

## **Notice of Meeting**

### **EAST LONDON WASTE AUTHORITY**

**Monday, 5 February 2007 - Civic Centre, Dagenham, 1:00 pm**

**Members:** Councillor M E McKenzie (Chair); Councillor S Kelly (Deputy Chair); Councillor P R Goody, BSc BA, Councillor P Murphy, Councillor P Sheekey, Councillor B Tebbutt, Councillor Mrs P A Twomey and Councillor A Weinberg

**Declaration of Members' Interests:** 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.

29.01.07

R. A. Whiteman  
Managing Director

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#### **AGENDA**

- 1. Apologies for Absence**
- 2. Minutes - To confirm as correct the minutes of the meeting held on 27.11.06 (Pages 1 - 4)**
- 3. Risk Strategy - Development (Pages 5 - 23)**
- 4. Consultation Strategy - Draft (Pages 25 - 32)**
- 5. Testing of Biodegradable Waste (Pages 33 - 34)**
- 6. Contract Performance 2006/07 - April 2006 to December 2006 (Pages 35 - 45)**
- 7. Revenue and Capital Estimates and Levy 2007/08 (Pages 47 - 65)**
- 8. Treasury Management Strategy 2007/08 and Prudential Code Indicators for 2007/08 to 2009/10 (Pages 67 - 75)**
- 9. Any other public items which the Chair decides are urgent**

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

#### **Private 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 1 of Schedule 12A of the Local Government Act 1972 as amended.

- 11. Other Confidential Business**

## **EAST LONDON WASTE AUTHORITY**

Monday, 27 November 2006  
(1:10 - 2:25 pm)

**Present:** Councillor M E McKenzie (Chair), Councillor P R Goody, BSc BA, Councillor P Murphy, Councillor B Tebbutt, Councillor Mrs P A Twomey and Councillor A Weinberg

### **1464 Apologies**

An apology for absence was received on behalf of Councillor Mrs P Sheekey.

### **1465 Minutes - To confirm as correct the minutes of the last meeting held on 16.10.06**

We have confirmed as correct the minutes of our meeting held on 16 October 2006.

### **1466 External Auditor's Annual Governance Report and Audit Letter**

We have received the District Auditors' Annual Governance Report and Annual Audit Letter for 2005/06 and noted the favourable comments in respect of the accounts, value for money conclusion and the unqualified opinion. We have noted a few areas where existing processes require strengthening.

The District Auditor responded favourably on the question regarding value for money and also provided information on their benchmarking process. Councillor Kelly prompted discussion on whether the Authority was either prudent or erred towards caution in respect of its approach to reserves as both were contained the Auditors' report. The District Auditor advised that he considered the Authority had taken a reasonable approach.

The Chairman thanked the District Auditors, Jon Haynes and Sharon Martin for attending the meeting to present their reports.

### **1467 IWMS Contract - Annual Budget and Service Delivery Plan 2007/08\***

We have received the Executive Director's report and noted the significance of the ABSDP for operational planning and budgeting purposes for 2007/08.

We have noted the key features for 2007/08 as:

- i) the 2007/08 ABSDP complies with the Overall Service Delivery Plan and also the 3 Year Service Delivery Plan agreed at the last meeting and meets the contractual performance targets required of the IWMS Contractor;
- ii) overall tonnages for disposal are expected to be up slightly at 506,000;
- iii) diversion from landfill is increased to 40% of total waste and could exceed that figure if more solid recovered fuel is sent by Shanks for energy recovery

as is already happening in small volumes;

- iv) BVPI recycling across the four Councils should slightly exceed 23% and is partially dependent upon there being processing markets for the recycling materials being separated in the refinement section of the Bio MRF;
- v) overall costs were up to 28% on the 2006/07 ABSDP covering increases in landfill tax, inflation and contractual price increases. Noted that 2007/08 is the first year when, by the end of the year, all the facilities and infrastructure required of Shanks would be fully constructed and operational and the year in which the basic cost per tonne is increased to reflect that;
- vi) cost issues are considered separately in the Finance Director's financial strategy report.

We have approved the operational summary at Appendices B, C & D and the private and confidential financial summary at Appendix E\*. The Executive Director made available the full version of the document.

We have authorised the Executive Director to approve the final detailed version of the 2007/08 ABSDP, including the detailed operational Appendices that are not prepared until the end of February 2007.

(\*Part of this item was considered after a resolution had been passed to exclude the public and press from the remainder of the meeting as the information included detailed financial proposals of Shanks east London in respect of the IWMS Contract. This information is exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended.)

#### **1468 Draft Further Alternations to the London Plan (Spatial Development Strategy for Greater London)**

We have received and discussed the significance of the implications of the Further Alterations to the London Plan which, together with changes to Mayor's Powers, introduce a new London wide approach to waste management that is driven by the Mayor.

We have agreed to respond to the consultation by stating that, in general, we support the significant changes to the Mayor's policies, as summarised in the report, as they broadly reflect ELWA's long term approach to waste management (being implemented via the Integrated Waste Management Strategy). In addition, however, the response should record that there is still great concern in east London about the outcome of the exercise to apportion some of central London's waste to be managed in sites in east London (as described in Policy 4A.21ii - Additional Land Requirements for Recycling and Waste Treatment Facilities). Therefore, we also seek confirmation that there will be a 12 week consultation period in respect of minor alterations to the London Plan that deals with the waste apportionment issue.

In the event that the deadline for the Authority's response to the apportionment proposals should fall between Authority meetings, we have delegated authority to the Executive Director, in consultation with the Chair and Deputy Chair, to respond

on our behalf.

#### **1469 London Remade and Workload Issues**

We have agreed the recommendations to continue negotiations with London Remade for possible project support and to waive the contract rule requiring 3 written quotes to be submitted for:-

- i) a Provision of Services Agreement to provide 1.5 days per month of advice and project supervision;
- ii) a specific proposal to carry out a quarterly contract monitoring review providing an independent report on the qualitative and quantitative performance of all IWMS sites, including bring sites;
- iii) a specific proposal to undertake an in depth review of the arrangements for commercial and chargeable waste across the four Constituent Councils.

If the discussions on the above are successful, we agree that consideration will also be given to London Remade being asked to prepare a proposal in respect of the decision by the Authority to investigate the potential for new waste sites in the ELWA area.

We have further agreed that any arrangement entered into is reviewed after one year to ensure that value for money is being achieved and that a contingency provision is made for 2007/08 to meet longer term staffing resources.

#### **1470 Contract Performance 2006/07 - April to September 2006**

We have noted the General Manager's report and Appendices on Contract Performance for the first six months of 2006. We have received commentary on dense plastic and paint facilities introduced at the Reuse & Recycling Centres (RRCs), the redevelopment of Jenkins Lane, Frog Islands' RRC MRF trial of orange bags and Bio MRF performance testing and the Ilford Recycling Centre, tonnage data on recycling and diversion from landfill and contract payments.

We have discussed at length the current average recycling figure of 15% and possible achievement of the 2006/07 target of 18% and the mechanisms in place in the contract to ensure delivery of recycling targets in future years. We have instructed ELWA Officers to discuss with Shanks the importance of achieving their recycling targets and to investigate ways of contractual improvements to do this.

Councillor Murphy also raised concerns about a detrimental Press Release published today which reported incorrect recycling performance figures for the boroughs and sought assistance to correct the position.

#### **1471 Budgetary Control Report to 30th September 2006**

We have noted and agreed the Finance Director's budgetary control report for the six months' period to 30 September 2006. This report indicates a general under spend on services of £702,000 after allowing for an over spend on the tonne mileage budget of £100,000 following agreement to use existing formula rates with boroughs for 2006/07. 1 April 2007 will see the introduction of new standardised

rates.

### **1472 Finance Projection & Budget Strategy 2007/08 to 2009/10**

We have considered the report from the Finance Director on ELWA's Financial Projection and Budget Strategy for 2007/08 to 2009/10 that contained particular detail in respect of the forthcoming financial year and have noted the Strategy as submitted.

The Finance Director confirmed that the information in this Strategy will be conveyed to Constituent Councils' Finance Directors to assist in their budget preparations for next year and beyond.

Following a debate about the level of resources and the other relevant issues, we recommend that the Finance Director discusses with the Constituent Councils' Finance Directors the factors for setting and agreeing the Levy prior to our next meeting. We have noted that the final proposals in respect of the ELWA levy for 2007/08 will be presented to our next meeting in February.

### **1473 Programme of Meetings**

We have approved the following programme of meetings for the forthcoming municipal year, all to be held at the Civic Centre, Dagenham, commencing at 1.00 pm.

Monday	25 June 2007	(Annual General Meeting)
Monday	08 October 2007	
Monday	26 November 2007	
Monday	04 February 2008	
Monday	07 April 2008	

Chair: .....

Dated: .....

*(Contact Officer: Tony Jarvis - Tel. 020 8270 4965)***EAST LONDON WASTE AUTHORITY****05 FEBRUARY 2006****EXECUTIVE DIRECTOR'S REPORT**

<b>RISK STRATEGY</b>	<b>FOR APPROVAL</b>
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**1 Purpose**

- 1.1 To update the initial Risk Register initially approved last year (Minute 1405).

**2 Background**

- 2.1 An original Risk Strategy, a Risk Register and a Risk Matrix were all compiled last year with the support of a risks management consultant from the JLT Group (who are also the Authority's insurance advisers), the Insurance and Risk Manager at the London Borough of Redbridge and using examples of the work done within the other Constituent Councils.

- 2.2 The Authority had taken a number of significant steps in risk management over the years, including the risk transfer in the Integrated Waste Management Strategy (IWMS) Contract and the Closed Landfill Site Strategy.

**3 The Authority's Risk Management Strategy**

- 3.1 This has been set out in Appendix A and remains unchanged from that approved last year.

**4 The Risk Register**

- 4.1 The Registers of Strategic Risks and Operational Risks have been set out in Appendix B1 and B2. These Registers have been subject to further development as described below in paragraphs 4.2, 4.3 and 4.4.

- 4.2 The responsibility for each risk in the Risk Register has been identified against individuals. Allocating individual responsibility is a response to the recommendation by the External Auditors in their last Annual Audit Letter.

- 4.3 The Registers have been reviewed and the following amendments are appropriate at this point in time to the 'Gross' Risk assessments:

- a) Strategic Risks – Abolition of the Authority – reduced likelihood following government announcement;
- b) Operational Risks – Major failure of technology – increased likelihood during commissioning.

- 4.4 The original Risk Registers presented only Gross Likelihood and Gross Impact. The updated Risk Registers now attached present both the 'Gross' position and the 'Net' position. The 'Net' position assesses the Net Likelihood and Net Impact of a Risk after account is taken of the High Level Controls and Mitigation Controls set out and

described in the Table. For example in the first Strategic Risk the Net Likelihood of an occurrence is less than the Gross Likelihood because of site engineering works.

## **5 The Risk Matrix**

- 5.1 Appendix C sets out a Risk Matrix. In simple terms any risks identified in the heavily shaded boxes need to be considered as a priority in terms of controls and mitigation.
- 5.2 In other words Risk Items placed in the top right of the Table need to be considered as a priority in terms of controls and mitigation (as far as that is possible). Risk Items placed in the bottom left of the Table do not present such a problem.
- 5.3 There is still one strategic risk (item 6) in this category, even after the application of High Level Controls and Mitigation Measures. (This item would be in this position in respect of most major external service providers to local authorities).
- 5.4 The Gross Risk Matrix for Strategic Risks and for Operational Risks is set out at Appendix C1 showing “Gross” risk i.e. before the application of controls and mitigation. The development this year of the Risk Matrix to take account of the controls in place and the mitigation arrangements has enabled the Gross Risk Matrix to be presented also in terms of NET Risk (i.e. Gross Risk less the impact of controls and mitigation). The Net Risk Matrix is presented in Appendix C2.
- 5.5 The Risk Matrix Definitions in Appendix C3 sets out the categories of Likelihood (1 to 4) and categories of Impact (1 to 4) used to compile the Matrix from the Risk Registers.

## **6 Financial Implications**

- 6.1 Most of the work to prepare the updated Register and Matrix has been carried out by Arden House with support from the Risk & Insurance Manager at the London Borough of Redbridge and therefore no external costs have been incurred.
- 6.2 The development of Action Plans to minimise exposure to risks could require additional resources for implementation if financial provision has not been made as a result of the current ELWA Strategies.
- 6.3 The Authority must consider the level of reserves that are appropriate to cover the exposure to costs incurred if identified (and unidentified) risks actually occur.

## **7 Conclusion and Recommendations**

- 7.1 This Report and Appendices represent a further step forward in meeting best practice in a corporate performance management and financial management by the identification, evaluation and management of risk.



7.2 Members are recommended to:-

- i) note the Risk Strategy in Appendix A;
- ii) approve the updated Strategic Risks Register and the Operational Risks Register at Appendices B1 and B2;
- iii) note the Gross and Net Risk Matrix in Appendix C1 and C2;
- iv) review the position on an annual basis.

