
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<td>Reserves *</td>
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<td>3.0</td>
</tr>
<tr>
<td>Strategy</td>
<td>1.150</td>
<td>2.950</td>
<td>5.400</td>
<td>7.400</td>
<td>9.400</td>
</tr>
<tr>
<td>reserve</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital reserve</td>
<td>0.163</td>
<td>0.163</td>
<td>0.163</td>
<td>0.163</td>
<td>0.163</td>
</tr>
</tbody>
</table>

* Assumes spend of £0.052m on flare and expenditure of £0.100m against the strategy reserve in 2016/17

11.6 ELWA Members will understand the impact of its levy on the constituent councils’ budgets and it is important to keep any annual increases to a minimum subject to the continual need for financial prudence and operational viability. These two pressures must be balanced and Members must also take a three-year view on the MTFS. It is likely that ELWA will continue to face uncertainty in the future and financial pressures cannot be ruled out for the remainder of the current year and for the 2017/18 to 2021/22 period that follows.
11.7 The table below shows the impact of the projected levy increases by constituent council, based on the 2014/15 household tonnages and 2016/17 Band D figures.

<table>
<thead>
<tr>
<th>Constituent Councils - Levy</th>
<th>2016/17 Actual £m</th>
<th>2017/18 £m</th>
<th>2018/19 £m</th>
<th>2019/20 £m</th>
<th>2020/21 £m</th>
<th>2021/22 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>LBH</td>
<td>13.670</td>
<td>15.101</td>
<td>15.861</td>
<td>16.843</td>
<td>17.627</td>
<td>18.556</td>
</tr>
<tr>
<td>LBR</td>
<td>15.567</td>
<td>17.075</td>
<td>17.937</td>
<td>19.048</td>
<td>19.934</td>
<td>20.983</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>56.567</strong></td>
<td><strong>62.196</strong></td>
<td><strong>65.334</strong></td>
<td><strong>69.379</strong></td>
<td><strong>72.607</strong></td>
<td><strong>76.431</strong></td>
</tr>
</tbody>
</table>

11.8 It is important to stress that these estimates are likely to change when the February 2017 Levy report is produced. At that stage up to date Band D figures will have been confirmed by the constituent councils.

11.9 This MTFS highlights various complex issues facing ELWA, which necessitates a prudent approach to its projection and strategy. Waste management generally continues to be subject to many changes, a number of which are beyond ELWA’s control. The projection and strategy has been prepared in conjunction with, and are supported by all of the ELWA Directors.

11.10 When considering the MTFS, Members will need to have regard to the Authority’s longer-term position and the level of its reserves over the next few years. This is in the context of both the financial risk and possible smoothing of levy increases over the three year period as well as the need to build up a Strategy Reserve.

11.11 The levy forecasts for 2018/19 and 2021/22 clearly can only be taken as an attempt to provide the most helpful indication presently possible for planning purposes, together with an explanation of some of the relevant factors concerned. However, a change in any of a number of uncertain factors, for example growth in waste, inflation assumptions and any new legislation could significantly impact on the overall projections.

11.12 In summary the proposal is to finance the overall increased net costs by levy increases of between 4.65% and 9.95% in the years 2017/18 to 2021/22.

12. **Underlying assumptions in the MTFS**

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

12.2 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

12.3 Bank interest 0.6%

12.4 It has been assumed the monies required for the waste option 2027 will be all revenue.

13. Risks

13.1 The setting of the levy and the determination of the level of reserves needs to take account of the risks facing the Authority. These are detailed below.

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 cost may be able to be capitalised. Any monies not required will be given back to constituent councils.

13.2 A thorough review of the likelihood of risk will be built into the calculations of an adequate reserve level and this will be presented in detail in the levy report to be considered by Members in February 2017.

14. Reserves - Assumptions

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

14.2 The risks are detailed in paragraph 13. Based on these it is proposed that general reserves reach £3.0m. Following a review of the current reserve levels this will mean a transfer of £1m as part of the 2017/18 budget to achieve this level.