Tony Jarvis  
**EXECUTIVE DIRECTOR**

**Appendix**

- A The Risk Management Strategy
- B1 The Strategic Risks Register
- B2 The Operational Risks Register
- C1 The Risk Matrix – Gross
- C2 The Risk Matrix – Net
- C3 The Risk Matrix - Definitions

**Background Papers**

- 1 Report to the Authority – February 2006 – Risk Management
- 2 Risk Matrix in IWMS Contract

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<b>RISK MANAGEMENT STRATEGY</b>	
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## **ELWA's Vision and Objectives**

*"TO PROVIDE AN EFFECTIVE AND EFFICIENT WASTE MANAGEMENT SERVICE THAT IS ENVIRONMENTALLY ACCEPTABLE AND DELIVERS SERVICES THAT LOCAL PEOPLE VALUE"*

The objectives of the Integrated Waste Management Services (IWMS) were as follows:

- The services should be both reliable and achievable in terms of managing and disposing of the waste.
- The services shall be environmentally and economically sustainable in terms of both encouraging waste minimisation and maximisation of waste recycling and composting opportunities, as well as contributing to local economic development.
- The most cost effective delivery of the services

## **1 What is Risk Management**

### **1.1 A Risk can be defined as:**

*"The probability of an event and its consequences"* *(ISO / IEC Guide 73)*

### **1.2 Risk Management can be defined as:**

*"The process whereby organizations methodically address the risks attaching to their activities..."*

*(Risk Management Standard, AIRMIC / ALARM / IRM, 2002)*

## **2 Purpose of the Risk Management Strategy**

### **2.2 The strategy recognises that effective management of risk enhances the Authority's ability to:**

- Deliver strategic and operational objectives successfully
- Safeguard the Authority's assets
- Protect the Authority's reputation
- Allows Risk Management to be accepted as part of the culture (i.e. embed in Service Plans)
- Adhere to best practice guidance
- Supports Boroughs in meeting their CPA requirements.

2.3 The strategy also recognises that effective risk management requires widespread understanding of and commitment to risk management principles. Members and Officers need to be familiar with the strategy and all staff need to be aware of it.

### 3 **Benefits of Risk Management:**

- Increased likelihood of achieving strategic and operational objectives
- Better planning and prioritisation of resources
- Early warning of problems before they occur
- Relevant staff having the skills to identify and manage risk within their services
- Proactive approach to uncertainty that avoids knee-jerk reactions
- Increased stakeholder confidence
- Ability to identify and take advantage of opportunities

### 4 **How will we deliver the benefits:**

- The Risk Management Strategy and Risk Registers will be reviewed on an annual basis to ensure it remains effective.
- Additional reviews of both the strategy and registers will take place as appropriate upon new significant risks arising.
- Operational risks will continue to be identified and monitored by officers on a day to day basis
- Identify training requirements of both members and officers.

### 5 **Types of Risk**

5.1 Risk can be categorised in many different ways. The Authority intends to use the following 2 categories, Strategic and Operational. The categories should lead to a sufficiently broad set of issues being considered but on the other hand will not impose too great an administrative burden.

- **Strategic risk** - risks affecting the medium to long term Aims and Objectives of the Authority (including political, financial, technological, legislative, performance, partnership and environmental factors)

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

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

## **6 The Risk Management Process**

### Identifying the Risks

6.1 Risks should be identified against the categories set out above. The main focus when identifying Strategic risks should be on the Authority's Aims and Objectives. Risk Management will be an integral part of the Authority's existing service planning. When identifying Operational risks consideration should be given to risks that will impact upon service delivery.

### Prioritising the Risks

6.2 Once analysed the risk needs to be prioritised according to the likelihood and impact. In order to do this a commonly used methodology will be used which is explained in Appendix A.

### Mitigation Strategies

6.3 Having identified the risks, each one needs to be assessed to determine the appropriate action required to mitigate the risk, this could include:

- Acceptance
- Transfer (Insurance)
- Reduction of either likelihood/impact or both
- Avoidance

6.4 Members will periodically review the strategic risk register and corresponding mitigation strategies to determine that the correct course of action is being followed, within specified timescales.

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ID Number	Risk Description	Consequences	Category	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
				Gross	Net	Gross	Net			
9	Gradual pollution event on a closed landfill site	1. Clear-up costs 2. Scrutiny of techniques used 3. Adverse media attention 4. Local resident concerns 5. Financial penalties 6. Prosecution 7. On-site remediation	Environmental	3	2	4	4	Site engineering pre 1990 Risk assessments in 2005	Bi-annual testing regime	Technical Director
1	Abolition of the Authority	1. Higher precept costs 2. Disruption to waste disposal planning 3. Adverse media attention 4. 4 Boroughs more remote from service.	Corporate	2 (previously 3)	2	3	3	Negative government response to proposals to extend GLA powers	Compatible strategic goals with GLA	Managing Director
13	Loss of key staff / lack of succession planning	1. Authority fails to meet statutory requirements. 2. Lack of knowledge and experience in monitoring the PFJ contract. 3. Loss of strategic direction.	Performance	3	2	3	2	Review structure. Reduce dependence on secondments.	Use of advisors. Arrangements with London Remade. Involvement of Borough Officers.	Managing Director
6	Insolvency of Shanks Waste Ltd	1. Re-tender costs for ELWA Ltd 2. Adverse media attention 3. Disruption of services	Financial	2	2	4	4	Monitor press reports. Review financial results and accounts.	ELWA Ltd contingency plans. Parent Co. guarantees. ELWA files of licences and operation manuals. External advisers fully prepared.	Executive Director
8	Instantaneous pollution event on a closed landfill site e.g. explosion	1. Clear-up costs 2. Scrutiny of techniques used 3. Adverse media attention 4. Local resident concerns 5. H&S Event 6. Financial penalties 7. Prosecution 8. On-site remediation	Environmental	2	2	4	3	Site engineering pre 1990 Risk assessments in 2005	Bi-annual testing regime	Technical Director
2	Corporate divisions	1. Delayed decision making 2. Uncertainty over way forward	Corporate	2	2	3	2	Joint Waste Management Strategy. Open dialogue at all levels within Boroughs.	IWMS Service Delivery Plans	Board

ID Number	Risk Description	Consequences	Category	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
				Gross	Net	Gross	Net			
3	Withdrawal of cooperation of Borough(s)	1. Long term future of partnership in doubt	Partnership	2	2	3	2	Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.	IWMS Service Delivery Plans	Board
5	Major Service failure by ELWA Ltd	1. Re-tender costs for ELWA. 2. Adverse media attention. 3. Massive threat to services	Performance	2	2	3	3	Representation on ELWA Ltd Board. Contract Monitoring by ELWA, Boroughs and London Remade.	Penalty regime for service failures. Parent Co. guarantee	Operations Director
12	Performance of ELWA adversely impacts upon the 4 Borough's CPA scores	1. Failure in joint working and joint planning 2. Disputes hamper progress 3. Pressure on future ELWA	Performance	3	2	2	2	Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.	IWMS Service Delivery Plans. ELWA staff support CPA process in Boroughs.	Board
4	Breakdown of relationship with Shanks Waste Ltd	1. Strained working 2. Problems not resolved. 3. Performance suffers. 3. Eventual failure of PFI contract	Partnership	2	2	2	2	Understanding of and reference to Contractual Provisions. Encourage dialogue at all levels between partners. Influence via ELWA Ltd.	Review partnership interfaces at all levels. Review joint strategies and service delivery plans. Prepare contingency plans for replacement contractor.	Executive Director
11	Financial reserves are too low to meet unforeseen circumstances	1. Progress is limited by lack of resources and reporting requirements 2. Subsequent levy increases are large.	Finance	2	2	2	2	Medium Term financial strategy. Risk Management strategy. Joint strategies with Borough and Contractor.	Maintain risk register. Maintain reserves at adequate level. Keep insurances under review.	Financial Director



ID Number	Risk Description	Consequences	Category	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
				Gross	Net	Gross	Net			
7	Failure to effectively manage waste in accordance to regulations	1. Site closures 2. Waste not dealt with 3. Fines 4. Adverse media attention	Environmental	1	1	3	3	Contract Monitoring arrangements. Maintain high level of national involvement and expertise.	Penalty regime. Contractor contingency plans. Change of law provisions in IWMS Contract.	Executive Director
10	Serious breach of compliance with new legislation	1. Site closures 2. Extra costs on remediation. 3. Adverse impact on reputation 4. Prosecution 5. Financial penalties	Legislative	1	1	3	3	Contract Monitoring arrangements. Maintain high level of national involvement and expertise.	Penalty regime. Contractor contingency plans. Change of law provisions in IWMS Contract.	Executive Director

**KEY TO GROSS/NET LIKELIHOOD AND IMPACT**

Gross Likelihood - Risk of occurrence on a scale of 1 to 4 (see Risk Matrix Definitions in attached table.)

Net Likelihood - Risk of occurrence on a scale of 1 to 4 after the application of High Level Controls and Mitigation Controls (see Risk Matrix Definitions in attached table.)

Gross Impact - Cost (financial and non financial) of occurrence on a scale of 1 to 4 (see Risk Matrix Definitions in attached table.)

Net Impact - Cost (financial and non financial) of occurrence on a scale of 1 to 4 after the application of High Level Controls and Mitigation Controls.

**KEY TO HIGH LEVEL CONTROL AND MITIGATION CONTROL COLUMNS IN TABLE ABOVE**

**BACKGROUND INFORMATION FOR THE COMPILATION OF THE RISK REGISTERS**

- A Reports to ELWA on Closed Landfill Sites in 2004, 2005 and 2006
- B Reports to ELWA on London Governance and Review of the Mayor's powers 2005 and 2006
- C Work Plan Monitoring ELWA Management Board 2005 and 2006
- D IWMS Contract Provisions 2002
- E ELWA Constitution
- F Joint Waste Management Strategy 2005
- G Medium Term Financial Forecasts and Levy Reports annually
- H Internal Control and Fraud Awareness Reviews 2005
- J Contingency Reviews in Service Delivery Plans

ID Number	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
3	Trespass on closed landfill site leading to death / serious injury	1. HSE / Police investigation 2. Adverse national media attention 3. ELWA security provisions called into question	2	2	3	3	Quarterly review of site security. Appropriate signage	Insurance cover.	General Manager
4	Closure of a key waste site	1. Service to Boroughs disrupted 2. Significant costs if a long period.	2	2	3	2	Contractor contingency plans.	Penalty regime on contractor.	General Manager
5	Major Health & Safety event	1. HSE / Police investigation 2. Adverse national media attention 3. ELWA safety provisions called into question	2	2	3	2	Contractual requirements. Landlord requirements.	Penalty regime on contractor. Contractor Health and Safety procedures monitored.	General Manager
6	Major failure of technology e.g. shakers / pushers / rubbers	1. Performance is poor 2. Viability of contract is in doubt	3 (previously 2)	2	3	2	Contractual performance requirements.	Penalty regime on contractor. Contractor insurance cover.	General Manager
11	Risk of enforcement due to failure to comply	1. Contractor's costs increase 2. Indicator of that viability of contract is in doubt	2	2	3	2	Contractual performance requirements.	Penalty regime on contractor. Contract monitoring.	Executive Director
14	Fraudulent activity (both in terms of the contract and internal)	1. Termination of contract if contractor 2. Criticism by Government / District Audit 3. Service performance jeopardised	2	2	3	2	Authority's anti fraud and corruption strategy. Contractual provisions on corrupt gifts and fraud.	Insurance. Internal and external audit.	Financial Director
2	Closure of public waste disposal site	1. Unable to receive waste from public 2. Potential for fly tipping near the site 3. Adverse local media attention 4. Poor perception of the Authority	3	2	2	2	Contractual performance requirements.	Penalty regime on contractor.	General Manager

ID Number	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
8	Extreme weather conditions e.g. Heavy snow, flood	1. Failure to transfer waste to landfill sites 2. Backlog of waste 3. High cost of clearance	3	3	2	2	Contractual service requirements.	Contractor contingency plans. Thames Barrier.	General Manager
9	Discovery of hazardous substances	1. Suspension of activities 2. Cost of removal and treatment of substances	3	3	2	2	Contractual service requirements.	Specific contractor arrangements for hazardous waste. Contingency plans.	General Manager
10	Failure to meet stakeholder expectations	1. Criticism of ELWA and ELWA Ltd 2. Reputations damaged	3	2	2	2	Maintain dialogue with stakeholders. Consultation on strategies.	Proactive public relations. Further review strategies and service delivery plans.	Executive Director
1	Loss of Arden House and documents contained within	1. Unable to access important documents 2. Loss of critical data 3. Monitoring and reporting are weakened	2	2	2	2	Landlord responsibilities for accommodation. Daily IT backup by LBBB	Key contractual documents held elsewhere (Wragge & Redbridge). IT link up for home-working or hot desking within LBBB. Insurance	Office Manager
7	High level of customer complaints	1. Poor perception of the Authority 2. Adverse media attention 3. Indicator of contractor failure?	2	2	2	2	Contractual service requirements. Complaints monitoring systems.	Penalty regime on Contractor. Contract monitoring by ELWA, Boroughs and LBR	Contracts Manager
13	Environmental incidents on landfill site e.g. leachate overflow	1. High cost of remediation and correction 2. Adverse media attention	2	2	2	2	Site engineering pre 1990. Risk assessments in 2005	Bi annual testing regime.	General Manager

ID Number	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
15	Poor performance of collecting authorities	1. Failure to meet Borough recycling targets. 2. Failure to meet ELWA Pooled/Contractual Targets	2	2	2	2	Requirements upon collection authorities in IWMS Contract. Annual Service Delivery Planning by partners. Monthly provision of information by contractor.	Meetings of Board and Directors of Environment. Public and stakeholder pressure on collection authorities for improvements.	Executive Director
17	Asset obsolescence over the term of the contract	1. Contract renegotiation required if performance falls 2. Contract renegotiation if targets changed and assets do not	2	2	2	2	Contractual provisions on Maintenance, Defects etc. Performance requirements in Contract. 'Change' provisions in Contract.	Penalty and Performance Regime. Contract Monitoring Regime.	
12	Lone working (both office and site)	1. Personal attack on a member of staff 2. Personal injury/incapacity not discovered	4	3	1	1	Risk assessments.	Security arrangements with Arden House. Working practices and communication equipment on sites.	Executive Director
	Insufficient waste produced to meet contract assumptions	1. Cost per tonne increases - inefficiencies arise	1	1	2	2	Specific arrangements IWMS Contract re minimum tonnages. Service Delivery Planning with Boroughs and Contractor.	Contractual requirements to mitigate costs. Thames Gateway development.	Executive Director

ID Number	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
18	Excess waste produced	1. New negotiation/tendering process for excess	1	1	2	2	Specific arrangements in IWMS Contract for re tendering excess. Service Delivery Planning with Boroughs and Contractor.	National and local waste minimisation initiatives.	Executive Director

**KEY TO GROSS/NET LIKELIHOOD AND IMPACT**

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**KEY**

**KEY TO HIGH LEVEL CONTROL AND MITIGATION CONTROL COLUMNS IN TABLE ABOVE  
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- J Contingency Reviews in Service Delivery Plans and Service Level Agreements

# Application of the Risk Registers to the Risk Matrix

Gross Strategic Risk items placed in a Matrix

Likelihood				Almost Certain (4)				
	Likely (3)	12	1, 13	9				
	Unlikely (2)	4, 11	2, 3, 5	6, 8				
	Improbable (1)		7, 10		Minimal (1)	Moderate (2)	Critical (3)	Catastrophic (4)
					Impact			

Gross Operational Risk items placed in a Matrix

Likelihood				Almost Certain (4)	12			
	Likely (3)	2, 8, 9, 10						
	Unlikely (2)	1, 7, 13, 15, 17	3, 4, 5, 6, 11, 14	16				
	Improbable (1)	18			Minimal (1)	Moderate (2)	Critical (3)	Catastrophic (4)
					Impact			

# Application of the Risk Registers to the Risk Matrix

Net Strategic Risk items placed in a Matrix

Likelihood	Almost Certain (4)					
	Likely (3)					
	Unlikely (2)	2,3,4,11,12,13	1,5,8,9	6		
	Improbable (1)		7, 10			
		Minimal (1)	Moderate (2)	Critical (3)	Catastrophic (4)	Impact

Net Operational Risk items placed in a Matrix

Likelihood	Almost Certain (4)				
	Likely (3)	12	8,9		
	Unlikely (2)	16	1,2,4,5,7,10,11,13,15,17	3	
	Improbable (1)		18		
		Minimal (1)	Moderate (2)	Critical (3)	Catastrophic (4)

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**APPENDIX C3  
Risk Matrix Definitions**

<b>Likelihood</b>	<b>0% - 5%</b>	<b>6% - 35%</b>	<b>36% - 75%</b>	<b>76% - 100%</b>
<b>Likelihood Assessment In Matrix</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>

<b>Impact</b>	<b>Minimal</b>	<b>Moderate</b>	<b>Critical</b>	<b>Catastrophic</b>
<b>Cost</b>	<b>&gt;£10k</b>	<b>&gt;£10k &lt;£500k</b>	<b>&gt;£500k &lt;£2m</b>	<b>&gt;£2m</b>
<b>Service</b>	<b>Minor disruption</b>	<b>Service disruption</b>	<b>Significant disruption</b>	<b>Total service loss</b>
<b>Reputation</b>	<b>Isolated complaints</b>	<b>Adverse local media coverage</b>	<b>Adverse national media coverage</b>	<b>Ministerial intervention</b>
<b>Impact Assets in Matrix</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>

The table above illustrates the impact definitions in terms of cost, service disruption and damage to reputation. When scoring risks it is essential that this table be adhered to ensure consistency.

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(Contact Officer: Tony Jarvis - Tel. 020 8270 4965)

## EAST LONDON WASTE AUTHORITY

05 FEBRUARY 2007

### EXECUTIVE DIRECTOR'S REPORT

<b>CONSULTATION STRATEGY - DRAFT</b>	<b>FOR CONSIDERATION</b>
--------------------------------------	--------------------------

#### **1. Purpose**

- 1.1. To consider a draft Consultation Strategy.

#### **2. Background**

- 2.1 At the last meeting of the Authority, the External Auditors presented their Annual Governance Report. In the section of their report dealing with Use of Resources, the Auditors made a recommendation that the Authority should approve a formal consultation strategy.

#### **3. Considerations**

- 3.1 The Authority recently conducted a significant consultation process prior to the approval in April 2006 (Minute 1416) of the Joint Waste Management Strategy. A summary of that process is included at Appendix A.
- 3.2 The nature and scope of any future consultations are likely to be heavily dependent upon the subject matter and also dependent upon whether the major impact falls, for example, upon all householders or on the Constituent Councils.
- 3.3 There are no further large scale consultation exercises anticipated at present by officers. However, it is to be noted that there will be a consultation shortly by the four Constituent Councils in respect of land use for waste management across the four Councils as part of the process to produce a Waste Development Plan Document (DPD).
- 3.4 In the absence of a specific consultation subject matter the Consultation Strategy must necessarily be a broad scoping document. A first draft is attached at Appendix B.
- 3.5 This draft will be reviewed in due course when best practice examples are available following other waste disposal authority responses to this requirement.

#### **4. Proposed Headline Consultation Strategy**

- 4.1 The draft headline strategy is set out in paragraph 3.1. of Appendix B. This suggests as follows: In general terms the intention is to conduct some form of an in depth consultation process every 3 to 5 years. This is likely to be related to the periodic review of the Joint Waste Management Strategy. In addition specific consultation processes will be developed relating to specific issues as changes are considered in respect of services. These may arise, for example, from legislative change.

## **5. Recommendation**

5.1 Members are recommended to:-

- i) consider the draft Consultation Strategy at Appendix B;
- ii) approve this, subject to amendment, as a provisional strategy;
- iii) receive a further report prior to any significant consultation process, in order to confirm this first draft meets the requirements of the specific consultation at that time.

Tony Jarvis  
**EXECUTIVE DIRECTOR**

Appendix

- A Consultation process leading up to the approval of the Joint Waste Management Strategy 2005
- B Draft Consultation Strategy

### What consultation was undertaken and why?

Government advice for the Development of Municipal Waste Management Strategies (2005) states that both stakeholders and the community should be involved in developing Municipal Waste Management Strategies (MWMS):

“Authorities should also engage the local community and other external partners innovatively and actively at an early stage. Appropriate consultation should be continued throughout the strategy development process”.

ELWA engaged its community through a range of consultations and approaches in an attempt to gain feedback and information to assist with preparing the joint MWMS. This engagement was part of the original strategy development process and constitutes a continuing feature of long-term waste management.

The variety of methods used included: door-knocking; publication of waste articles; discussions with specially established public reference groups; distribution of a waste management leaflet; an internet-based questionnaire; specific consultation sessions with key stakeholders; newsletters; the inclusion of waste issues in other public realm consultations; responding to comments and complaints; outreach waste awareness events for community forums; an educational visits programme; visitor centres at key sites.

### Summary of Community Consultation specifically for the Strategy Review

- **Survey**  
The community supported the waste management options that had been chosen. It believed that industry should take more responsibility for waste production and that the community should pay for waste generation. Education and publicity were highlighted as being crucial in reducing waste and increasing recycling.
- **Stakeholder feedback**  
ELWA received specific feedback from the Environment Agency and the London Community Recycling Network.
- **Reference groups**  
Reference groups (consisting of residents of the four boroughs) agreed that recycling is the preferable step to divert biodegradable waste from landfill. Some groups highlighted the need for education and a more comprehensive recycling system to assist with meeting recycling targets.
- **Door knocking**  
The door-knocking campaign that was conducted across all boroughs resulted in 51,676 face to face interviews. Residents suggested that bags should be given out more regularly and that they were more likely to recycle materials that are collected at the kerbside. Other residents suggested that a kerbside green waste collection would be useful, as well as information on how to home compost.

ELWA communities recommend that:

- efforts be made to increase recycling
- landfill be the last resort
- services be provided to the whole community
- a comprehensive waste communication plan be developed and delivered
- home composting is included
- the strategy should remain flexible to change; and
- industry should be encouraged to reduce packaging materials.

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**EAST LONDON WASTE AUTHORITY  
DRAFT CONSULTATION STRATEGY**



## **1. Purpose**

- 1.1 The purpose of this consultation strategy is to outline the processes ELWA will follow to identify consultation needs and then conduct consultation exercises.
- 1.2 This strategy is designed to be a 'live' document that will be updated to reflect lessons learnt throughout the process and include additional policy and guidance. The date of the original document is February 2007.

## **2. The broad requirements for consultation**

- 2.1 A key element of household waste management is the early and continuous involvement of the wider community in the planning and management of waste.
- 2.2 The Defra Practice Guide for the Development of Municipal Waste Management Strategies (2005) states that both stakeholders and the community should be involved in developing Municipal Waste Management Strategies (MIWMS):

*“Authorities should also engage the local community and other external partners innovatively and actively at an early stage. Appropriate consultation should be continued throughout the strategy development process.”*

- 2.3 The planning process \* for new developments recommend that:
- a) Community involvement is an essential element in delivering sustainable development and creating sustainable and safe communities;
  - b) waste planning strategies should reflect the concerns and interests of communities, the needs of waste collection authorities, waste disposal authorities and business, and encourage competitiveness;
  - c) front load the preparation of strategies by facilitating early involvement and securing inputs from the community and all stakeholders;
  - d) in addition to communities and stakeholders above consultations should include:-
    - (i) specific consultation bodies to the extent that the proposed subject matter affects the body; and
    - (ii) general consultation bodies considered appropriate.
- 2.4 In addition to front loaded community consultation, it is important that key Members from each Council are fully involved from the outset to ensure ownership of the outcome.

## **3. The proposed Strategy**

- 3.1 In general terms the intention is to conduct some form of an in depth consultation process every 3 to 5 years. This is likely to be related to the periodic review of the Joint Waste Management Strategy. In addition specific consultation processes will be developed relating to specific issues as changes are considered in respect of services. These may arise, for example, from legislative change.

## 4. Information and Participation

4.1 The table below summarises the span of activities ranging from the provision of information to the active engagement in participation.

- |               |   |
|---------------|---|
| Information   | • Press   |
|               | • Website                                       |
|               | • Citizen magazines                             |
|               | • Members magazines                             |
|               | • Mailing to interested groups & database       |
|               | • Consider establishing Members' steering group |
|               | • 1 to 1 meetings with key partners             |
| Participation | • Form external stakeholder group               |
|               | • Internal stakeholder group                    |
|               | • Visits to local groups/focus groups           |
|               | • Community forums                              |
|               | • Updates to relevant groups                    |
|               | • Equality forums                               |
|               | • Displays/exhibitions                          |

### 4.2 Provision of Information

- Used to increase understanding and awareness, update on progress, promote participation opportunities, provide contact details, source for further information

Method - Examples	Implementation
Distribution of leaflets	Inform and request for further involvement. Distributed to contacts databases. Distribute to stakeholders' list.
Display boards/publicity posters [based on leaflet].	Distributed as appropriate/possible
Media publicity – local press, TV, radio, display boards	Press notice where appropriate. Distribution to local list of magazines/papers.
Authority and Council websites	Update websites with current information and progress.



### 4.3 Participation

- Consulting with and involving key stakeholders and the community. Provides opportunity for two-way dialogue.