14.3 It is proposed that an increase of £9.2m is added to the Strategy Reserve in the period 2017/18 to 2021/22 which would bring the gross total of this reserve up to £9.4m at the end of 2021/22. This takes account of the £0.100m which has already been incurred against this reserve.

14.4 Expenditure of approximately £0.050m has been incurred against the capital reserve.
14.5 The table below summarises the overall position

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<tr>
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15. Next Steps

15.1 Early January 2017 – Tonnage figures updated based on information from ELWA and constituent council officers as well as each Council’s updated Band D figures.

15.2 Early February 2017 – Members consider the 2017/18 Revenue Budget and set the levy.

15.3 The table at 11.7 shows the impact of the increases by constituent council based on the 2015/16 tonnages and 2016/17 Band D information. The split between constituent councils will change when the 2017/18 Band D information becomes available.

16. Conclusion

16.1 Waste Disposal has been subject to much legislation and regulation over many years and there is potential for further legislation on this area. Coupling this agenda with the dramatic cuts in council funding means the focus on sizeable cost reductions will be an ongoing and potentially volatile theme.

16.2 Waste volumes in the constituent councils drive the cost pressures in ELWA’s budget. With significant increased development projected it is essential that the constituent councils have waste minimisation as a priority and the appropriate contract monitoring procedures are in place.

16.3 ELWA, by letting an IWMS contract and gaining PFI support put itself in a better financial position than others who had no Private Finance Initiative (PFI) funding in previous years. However, the long term nature of the contract is now a constraint for the Authority and will be until 2027. It is imperative that all measures possible are taken to minimise costs within this constraint and to continue to review possible alternative approaches.
This report sets out the projected financial pressures on ELWA, proposes a Strategy for the use of reserves and suggests that the overall levy increase will be between 4.65% and 9.95% over the five year period.

16.4 The increase in levy over the five years takes account of the need to build up the Strategy Reserve as detailed in paragraphs 8 and 14. The increase in the Levy in year 1 partly reflects the need to fund previous years’ overspends. The further Levy increases in years 2 to 5 therefore reflect increases in tonnages and inflationary cost pressures as well as the need to provide for costs relating to options after 2027. The Finance Director will continue consulting with constituent councils’ Directors during the next couple of months regarding the details of the MTFS. Detailed calculations of actual levy increases will be considered at the February meeting of the Authority prior to the start of the 2017/18 financial year.

16.5 However, it is the view of the Finance Director that the projected future increases in the levy will be extremely challenging for the four constituent councils in the existing financial climate where Authorities are having to make significant service reductions. Therefore it is vital that waste tonnages are minimised.

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

17. Relevant officer:

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

18. Appendices attached:

18.1 None

19. Background Papers:

27/09/10 Alternative Methodology for Calculating the ELWA Levy - Report and Minute 2010/29


08/02/16 Revenue and Capital Estimates and Levy 2016/17. Report and Minute 2016/

20. Legal Considerations:

20.1 As detailed in the report.

21. Financial considerations:

21.1 As detailed in the report.

22. Performance management considerations:

22.1 As detailed in the report.

23. Risk management considerations:

23.1 As detailed in the report.
24. **Equalities considerations:**

24.1 The proposals and recommendation in this report are to agree the MTFS for the next three years. The Managing Director advises that the proposals do not particularly affect any one group as defined by the equalities legislation.

25. **Follow-up reports:**

25.1 Levy setting report February 2017

26. **Websites and e-mail links for further information:**


27. **Glossary:**

ELWA = East London Waste Authority

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

IWMS = Integrated Waste Management Strategy

LFT = Landfill Tax

MTFS = Medium Term Financial Strategy

PFI = Private Finance Initiative

RPIX = Retail price index excluding mortgages

The Operator = Shanks Waste Management Ltd

28. **Approved by Management Board**

28.1 7 November 2016

29. **Confidentiality:**

29.1 None.
By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.