Method	Implementation
Internal stakeholder group [including Members]	Focus on service related issues. Include 1 to 1 meetings as appropriate with feedback [including record of consultation.
External stakeholder group	Workshops/meetings with identified waste stakeholders. Across ELWA area. Include 1 to 1 meetings as appropriate.
Focus groups/thematic groups	Identify community waste focus group, for example, previous ELWA groups plus any responses to Information consultation [leaflet/press]. Aim to involve continuously, build on knowledge.
Community forums [including Members]	'Information presentations' and invitation for feedback to arranged meetings of borough Community forums. Borough staff to attend.
Public exhibitions and displays	For example, at local shopping centres and at events in Parks.

## 5. Specific Consultees

5.1 Specific consultation will also be undertaken with the environmental bodies (the Countryside Agency, English Heritage, English Nature and the Environment Agency).

## 6. Organisation of consultation events

6.1 Consultation events will be organised including advertisements, mailshots, invitations, venue, equipment, catering (except for borough Community Forums which are usually organised by the Boroughs). Consultants may be appointed at each stage are to prepare consultation documents and facilitate workshops where appropriate.

6.2 Formal public consultation throughout the process will be managed including:-

- a standard consultation letter ;
- a specific consultation letter to, for example, statutory consultees.

6.3 Following each episode of public consultation a draft **consultation statement** will be prepared (with appointed consultant input where necessary). The statement will include statutory consultees and all other respondents.

Annexes	
A	Draft long list of External Stakeholders from which relevant consultees may be identified.
B	Waste Focus Groups (to be completed at the time – <i>Not attached to this draft</i> ).
C	Draft central database(to be maintained on a rolling basis – <i>Not attached to this draft</i> ).

## EXTERNAL STAKEHOLDER GROUP

- City of London Corporation
- Defra
- East of England Development Agency
- Environment Agency
- Essex County Council
- Government Office for London
- Greater London Authority
- Local Health Authorities and Trusts
- Highways Agency
- London Borough of Tower Hamlets
- London Development Agency
- London Remade
- London Thames Gateway Development Corporation
- Olympic Organisations
- Port of London Authority
- Public Utilities
- Shanks.Waste Management and other Waste Organisations/Operators
- Thames Gateway London Partnership
- Thurrock Urban Development Corporation
- The Strategic Rail Authority (SRA)

DRAFT

(Contact Officer: John Wilson - Tel. 020 8270 4997)

## EAST LONDON WASTE AUTHORITY

05 FEBRUARY 2007

### GENERAL MANAGER'S REPORT

<b>TESTING THE BIODEGRADABILITY OF WASTE</b>	<b>FOR APPROVAL</b>
--	---------------------

#### 1 Purpose

- 1.1 To seek the allocation of £100,000 from the 2007/08 contingency to meet the requirements of the Environment Agency in respect of the monitoring of landfilled wastes.

#### 2 Background

- 2.1 In February 2005 (Minute 1338), Members approved a response to the Environment Agency (EA) in reply to their consultation proposals on monitoring (the biodegradability) of waste from mechanical biological treatment (MBT) facilities. The EA's monitoring requirements stemmed from the provisions of the Waste and Emissions Trading Act and the landfill allowances regime that limits and controls the amount of biodegradability waste sent to landfill.
- 2.2 The Authority's response expressed concerns about the EA proposals on a number of grounds including:
- i) the tests being proposed were unnecessarily complex;
  - ii) there were more reliable and more straight forward ways of measuring the biodegradability of landfilled waste;
  - iii) the additional costs of the testing regime proposed was excessive and not proportionate (costs of £360,000 pa in the first year were being suggested by the EA for ELWA).
- 2.3 The final Guidance on monitoring MBT processes for the landfill allowances scheme was issued in August 2005. Whilst offering slightly more pragmatic and flexible approach to monitoring, the final Guidance still requires a multiple testing regime of some complexity.
- 2.4 It is, however, to be noted that it is in ELWA's interests that some form of monitoring regime is agreed. It is essential for ELWA to understand the performance of the Bio MRF in respect of any reductions in biodegradability because of the new landfill allowances regime. The latter limits the amount of biodegradability waste that can be landfilled in any one year.
- 2.5 Accordingly, in April 2006 (Minute 1418) Members approved a contingency for the first year testing of the biodegradability of the output from the Frog Island Bio MRF. A contract with WRc for this testing is in place and the first full year of testing has been deferred and will be for the period January 2007 to December 2007. There will be a need to continue testing, albeit on a reduced frequency, during the last financial quarter of 2007/8 and the funding required will amount to approx £15,000.

2.6 Meanwhile Jenkins Lane Bio MRF will also begin receiving waste in April 2007 and a similar testing regime needs to be commissioned for this facility, commencing July 2007. This testing will reflect the Frog Island requirements i.e. an initial in depth assay for the first year and then a reduced frequency and complexity of sampling in subsequent years. The approximate cost of testing, including transporting these samples to the laboratories, is approximately £85,000 in respect of the first year at Jenkins Lane.

### **3 Financial Implications**

- 3.1 The cost of testing the biodegradability of landfilled waste to meet EA guidance falls to be met by the Authority but the benefit of any reduced biodegradability resulting from the MBT process will also benefit the Authority. That is because less Landfill Allowances will be used when residues are landfilled if the organic content can be demonstrated (by WRc testing) to have been reduced by the Bio MRF process.
- 3.2 An allocation of £75,000 was made for the contingency for the first year testing of the Frog Island output.
- 3.3 A further allocation of £100,000 is required from the contingency for the next phase of testing in 2007/08.
- 3.4 From 2008/09 the ongoing cost of biodegradability testing should be much reduced, because the EA requirements are much reduced after the first full year of operation,

### **4 Recommendations**

- 4.1 Members are recommended to:-
- i) approve the withdrawal of £100,000 from the contingency to meet the EA requirements in year 2007/08 for testing the biodegradability of landfilled waste;
  - ii) receive a further report in due course when the results are available.

John Wilson  
**GENERAL MANAGER**

### **Background Papers**

- |   |             |  |
|---|-------------|--|
| A | 07.02.05    | Report - Monitoring the Diversion of Biodegradable Waste – ELWA's draft response   |
| B | 10.04.06    | Report -Testing the Biodegradability of Waste  |
| C | August 2005 | Guidance on monitoring MBT and other pre-treatment processes for landfill allowances schemes. August 2005. The Environment Agency. |

*(Contact Officer: John Wilson - Tel. 020 8270 4997)***EAST LONDON WASTE AUTHORITY****05 FEBRUARY 2007****GENERAL MANAGER'S REPORT**

<b>CONTRACT PERFORMANCE APRIL to DECEMBER 2006</b>	<b>FOR INFORMATION</b>
--	------------------------

**1 Purpose**

- 1.1 To report on the performance of Integrated Waste Management Strategy (IWMS) Contract for the period April to December 2006.

**2 Tonnage Data and Contract Payments**

- 2.1 Attached at Appendix A are tables showing tonnage data and contract payments for April to December 2006. Waste flows continue to run close to the predictions and at December 2006 actual tonnages are 1% lower than the budget.

**3 Site Operations**

- 3.1 All Reuse and Recycling Centres (RRC) sites are establishing a consistent operational practice in accordance with the Contract. All the sites managed the Christmas holiday period smoothly.
- 3.2 Jenkins Lane - The development of the new Bio MRF is on target despite problems with the equipment supplier going into liquidation. It is expected that testing should still begin in April by rearrangement of some of the equipment delivery schedules.
- 3.3 Ilford Recycling Centre – No problems occurred at this site with all wastes being processed as received.
- 3.4 Frog Island. This was the first Christmas/New Year operational period for this new facility and despite the anticipated increase in wastes over this period deliveries were accepted without undue delays to the collection vehicles. This however was not achieved without severe pressure at times. The capacity of the reception pits to receive waste at any one time is governed by the efficiency of the plant moving this waste through the Bio MRF building. Breakdowns to the internal equipment at times caused the waste not to be moved quickly enough. The major delaying factor was the breakdown of Optibag system (which extracts the orange bags). Even with this functioning efficiently the rate of processing was much slower than the rate of input to the reception pits at peak times. Lessons have been learnt for the future.
- 3.5 It was always anticipated that during commissioning of the new plant some Orange bags would not be recycled. However the extent of this loss was not appreciated until after the commissioning had begun and the results assessed. Havering was initially affected as they were the first deliveries being processed in June. Barking & Dagenham began the delivery of co-mingled wastes in October. That caused further problems because of the nature of the bulky wastes collected from their 'Clear All' policy. Major obstructions occurred to the Optibag plants as mentioned above. This meant the ability to separate the recyclates fell during this period. An

immediate appraisal of the problems and solutions was made and a series of changes in plant design and operational practises have been made or are in the process of being implemented.

- 3.6 Thus, Havering and Barking recycling performance suffered during plant commissioning during 2006. The 'lost' recyclates would add approximately 0.7% to Shanks' contract recycling performance for 2006/07 and the impact on Barking & Dagenham and Havering recycling performance is demonstrated at the bottom of Appendix C.
- 3.7 The ELWA Management Board considered these issues on 22<sup>nd</sup> January and decided to engage more closely with senior management at Shanks in respect of current recycling performances.

#### **4 Conclusion**

- 4.1 The operations at the RRC sites are now into a routine and over the holidays no significant queuing or delays occurred. This was due to a mixture of the expected low inputs and winter weather. The Bring Sites had their expected surge of bottles and cans post Christmas but no complaints or delays in emptying these sites were reported.
- 4.2 The major concern has been the final commissioning of the new technologies at the Frog Island plant and its impact on recycling performance. Various problems were encountered each month. Fortunately these incidents are now reducing and it is a matter of working to eliminate or mitigate those remaining. The effects are constantly under review and all efforts are being made to achieve expected performances.
- 4.3 The contract recycling rate has increased from 12.44% (2005/6) to an average 14.66% for this period. It would have been 0.7% higher but for the 'lost' recycling on commissioning and another 1% higher if the refinement section had been operating as planned in the Autumn. In order for Shanks to reach the 18% average required under the Contract for 2006/07, secondary recycling from the Bio-MRF refining section would have to be significantly increased over the next few months. This now seems unlikely to occur as the 'screens' in the refining section will need to be modified or replaced in order to extract the finer fragments of glass.
- 4.4 Appendix A shows overall tonnages and financial performance.
- 4.5 Appendix B shows overall Recycling and Composting tonnages for 2006/7 and is important for the Landfill Allowances Trading Scheme (LATS) calculations.
- 4.6 The table on Appendix C shows actual 'Contract' recycling performance to December compared to the predicted levels in the ABSDP for 2006/07. This demonstrates an underperformance described in paragraph 4.3. The second table on Appendix C shows Borough and ELWA BVPI Recycling Performance to date compared to the ABSDP. Note that the definitions and calculations of BVPI Recycling Performance are different to those used for Contract Recycling Performance.
- 4.7 On the positive side the sale of the Secondary Recovered Fuel (SRF) to cement kilns has been strong and tonnage diverted from landfill is therefore beginning to out perform contracted requirements. Thus although recycling is struggling to meet our

targets, diversion from landfill is exceeding expectations. This is a new plant and in many respects a prototype, and for all concerned isolating and dealing with the problems will continue. Clearly lessons learnt from Frog Island will be applied in the final set up of Jenkins Lane.

4.8 The performance against LATS for April to December is shown at Appendix D, i.e. a surplus of Allowances.

## **5 Recommendation**

5.1 Members are asked to:-

- i) note this report.

John Wilson  
**GENERAL MANAGER**

## **Appendices**

- A Contract Performance
- B Contract Waste Recycling Performance
- C Contract recycling performance compared to ABSDP 2006/07  
BVPI recycling performance compared to ABSDP 2006/07
- D Performance against LATS target

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## Appendix A

### Contract Performance

	Contract Tonnages						Contract Sums £K		
	ABSDP		Actual Tonnage		RRC Tonnage		2005/6	2006/7	
	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	Actual	ABSDP	Actual
<b>April</b>	47849	45511	44545	40573	8983	8178	£2,514	£2,869	£2,658
<b>May</b>	44982	43378	42459	45523	8131	8484	£2,437	£2,746	£2,869
<b>June</b>	49018	47851	46924	48144	8455	9533	£2,600	£3,006	£2,954
<b>July</b>	46426	42148	41270	41277	6703	6913	£2,524	£2,767	£2,695
<b>August</b>	43667	42771	41833	42113	6460	6963	£2,562	£2,806	£2,732
<b>September</b>	46496	45056	44039	42869	7131	7617	£2,632	£2,943	£ 2758
<b>October</b>	45482	40311	39631	41114	5674	6113	£2,481	£2,655	£2705
<b>November</b>	39943	40915	40335	40719	4782	5533	£2,496	£2,688	£2667
<b>December</b>	40084	38838	37062	35895	3795	4418	£2,395	£2,565	£2,471
<b>January</b>	42937	38244	37801		4169		£2,407	£2,528	
<b>February</b>	38371	35448	34619		4387		£2,273	£2,343	
<b>March</b>	42444	40960	39498		4766		£2,440	£2,698	
<b>Total</b>	527699	501431	490016	378227	73436	63752	£29,761	£32,614	£24,509

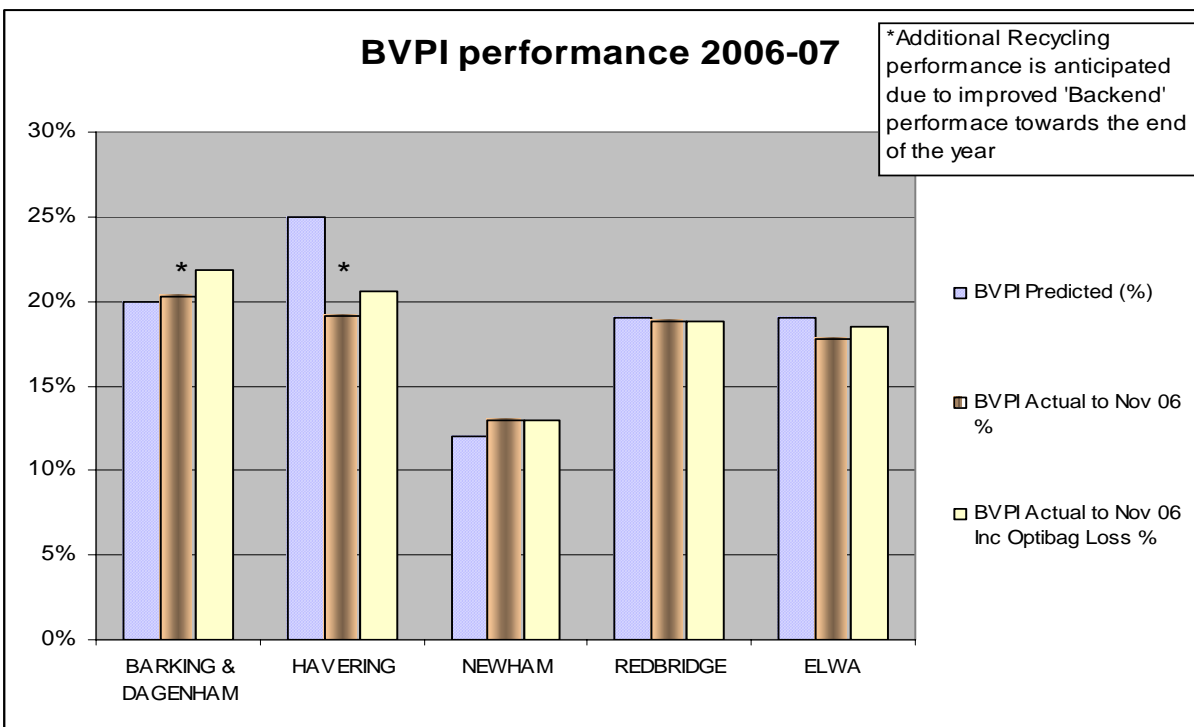
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## Appendix B

### Contract Waste Recycling Performance

Month	Recycling				Composting				Total Recycling			
	Tonnages		Percentage		Tonnages		Percentage		Tonnages		Percentage	
	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7	2005/6	2006/7
<b>April</b>	3,802	4256	8.54%	10.49%	1,809	1596	4.06%	3.93%	5,611	5852	12.66%	14.42%
<b>May</b>	3,629	4249	8.55%	9.33%	2,169	2658	5.11%	5.84%	5,798	6907	13.66%	15.17%
<b>June</b>	3,567	4130	7.60%	8.58%	2,189	2822	4.67%	5.86%	5,756	6952	12.27%	14.44%
<b>July</b>	3,461	4129	8.39%	10.00%	1,574	1843	3.81%	4.46%	5,035	5972	12.20%	14.47%
<b>August</b>	3,840	4526	9.18%	10.75%	1,672	1572	4.00%	3.73%	5,512	6098	13.18%	14.48%
<b>September</b>	3,543	5152	8.04%	12.02%	1,781	1942	4.05%	4.53%	5,324	7094	12.09%	16.55%
<b>October</b>	3,969	4145	10.02%	10.08%	1,591	1600	4.01%	3.89%	5,560	5745	14.03%	13.97%
<b>November</b>	3,784	4370	9.38%	10.73%	1,064	1356	2.64%	3.33%	4,848	5728	12.02%	14.06%
<b>December</b>	3,690	4097	9.96%	11.41%	784	1002	2.11%	2.79%	4,474	5099	12.07%	14.21%
<b>January</b>	3,608		9.54%		710		1.88%		4,318		11.42%	
<b>February</b>	3,359		9.70%		651		1.88%		4,010		11.58%	
<b>March</b>	3,994		10.11%		729		1.85%		4,723		11.96%	
<b>Accumulative Total</b>	<b>44,246</b>	<b>39054</b>	<b>9.03%</b>	<b>10.33%</b>	<b>16,723</b>	<b>16390.8</b>	<b>3.41%</b>	<b>4.33%</b>	<b>60,969</b>	<b>55444.8</b>	<b>12.44%</b>	<b>14.66%</b>

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DESCRIPTION	BARKING & DAGENHAM	HAVERING	NEWHAM	REDBRIDGE	ELWA
<b>BVPI Predicted (%)</b>	<b>20%</b>	<b>25%</b>	<b>12%</b>	<b>19%</b>	<b>19%</b>
<b>BVPI Actual to Dec 06 %</b>	<b>19.9%</b>	<b>18.4%</b>	<b>13.0%</b>	<b>18.5%</b>	<b>17.2%</b>
<b>BVPI Notional to Dec 06 if Optibag Losses included %</b>	<b>21.4%</b>	<b>19.9%</b>	<b>13.0%</b>	<b>18.5%</b>	<b>17.9%</b>

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## Appendix D

### Performance against LAT'S Target

Month	Contract Waste		LANDFILL		LATS	
	Tonnage	Biodegradable	Tonnage	Biodegradable	Target	Surplus
April	40,573	28,401	30,286	21,200	25,171	3,971
May	45,523	31,866	31,410	21,987	25,171	3,184
June	48,144	33,701	32,339	22,637	25,171	2,533
July	41,277	28,894	28,609	20,026	24,570	4,544
August	42,113	29,479	26,337	18,436	24,570	6,134
September	42,869	30,008	26,086	18,260	24,570	6,310
October	41,114	28,780	26,463	18,524	22,674	4,150
November	40,719	28,503	26,548	18,584	22,674	4,090
December	35,895	25,126	24,219	16,954	22,674	5,721
January					22,443	
February					22,443	
March					22,442	
<b>Accumulative Total</b>	<b>378,226</b>	<b>264,758</b>	<b>252,297</b>	<b>176,608</b>	<b>284,573</b>	<b>40,637</b>

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(Contact Officer: Geoff Pearce/Jay Gohil - Tel. 0208 708 3588/5086)

## EAST LONDON WASTE AUTHORITY

05 FEBRUARY 2007

### FINANCE DIRECTOR'S REPORT

<b>REVENUE &amp; CAPITAL ESTIMATES AND LEVY 2007/08</b>	<b>FOR APPROVAL</b>
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#### **1 Executive Summary**

- 1.1 This report covers the various issues that relate to the financial position of ELWA in 2007/08 in the context of a financial strategy for the next three years.
- 1.2 Following detailed work on the budgets, an increase in the ELWA levy for 2007/08 of 8.3% is now recommended after applying the projected revenue underspend of £580,000 and unutilised contingency of £750,000 in respect of 2006/07 to support the 2007/08 levy. At your last meeting the medium term financial plan highlighted that an increase in the region of 10.3% might be necessary.
- 1.3 ELWA Members will understand the impact of its levy on the Boroughs' Budgets and Council Taxes and therefore as in previous years, 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 long-term view on the budget strategy. Although, the risks currently faced by the Authority are stabilising and reducing it is likely that ELWA will face further volatility and uncertainty in the future and financial pressures cannot be ruled out.
- 1.4 A continued prudent level of reserves is again recommended to ensure levy stability in future years because of the uncertainties faced by the Authority. These include pressures connected with the overall level of waste tonnages, the introduction of new technologies, new European Union (EU) and Government regulations and the need to manage the scheduled increases in Integrated Waste Management Strategy (IWMS) contract costs over the next few years.
- 1.5 The ELWA Management Board supports the contents and recommendations, and the Finance Services of each Constituent Council have been briefed on the issues, in this report.

#### **2 Introduction**

- 2.1 This report presents the draft Revised Revenue and Capital Estimates for 2006/07 and the Original Revenue and Capital Estimates for 2007/08. Members are asked to consider the Estimates and determine the levy for 2007/08.
- 2.2 The key strategic themes of this report were set out in the Financial Projection and Budget Strategy 2007/08 to 2009/10 report presented to, and agreed by, Members at the last meeting.

### **3 Underlying Cost Increases**

3.1 The key financial pressures in the preparation of the ELWA levy are as follows:

- significant increase in the IWMS contract cost in 2007/08 which reflects the investment by Shanks.east London of significant sums in the waste management facilities across ELWA needed to meet the Government's targets for increased recycling and diversion from landfill;
- rising volumes of waste being anticipated within the four Councils. The overall forecast for 2007/08 is 506,000 tonnes (1% increase) which is of a similar order to 2006/07. This key tonnage projection was part of the ABSDP reported to and agreed at the last ELWA meeting and is a given for the purposes of setting the 2007/08 levy;
- general rise in the cost of waste disposal including higher taxation (e.g. a further increase in landfill tax of £3 per tonne in each of the next few years);
- the implications of recent EU and UK legislation on particular issues such as Landfill Allowances Trading Scheme (LATS), hazardous waste etc;
- the need to hold a reasonable level of reserves against foreseeable contract cost increases and against operational risks; and
- inflation (the forecast is an increase of between 2.5% to 4.0%).

3.2 The financial year 2007/08 will be the fifth full year of ELWA's IWMS Contract with Shanks.east London which makes up a large part of ELWA's budget. The delivery of the service is controlled by Service Delivery Plans and each year there is an Annual Budget and Service Delivery Plan (ABSDP). The data in the 2007/08 ABSDP underpins the 2007/08 levy report. The ABSDP was the subject of a report to the last ELWA meeting and that report included the main operational and financial summaries relating to 2007/08. This report was agreed by Members and therefore, ELWA's major expenditure item is a given for the purposes of setting the 2007/08 levy.

3.3 Boroughs will continue to benefit from the annual net revenue savings following the transfer of the operation and management of their Civic Amenity and Recycling sites to Shanks.east London. These costs are now included in the ELWA levy via the contractual payments to Shanks.east London. ELWA pays a market rent to the Councils for the lease of these sites which is also included in the levy.

3.4 Also, ELWA and its Constituent Boroughs benefit directly from significant additional revenue funding in the form of Private Finance Initiative (PFI) credits. Constituent Boroughs may also directly receive extra funding from Government for waste initiatives.

### **4 Legal Background to Levy**

4.1 ELWA is required to inform the Constituent Councils as to the amount of its levy by the 15 February each year. The levy is made by issuing a demand to each Council, specifying the dates on which payment is to be made and the amounts involved.

4.2 There is no specific power enabling ELWA to make a supplementary levy during the course of the year should it run short of funds. If borrowing (other than for normal cashflow management purposes) were required to finance an unforeseen revenue deficit, this would be subject to the approval of, and any conditions laid down by, the Secretary of State.

## **5 Levy Apportionment**

5.1 Regulations under the Local Government Finance Act 1988 require the Constituent Councils to agree the apportionment basis for the levy. If agreement cannot be reached the levy must be apportioned in proportion to the statutory default arrangements that apply at the time.

5.2 ELWA recommended and its Constituent Councils unanimously agreed to the following levy apportionment arrangements with effect from 2002/03:

- A levy based on waste tonnage for costs attributable to Household Waste;
- A levy based on Council Tax Band D to apportion other costs attributable to, for example, Reuse and Recycling Centres, Aveley I landfill site;

5.3 This levy report is prepared on the basis set out in paragraph 5.2.

## **6 2006/07 Revised Revenue Estimate**

6.1 In total the detailed revised revenue estimate for 2006/07 is £30,130,000. This compares to the original revenue estimate of £30,710,000 and thus, represents a potential underspend for the year of £580,000. Appendix A shows a summary of these estimates. In addition, the 2006/07 Contingency has a balance of £750,000 which, if not required during the rest of the year, will be added to Revenue Reserves. Appendix B1 contains further details regarding the utilisation of the 2006/07 Contingency. This report recommends the application of the projected revenue underspend of £580,000 and unutilised contingency of £750,000 in respect of 2006/07 to support the 2007/08 levy.

6.2 The main budget variations for 2006/07 have been referred to in the regular budget monitoring reports and financial position updates to your previous meetings during this year. The main reason for the surplus in 2006/07 is that the total tonnage of waste to be handled this year is lower than initially anticipated and is now expected to be in the region of 498,000 tonnes. The original estimates for 2006/07 anticipated total waste of approximately 501,000 tonnes. There have been other budget variations such as additional income arising from extra interest on investments due to more favourable cash flows, reduced income from commercial waste and additional costs arising from tonne mileage payments.

## **7 2007/08 Net Revenue Estimate**

7.1 The detailed net revenue estimate for 2007/08 is £39,790,000 an increase of £9,080,000 (29.6%) over the 2006/07 original net revenue estimate. This increase primarily reflects the higher IWMS Contract cost (including a further increase in the landfill tax rate and inflation). This significant step increase was part of the original IWMS Contract and had been anticipated and factored into ELWA's financial projections and is one of the main reasons that ELWA has built up and held reserves over recent years to ensure a smoother levy increase profile. A summary of the detailed net revenue estimate for 2007/08 is contained in Appendix A. Particular issues are commented upon in paragraph 8.

7.2 The basic elements of the ELWA levy are:

- the Shanks.east london's ABSDP for 2007/08. This is the key item as the associated annual contractual cost of £41,970,000 accounts for nearly 94% of ELWA's total gross expenditure. The increase is £9,310,000 (28.5%) compared to the 2006/07 original cost of £32,660,000. The ABSDP assumes a total contract waste figure of 506,000 tonnes. The advice of Technical officers is that this tonnage estimate is reasonable and reflects normal trends in waste generation. For the purposes of setting the levy for 2007/08 a projection of 506,000 tonnes has been used;
- the cost of services not subject to the IWMS Contract, for example, management of Aveley I site, strategy, support and administration costs. It is expected that this expenditure is likely to increase in line with inflation subject to required efficiency savings. However, there continues to be an element of uncertainty about the costs of maintaining the closed landfill sites;
- offsetting income, for example, generated by commercial waste charges to the Boroughs, investment and bank interest receipts and the PFI Grant; and
- other items including Contingency provisions and use of Reserves.

## **8 Particular issues in the Levy**

### **8.1 LATS**

Under this scheme if the Authority landfills more than its allowance it will incur financial penalties. It now appears unlikely that there will be any LATS costs or penalties in 2006/07 or 2007/08. However, for subsequent years this may be a significant issue for ELWA. The current value of any sell of surplus allowances is unclear but is likely to be quite low as most waste authorities expect to have annual surpluses. Consequently, this report assumes no income for the anticipated surplus Landfill Allowances accruing to the Authority nor any penalties for any potential deficit of Landfill Allowances for 2006/07 or 2007/08. Officers will continue to monitor the situation very closely and seek to sell surplus allowances if a suitable opportunity arises. Members will be kept briefed on this developing issue.

## 8.2 Landfill Tax

For 2007/08 and beyond, the rate of landfill tax for 'active' waste is to increase by at least £3 each year on the way to a medium to long-term rate of £35 per tonne. There are expectations that this maximum figure will rise further in the near future.

From 1 April 2007 the new level of landfill tax for 'active' waste will be £24 per tonne. This is an increase of £3 per tonne from the 2006/07 rate. It is reflected in the IWMS contract pricing structure and effectively increases the ELWA levy by approximately £900,000 (3%). The level of landfill tax for 'inactive' waste remains at £2 per tonne.

Under the IWMS contract, landfill tax is met by Shanks.east london up to £15 per tonne. ELWA bears the excess over £15 on the levels of landfilled waste within national waste strategy targets. If waste is landfilled in excess of waste strategy targets, the contract requires Shanks.east london to bear all the landfill tax for the excess tonnage.

## 8.3 Other EU Directives

It is still not fully clear how the EU Directive on Waste Electrical and Electronic Equipment (WEEE) will be implemented in 2007. There are similar uncertainties over Hazardous Wastes and the End of Life Vehicle Directive (see paragraph 8.8). In principle, Local Authorities should not in the future bear the costs of the proper disposal of such equipment and items. However, in practice transitional arrangements have created financial problems in the past and therefore, contingency provisions are recommended.

## 8.4 Inflation

The 2007/08 detailed Revenue Estimates include provision for:

- increases in general costs, including pay, of between 2.5% and 4.0%;
- an inflationary rise of 2.53% in IWMS contract cost from 1<sup>st</sup> April 2007 in line with the indexation provisions within the contract.

## 8.5 Tonne Mileage

ELWA makes tonne-mileage payments to Constituent Councils for the transportation of waste into sites from beyond a specific distance in accordance with an agreed formula. ELWA officers have reviewed the existing arrangements during the 2006/07 and have agreed generally lower standardised rates across Boroughs for 2007/08.

## 8.6 Officers

The estimates provide for the continuing costs of the approved staffing arrangements for ELWA. There are some structural changes and service provision changes in respect of these as previously agreed by ELWA Members but there is little overall impact on the Estimates.

## 8.7 Service Level Agreements

Costs charged by Constituent Councils for legal, financial, technical and administrative services including contract monitoring carried out on ELWA's behalf are the subject of Service Level Agreements. These charges provide for services to ELWA rather than proportions of specific posts and accordingly no staff numbers are shown. These services will be reviewed during 2007/08 to reflect changes in ELWA's staffing structure and some savings may accrue to the previous level of support services from some Boroughs.

## 8.8 Disposal Credits

Under the IWMS contract, ELWA generally ceased paying statutory Recycling Credits to Boroughs because Shanks.east london undertakes most of the Boroughs' recycling activities. However, some recycling initiatives are still supported, it is proposed to increase these payments by the general increase in inflation from £63.00 to £64.50.

Additionally, at the moment, under a local agreement with ELWA, the Constituent Councils are responsible for the disposal as well as the administration and collection of abandoned vehicles. Due to legislative changes the Vehicle manufacturers should become responsible for the de-pollution and final disposal of vehicles. It is currently uncertain how this will effect payments to the Boroughs as discussions are continuing. ELWA currently pays the Councils a disposal credit of £63.00 (£31.50 per vehicle) for each tonne of such waste diverted from the waste stream. This report recommends to maintain this rate of £63.00 for 2007/08. However, this sum will be reviewed downwards when the new producer responsibility requirements replace existing arrangements.

## 8.9 Waste Minimisation & Recycling Initiatives

ELWA officers will continue to discuss with the Constituent Councils and Shanks.east london opportunities to encourage participation in new and financially beneficial local recycling initiatives. A budget provision of £200,000 is included in the detailed 2007/08 Estimates as previously agreed by Members at October 2006 meeting to continue the provision first agreed in 2006/07 (see separate report elsewhere on this Agenda).

## 8.10 Trade Waste

Under the IWMS Contract, trade waste received at RRCs is received by Shanks.east london as non-contract waste. Shanks.east london sets the charges and retains the associated income for such trade waste.

## 8.11 Commercial & Industrial Waste Charges

To reflect the increased average unit cost of the IWMS contract the normal charge for 2007/08 is recommended to increase by £9 to £69 per tonne. This stream of waste will count against the LATS allocation if it is landfilled. ELWA will need to keep under consideration the impact of LATS, which could be significant, when setting its commercial and industrial waste charges in the future. Also, to incentivise Councils to recycle, ELWA is recommending a new lower rate of £64 per tonne in respect of specific loads of recyclable commercial waste delivered to an ELWA site by the Boroughs. The estimated income for 2007/08 based on the latest forecast waste figures charged at the proposed new rates for 2007/08 is shown below. Under the IWMS Contract, Shanks.east london must accept and deal with this Council waste, as Contract Waste and ELWA will continue to charge the Councils accordingly.

	<u>Estimate</u> <u>2007/08</u> <u>(tonnes)</u>	<u>Estimate</u> <u>Income</u> <u>2007/08</u> <u>(£'000)</u>
Barking & Dagenham	9,925	685
Havering	15,900	1,097
Newham	12,750	880
Redbridge	12,825	885
	<u>51,400</u>	<u>3,547</u>

## 9 Capital Expenditure

- 9.1 Shanks.east london has had a major capital programme for the provision of new waste disposal facilities and the refurbishment of existing ones in the ELWA area.
- 9.2 In addition, consideration will be given by ELWA officers to making bids for additional funding in appropriate circumstances including recycling and composting initiatives.
- 9.3 ELWA has had reports on developing its closed landfill sites and some capital works on these may be necessary in the next few years. If such work is required a report will be brought to Members.

## 10 PFI Credits and PFI Contract Reserve

- 10.1 As previously agreed by Members, ELWA's future financial planning must take account of both the continually reducing value of the PFI credit in cash terms and the increases in contract costs particularly in 2007/08 but also, for example, when the Government's future targets for increased recycling and recovery are implemented. It is prudent to seek to level the impact on the levy over this period to give greater financial stability to the Boroughs.
- 10.2 ELWA's policy is that it pays this Special PFI Grant into a PFI Contract Reserve account with a priority of withdrawal as follows:
- (i) to meet additional costs, over and above normal operational increases, arising from the IWMS contract in the relevant year;
  - (ii) to be set aside to meet stepped increases in the IWMS contract (e.g. when higher recycling targets are achieved) to ensure a smoother levy profile by avoiding exceptional levy increases in those years;
  - (iii) to supplement ordinary revenue reserves, particularly in the early years of the implementation of the IWMS contract when the level of uncertainty is at its greatest.
- 10.3 It should be appreciated that 2006/07 will be the peak period in terms of the PFI Contract Reserve as the PFI grant has been built up since 2002/03 specifically for application in 2007/08 and beyond.
- 10.4 The table below shows the figures in respect of the PFI Contract Reserve account for 2006/07 and 2007/08. The PFI Contract Reserve is being built up in accordance with paragraph 10.2 above and will be released to partially offset and smooth the expected IWMS Contract cost increases in 2007/08 and future years. It is recommended in this report that £5,500,000 of these reserves be used to primarily fund the step increase in the IWMS contract cost for 2007/08, leaving a projected level of £16,580,000 as at 31 March 2008. Further large drawings are planned in subsequent years.

	<b>£'000</b>
<b>Balance as at 31.3.06</b>	<b>12,817</b>
PFI credit received in 2006/07	4,726
<b>Balance at 31.3.07</b>	<b>17,543</b>
PFI credit to be received in 2007/08	4,537
Utilisation in 2007/08	(5,500)
<b>PFI Contract Reserve balance at 31.3.08</b>	<b>16,580</b>

## **11 The 2007/08 Contingency Reserve**

11.1 The Contingency Reserve needs to provide for two main eventualities:

- (i) Items whose financial effect could be significant but cannot be foreseen with sufficient certainty to be included in the detailed estimates; and
- (ii) Unforeseen items.

11.2 The 2007/08 detailed Revenue Estimates include provision for pay and price rises where appropriate and, therefore, no separate provision for general inflation is required in the contingency.

11.3 In line with previous years a general contingency provision of £100,000 is recommended for unforeseen circumstances and a further £150,000 for potential costs related to the IWMS contract negotiations including the contractual insurance benchmarking arrangements (see separate report elsewhere on this Agenda).

11.4 Waste Regulation

A £200,000 contingency provision is recommended for 2007/08. This would be used to meet, for example the cost of biodegradability testing and any additional costs in respect of extra resources to deal with the management of waste data information especially, in respect of LATS and the implementation of Hazardous Waste regulations. There is a specific proposal regarding the application of part of this contingency elsewhere in this Agenda.

11.5 Increased Tonnages

Shanks.east london's ABSDP for 2007/08 includes projected tonnages of 506,000. The cost of increases in waste volumes above this level has previously been provided in the contingency. However reserves are higher than normal at the present time and tonnage growth seems to have stabilised in the last few years. Therefore, no specific provision has been made in the contingency for 2007/08 but the situation will be kept under review on an annual basis.

11.6 Closed landfill sites

As referred to in previous reports to Members, a £150,000 contingency provision is recommended for 2007/08 for potential costs of insurance or remedial work in respect of ELWA's closed landfill sites.

11.7 Appendix B2 sets out the relevant details and indicates a total Contingency Reserve of £600,000 for 2007/08 (£1,000,000 in 2006/07). The release of the Contingency will be subject to further detailed reports during the course of the year as required.

## **12 2007/08 Revenue Reserves**

12.1 ELWA has accepted in previous years a minimum level of normal operational balances. ELWA's revenue balances at the end of 2006/07 are expected to be £9,934,000. This report recommends the application of the projected revenue underspend of £580,000 and unutilised contingency of £750,000 in respect of 2006/07 to support the 2007/08 levy. Therefore, it is recommended in this report that in total £1,900,000 of these reserves be used to fund the £600,000 contingency with the balance of £1,300,000 being used support the levy for 2007/08, leaving a projected level of £8,034,000 as the overall revenue reserves as at 31 March 2008 (this assumes that net expenditure during 2007/08 is as per the original budget).



- 12.2 The Finance Director, in conjunction with other ELWA Directors, has undertaken the annual detailed exercise to review risks faced by ELWA in 2007/08 and beyond (see Appendix D). In the light of this and recent years' experiences of financial volatility and uncertainty, the balances of £8,034,000 are recommended by all the Directors.
- 12.3 It is important to stress again that ELWA cannot make a supplementary levy. Any net deficit must be managed via contingency and reserves.
- 12.4 The effect of the levy and expenditure on Revenue Reserves in 2006/07 and 2007/08 is shown below:

	<b>£'000</b>
<b>Working Revenue Balance 1.4.2006</b>	<b>8,604</b>
Estimated Addition to Balances in 2006/07 (Revenue underspend)	580
Unused 2006/07 Contingency	750
<b>Estimated Working Balance at 31.3.2007</b>	<b>9,934</b>
Transfer to fund Contingency for 2007/08	(600)
Transfer to support Levy for 2007/08	(1,300)
<b>Projected Working Balance at 1.4.2007</b>	<b>8,034</b>

### **13 Capital Reserve**

- 13.1 It is to be noted that there is a £400,000 Capital Reserve earmarked for future costs at the Aveley I site. In the opinion of ELWA officers there continues to be the potential need for significant works e.g. replacement and repairs of the fencing around the site and there are other uncertainties about the continuation of existing operations on the site.

### **14 2007/08 Levy**

- 14.1 The levy for 2007/08 is recommended to be £32,990,000 including the contingency of £600,000 and after applying £5,500,000 of PFI Contract and £1,900,000 of Revenue reserves (as set out in Appendix C). This levy requirement is an increase of £2,530,000 (8.3%) over the 2006/07 levy of £30,460,000. An exemplification of the levy is set out in Appendix C.
- 14.2 The estimated implications of the commercial and industrial waste charges from 1 April 2007 for the Constituent Councils are set out in Appendix C.
- 14.3 The Finance Director's Financial Projection and Budget Strategy report agreed by Members in November 2006 highlighted a potential increase in the 2007/08 levy in the region of 10.3%. This has been reduced to 8.3% mainly as a result of more detailed work on the budget items and a further review of the level of the contingency and reserves.

## 15 Levy Projections for 2008/09 and 2009/10

15.1 The Finance Director's Financial Projection and Budget Strategy report agreed by Members in November 2006 highlighted a potential levy in the region of £36,900,000 for 2008/09 and £40,400,000 for 2009/10 levies. The reserves position at the end of 2009/10 is projected to be £3,500,000 for revenue reserves and £16,500,000 for the PFI Contract reserve.

15.2 The levy forecasts for 2008/09 to 2009/10 clearly can only be taken as an attempt to provide an as helpful as presently possible indication for planning purposes. However, a change in any of a number of uncertain factors for example landfill allowances, waste growth and inflation assumptions and any new legislation could impact on the overall projections.

15.3 The indicative levy apportionments for these levy forecasts based on the data used for the 2007/08 levy apportionment is summarised in the table below:

<b>Borough</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£'000</b>	<b>£'000</b>
Barking & Dagenham	6,920	7,570
Havering	9,570	10,480
Newham	10,740	11,760
Redbridge	9,670	10,590
<b>Total</b>	<b>36,900</b>	<b>40,400</b>

15.4 The above levy apportionments are only indicative and subject to future changes in household tonnages and Council Tax Band D equivalents for Boroughs.

## 16 Funding and monitoring arrangements

16.1 In the past ELWA has agreed that each year's levy should be sought in four equal instalments payable in the middle of each quarter i.e. 15 May, 15 August, 15 November and 15 February or the nearest banking day thereto.

16.2 PFI Credit is currently paid quarterly and this will be taken into account in the above.

16.3 Also, it is recommended that the funding of Borough expenditure for work done on behalf of ELWA, commercial and industrial waste charges and other expenditure and income be funded in accordance with the existing arrangements i.e. based on quarterly claims and invoices. Current arrangements have generally worked well and it is recommended that these be continued, subject to further review as necessary.

## 17 Prudential Indicators

17.1 At this meeting Members need to consider the Prudential Indicators in respect of Treasury Management and Capital Expenditure, as set out in a separate report on this agenda, as part of the formulation of the 2007/08 levy.

## **18 Value For Money**

18.1 ELWA officers have taken into account the need to provide continuing value for money in the preparation and formulation of the 2007/08 levy and will continue to seek further improvements in the future wherever possible.

## **19 Robustness of estimates and adequacy of reserves**

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

19.2 The framework for the preparation of estimates is ELWA's three year financial strategy. Monthly budget statements are prepared throughout the year for monitoring and control purposes. These anticipate cost pressures and take a prudent view on income estimates. The advice of the External Auditor and the experience of other Waste Disposal Authorities are also taken into account.

19.3 The major component of the estimates is the IWMS contract cost which is formally agreed between ELWA and Shanks.east London via the ABSDP. ELWA's other costs are as advised by ELWA officers and Constituent Councils who are responsible for and carry out certain functions on ELWA's behalf. These costs are based on the advice of Council Technical Officers with appropriate support from Council Finance Officers.

19.4 The view of ELWA Directors is that the estimates are robust and the proposed levels of reserves are adequate. These provide a reasonable and sound basis for the operation of ELWA next year and in the medium term.

19.5 In my view, following an analysis of the strategic, operational and financial risks and uncertainties facing ELWA which are set out in this report, these risks and uncertainties are adequately addressed in the setting of the levy and the proposed level of reserves. A continued prudent level of reserves is again recommended to ensure levy stability in future years because of the uncertainties faced by the Authority.

19.6 The details and balances of ELWA's proposed reserves are contained in this report. The levels of these reserves are deemed appropriate based on my professional judgement and ELWA's previous experience. Appendix D sets out the results of an initial robust, risk-based assessment, of the major financial risks facing the Authority, undertaken by ELWA officers to justify the level of ELWA proposed revenue reserves.

19.7 In my opinion, if ELWA follows the advice contained in this report then the relevant requirements of the LGA 2003 are met.

## 20 Recommendations

20.1 Members are asked to agree the following:

- (i) That the revised estimates for 2006/07, totalling £30,130,000 be approved (paragraph 6.1);
- (ii) Note the utilisation of the 2006/07 contingency as explained in paragraph 6.1;
- (iii) That the draft detailed revenue estimates for 2007/08, totalling £39,790,000 excluding contingency and contributions from reserves, be approved (paragraph 7.1);
- (iv) The new rates for commercial and industrial waste and disposal credits for abandoned vehicles be adopted for 2007/08 i.e.:

Disposal Credits – abandoned vehicles	£63.00 per tonne	(paragraph 8.8)
Disposal Credits - other	£64.50 per tonne	(paragraph 8.8)
Commercial & Industrial Waste – recyclable	£64.00 per tonne	(paragraph 8.11)
Commercial & Industrial Waste – other	£69.00 per tonne	(paragraph 8.11)

- (v) That approval be given to the utilisation of the PFI Contract Reserve of £5,500,000 for 2007/08 (paragraph 10.4);
- (vi) That approval be given to the Contingency Reserve of £600,000 for 2007/08 (paragraph 11.7)
- (vii) That approval be given for a contribution from Revenue Reserves of £1,900,000 (paragraph 12.1);
- (viii) That on the basis of (iii) to (vii) above, ELWA determines its levy for 2007/08 in the sum of £32,990,000 (paragraph 14.1);
- (ix) That the policy on Reserves and associated criteria for use be agreed (paragraphs 11 to 13);
- (x) That approval be given to the continuance of existing arrangements for the payment of the levy and funding of Constituent Councils in 2007/08 (paragraph 16); and
- (xi) That a review of the disposal credit for abandoned vehicles be undertaken during 2007/08 (paragraph 8.8).

Geoff Pearce  
**FINANCE DIRECTOR**

### Appendices

- A Summary of Original and Revised Revenue Estimates for 2006/07 and Forward Estimates for 2007/08
- B1 Contingency and Claims on Contingency for 2006/07
- B2 Proposed Contingency for 2007/08
- C Levy Exemplification
- D Financial Risk

### Background Papers

- 1 Returns from the Constituent Councils
- 2 Budget Working papers

EAST LONDON WASTE AUTHORITYSUMMARY OF REVENUE ESTIMATES

	<u>Original Estimate</u> <u>2006/07</u> <u>£'000</u>	<u>Revised Estimate</u> <u>2006/07</u> <u>£'000</u>	<u>Forward Estimate</u> <u>2007/08</u> <u>£'000</u>
<b><u>EXPENDITURE</u></b>			
<b><u>Employees</u></b>	375	375	412
<b><u>Premises Related Expenditure</u></b>	152	150	147
<b><u>Transport Related Expenditure</u></b>	14	14	14
<b><u>Supplies and Services</u></b>			
IWMS Contract payments	32,660	32,153	41,970
Other (inc cost of Support Services)	478	436	499
<b><u>Third Party Payments</u></b>			
Tonne Mileage Payments	700	800	600
Recycling/Disposal Credits	270	260	320
Recycling Initiatives	0	0	200
Rents Payable - Land Leases	198	198	210
<b><u>Capital Financing Costs</u></b>	299	299	285
<b>Total Gross Expenditure</b>	<b>35,146</b>	<b>34,685</b>	<b>44,657</b>
<b><u>Income</u></b>			
Commercial Waste Charges	-3,516	-3,260	-3,547
Interest on Cash/Bank Balances	-900	-1,280	-1,300
Rent from Aveley Methane Ltd	-	-	-
Other Income	-20	-15	-20
<b>Total Income</b>	<b>-4,436</b>	<b>-4,555</b>	<b>-4,867</b>
<b>NET COST OF SERVICES</b>	<b>30,710</b>	<b>30,130</b>	<b>39,790</b>
PFI Grant Received	-4,726	-4,726	-4,537
Transfer to PFI Contract Reserve	4,726	4,726	4,537
Transfer from PFI Contract Reserve	-	-	-5,500
Contingency Allocated	1,000	250	600
Transfer from Revenue Reserves	-1,250	-1,250	-1,900
Levy Receivable	-30,460	-30,460	-32,990
<b>REVENUE SURPLUS FOR YEAR</b>	<b>0</b>	<b>-1,330</b>	<b>0</b>

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**CONTINGENCY AND CLAIMS ON CONTINGENCY FOR 2006/07**

An overall contingency of £1,000,000 was set for the current financial year 2006/07 and to date there are actual and potential claims of £250,000 against this contingency.

	<b>Contingency</b>	<b>Claims in-year</b>	<b>Note</b>
	<b>£'000</b>	<b>£'000</b>	
General provision for unforeseen circumstances	100	-	1
Provision for costs (inc insurance) - closed Landfill Sites	150	30	2
Provision for IWMS Contract negotiations	100	-	3
Waste Regulation	50	20	4
Increase in Waste Volumes inc LATS implications	300	-	5
New Waste Minimisation and Recycling Initiatives	200	200	6
Provision for Control and Mitigation of Risks	100	-	7
<b>Total</b>	<b>1,000</b>	<b>250</b>	

**Notes:**

Note 1. No call on this contingency item is expected for 2006/07.

Note 2. Costs relating to pipeline easement at Aveley 1 site.

Note 3: No call on this contingency item is expected for 2006/07.

Note 4: Costs relating to biodegradability testing to be undertaken this year. Programme continues in 2007/08.

Note 5: Actual Waste Volumes to date for disposal have been within the ABSDP 2006/07 levels and therefore, there has been no call on this contingency item for 2006/07.

Note 6: Costs relating to recycling initiatives as previously reported.

Note 7: No call on this contingency item is expected for 2006/07.

**EAST LONDON WASTE AUTHORITY**  
**PROPOSED CONTINGENCY RESERVE FOR 2007/08**

	<u>£'000</u>
A. General provision for unforeseen circumstances	100
B. Provision for IWMS Contract negotiations including insurance benchmarking	150
C. Waste Regulation including biodegradability testing	200
D. Closed landfill sites - Provision for costs (inc insurance)	150
 	<hr/>
<b>TOTAL</b>	<b>600</b> <hr/>



**EAST LONDON WASTE AUTHORITY  
LEVY EXEMPLIFICATION**

	<u>2006/07</u>	<u>2007/08</u>
	<u>£'000</u>	<u>£'000</u>
<b>(1) LEVY REQUIRED</b>		
Detailed Revenue Estimates	30,710	39,790
Contingency Reserve	1,000	600
Withdrawal from Revenue Reserves	(1,250)	(1,900)
Withdrawal from PFI Contract Reserve	-	(5,500)
	30,460	32,990

**(2) APPORTIONMENT EXEMPLIFICATION – TONNAGES RE HOUSEHOLD WASTE & COUNCIL TAX BAND D EQUIVALENT FOR RESIDUAL COSTS**

		Tonnes	Apportion Tonnes**	Band D Basis	Apportion Band D*	Proposed Net Levy (2007/08)
Actual Levy 2006/07 £'000			£'000		£'000	£'000
5,732	Barking & Dagenham	69,260	4,631	50,661	1,551	6,182
8,117	Havering	87,765	5,868	87,782	2,688	8,556
8,695	Newham	110,863	7,413	71,644	2,194	9,607
7,916	Redbridge	89,075	5,955	87,868	2,690	8,645
30,460		356,963	23,867	297,955	9,123	32,990

\* Based on Council Tax Band D equivalents as advised by Constituent Councils

\*\* Based on actual 2005/06 Council tonnage figures for collected Household General Refuse including Recycling but excluding an estimate for collected Commercial Waste. Attributable costs approximately 72%.

**NB: FOR INFORMATION PURPOSES ONLY**

**APPORTIONMENT EXEMPLIFICATION: LEVY AND CHARGE FOR COMMERCIAL & INDUSTRIAL WASTE**

		Proposed Levy*	Comm. Waste Chgs**	TOTAL LEVY & CHARGE
Actual Levy & Charge 2006/07 £'000		2007/08 £'000	2007/08 £'000	2007/08 £'000
6,473	Barking & Dagenham	6,182	685	6,867
8,993	Havering	8,556	1,097	9,653
9,805	Newham	9,607	880	10,487
8,705	Redbridge	8,645	885	9,530
33,976		32,990	3,547	36,537

\* Based on Household Waste tonnages & Council Tax Band D equivalents as advised by Constituent Councils.

\*\* Based on proposed charges per tonne on estimated commercial and industrial waste tonnages.

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**EAST LONDON WASTE AUTHORITY**  
**FINANCIAL RISK ANALYSIS AS AT 2007/08**

<b>Risk</b>	<b>Likelihood %</b>	<b>Worst Case (£M)</b>	<b>Estimated Risk (£M)</b>
<b>New statutory requirements (e.g. National and GLA waste strategies)</b>	<b>70%</b>	<b>1.0</b>	<b>0.7</b>
<b>IWMS contract - Insurance Premiums and losses above ELWA Ltd caps and benchmarks</b>	<b>40%</b>	<b>1.0</b>	<b>0.4</b>
<b>Waste increases above service plan assumptions</b>	<b>10%</b>	<b>1.0</b>	<b>0.1</b>
<b>Landfill sites – Aveley contingency plan for gas extraction</b>	<b>40%</b>	<b>0.5</b>	<b>0.2</b>
<b>New EU/UK legislation – discriminatory law changes concerning waste (e.g. hazardous waste)</b>	<b>30%</b>	<b>1.0</b>	<b>0.3</b>
<b>Urgent revenue and/or capital expenditure (including operational impact on IWMS Contract) arising from unforeseen event (e.g. local disaster, strikes)</b>	<b>10%</b>	<b>5.0</b>	<b>0.5</b>
<b>Landfill Tax/Other Environmental Tax increases above base assumptions</b>	<b>30%</b>	<b>1.0</b>	<b>0.3</b>
<b>General change in law – impact on IWMS contract - share of capital expenditure</b>	<b>10%</b>	<b>5.0</b>	<b>0.5</b>
<b>IWMS contract – termination payments arising from third party or Force Majeure events – sudden event</b>	<b>10%</b>	<b>30.0</b>	<b>3.0</b>
<b>IWMS Contractor Failure – sudden event</b>	<b>10%</b>	<b>10.0</b>	<b>1.0</b>
<b>Landfill sites – pollution/other claims &amp; costs – sudden or gradual events</b>	<b>10%</b>	<b>10.0</b>	<b>1.0</b>
<b>TOTAL</b>			<b>8.0</b>

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**EAST LONDON WASTE AUTHORITY****05 FEBRUARY 2007****FINANCE DIRECTOR'S REPORT**

<b>TREASURY MANAGEMENT STRATEGY 2007/08 AND PRUDENTIAL CODE INDICATORS 2007/08 TO 2009/10</b>	<b>FOR DECISION</b>
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**1 Introduction**

- 1.1 The Local Government Act 2003 introduced the Prudential capital finance system which replaced the previous capital finance legislation and regulations. The Chartered Institute of Public Finance and Accountancy (CIPFA) has developed the Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in meeting the requirements of the system.
- 1.2 The regime requires consideration of the Authority's borrowing and investment strategies within the decision making process for setting the Authority's spending plans. In particular, the Authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level that is affordable within the projected income of the Authority for the foreseeable future. In addition it requires the Authority to set a number of Prudential Indicators for three years.

**2 Treasury Management Strategy 2007/08**

- 2.1 ELWA's present borrowing has been used to finance its capital expenditure for which supplementary credit approvals (SCA) have been issued in prior years. Provision has been made in ELWA's detailed Revenue Estimates for the revenue cost in terms of interest and capital repayments.
- 2.2 Historically, ELWA has had sufficient cash balances to cover expenditure flows during each year and hence, there has been no need for any short-term borrowings. However, such borrowing may be required to fund timing differences between payment and receipt of cash or the temporary financing of urgent, major capital schemes.
- 2.3 By ELWA's Standing Orders, the Finance Director is responsible for all of the Authority's banking, borrowing and investment activities. Under the Authority's existing service level arrangements, the London Borough of Redbridge administers the treasury management function on behalf of ELWA.
- 2.4 ELWA's Treasury Management Strategy covers the estimated funding requirements, the need for long and short-term borrowing, the management of the debt portfolio, estimated interest rate trends and the investment of surplus cash. The proposed Strategy should ensure that a stable cash position is maintained.
- 2.5 ELWA'S Treasury Management Policy Statement (attached at Appendix A) has been prepared by officers and is based on current best practice.

### 3 Borrowing Requirements For 2007/08

- 3.1 In February 2006, the Authority set Prudential Indicators for limits on external debt and upper limits on fixed rate and variable rate interest rate exposures for 2006/07. These have not been exceeded during the year.
- 3.2 ELWA's total borrowing of £2,273,000 at 31 March 2006 consisted entirely of Public Works Loan Board (PWLB) loans. All the loans are on a fixed rate basis.
- 3.3 The options available to ELWA to finance any future capital requirements include the temporary use of internal cash balances and to raise loans via the PWLB and capital markets
- 3.4 During 2007/08 the total PWLB borrowing maturing is £111,000. Officers will consider appropriate early debt repayment and/or debt re-structuring of the borrowing portfolio where this is financially beneficial to the Authority.
- 3.5 The Authority may need to make arrangements to finance expenditure during 2007/08 in respect of any possible capital works identified as a result of the ongoing review of landfill sites. Indicative estimates, for the production of Prudential Indicators are shown for 2008/09 and 2009/10:

<b>Borrowing Requirement</b>	2007/08 £'000	2008/09 £'000	2009/10 £'000
Capital Spending (formerly financed by SCA)	500	-	-
Loan Redemptions	111	423	-
Less – Minimum Revenue Provision	(111)	(423)	-
<b>Estimated Borrowing Requirement</b>	500	-	-

- 3.6 The capital spending figures in the above table excludes any capital expenditure, which will be financed from capital grants and receipts, revenue contributions and external funding.
- 3.7 At the present time there are no applications for supported borrowing. However, it is recommended that to retain maximum flexibility for 2007/08 that a borrowing limit is set.

### 4 Prudential Indicators For Treasury Management

- 4.1 The Authorised Limit for External Debt represents total external debt, gross of investments, separately identifying borrowing from other long-term liabilities such as finance leases.

- 4.2 In order to determine the authorised limit a number of assumptions have needed to be made on the possible future use of borrowing. The following limits represent the maximum amount of gross debt:

	<b>2007/08 £'000</b>	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>
External Debt b/f	2,144	2,033	1,610
Borrowing requirement	500	-	-
Maturing debt	(111)	(423)	-
	<b>2,533</b>	<b>1,610</b>	<b>1,610</b>
Short term/cash flow needs and contingency provision	500	1,000	1,000
<b>External Debt Limit</b>	<b>3,033</b>	<b>2,610</b>	<b>2,610</b>

- 4.3 As with the Authorised Limit for External Debt, the Operational Boundary represents total external debt, gross of investments, separately identifying borrowing from other long term liabilities, but is based on the Authority's most likely estimate, i.e. prudent but not the worst case scenario.
- 4.4 Based on the information contained in this report it is recommended that the Prudential Indicators as shown on Appendix B be set for treasury management purposes.

## **5 Annual Investment Strategy 2007/08**

- 5.1 The Government requires the Authority to approve an Annual Investment Strategy for the forthcoming financial year.
- 5.2 ELWA'S Investment Strategy (attached at Appendix C) has been prepared by officers and is based on current best practice.

## **6 Authority's Capital Programme**

- 6.1 Under the Prudential Code, the Government no longer imposes any limit on borrowing for capital purposes as it will be left to each local authority to determine its own limit in line with what it can afford.
- 6.2 At this meeting Members need to consider the Prudential Indicators as part of the formulation of the 2007/08 levy which is set out in a separate report on this agenda.
- 6.3 There is currently no planned Capital Programme for 2007/08 to 2009/10 except in relation to the need to undertake any work following the outcome of the current landfill site surveys.
- 6.4 Based on the current available guidance together with work undertaken by officers, a set of Prudential Indicators has been formulated and is set out in Appendix D.

## **7 Recommendations**

7.1 Members are asked to agree:

- (a) the Treasury Management Strategy and Policy Statement as set out in Appendix A;
- (b) the Prudential Indicators for Treasury Management as set out in Appendix B;
- (c) the Annual Investment Strategy as set out in Appendix C; and
- (d) the Prudential Indicators for capital expenditure as set out in Appendix D.

G Pearce  
**FINANCE DIRECTOR**

### Appendix

- A Treasury Management Policy Statement
- B Treasury Management Prudential Indicators
- C Annual Investment Strategy 2007/08
- D Prudential Indicators for capital expenditure



## **TREASURY MANAGEMENT POLICY STATEMENT**

- 1 The Authority defines the policies and objectives of its treasury management activities as the:
  - management of the organisation's cash flows, its banking, money market and capital market transactions;
  - effective control of the risks associated with those activities;
  - pursuit of optimum performance consistent with those risks.
- 2 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.
- 3 The Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

## TREASURY MANAGEMENT PRUDENTIAL INDICATORS

Appendix B

Authorised Limit for External Debt	2007/08 £'000	2008/09 £'000	2009/10 £'000
Borrowing	3,033	2,610	2,610
Other Long Term Liabilities	-	-	-
<b>TOTAL</b>	<b>3,033</b>	<b>2,610</b>	<b>2,610</b>

Operational Boundary for External Debt	2007/08 £'000	2008/09 £'000	2009/10 £'000
Borrowing	2,033	1,610	1,610
Other Long Term Liabilities	250	250	250
<b>TOTAL</b>	<b>2,283</b>	<b>1,860</b>	<b>1,860</b>

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 Exposures (based on net principle outstanding)	2007/08 £m	2008/09 £m	2009/10 £m
Fixed Rate	3	3	3
Variable Rate	1	1	1

Projected borrowing at fixed rates maturing in each period as a percentage of total projected borrowing at fixed rates		
	Upper Limit	Lower Limit
Under 12 months	10%	0%
12 Months and within 24 months	20%	0%
24 Months and within 5 years	30%	0%
5 Years and within 10 Years	50%	0%
10 Years and above	100%	0%

Upper Limit for Total Principal sums invested for more than 364 days	2007/08 £m	2008/09 £m	2009/10 £m
Total	15	10	10

## **ANNUAL INVESTMENT STRATEGY 2007/08**

### **1. Introduction**

- 1.1. This Authority has regard to the Office for the Deputy Prime Minister's (now known as the Department for Communities and Local Government (DCLG) ) Guidance on Local Government Investments and the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code").
- 1.2. ELWA's Annual Investment Strategy states which investments the Authority may use for the prudent management of its treasury balances during the financial year under the heads of Specified Investments and Non-Specified Investments.
- 1.3. ELWA's strategy also sets out: -
  - The procedures for determining the use of each asset class, particularly if the investment falls under the category of "non-specified investments";
  - The maximum periods for which funds may be prudently committed in each asset class;
  - The minimum amount to be held in short-term investments (i.e. one which the Authority may require to be repaid or redeemed within 12 months of making the Investment);
  - The amount or percentage limit to be invested in each asset class;
  - What rating criteria is used and how they will be defined and monitored;
  - The classification of each investment instrument for use by either the Authority's in-house officers and/or external fund managers, and the circumstances where prior professional advice is to be sought from the Authority's treasury advisers.

### **2. Investment Objectives**

- 2.1. The Authority's investment strategy gives priority to:
  - the security of the investments it makes; and
  - the liquidity of its investments to meet known liabilities.
- 2.2. The Authority's objective is therefore to achieve the optimum return on its investments commensurate with the appropriate levels of security and liquidity.
- 2.3. Within the prudent management of its financial affairs, the Authority may temporarily invest funds, borrowed for the purpose of expenditure expected to incur in the reasonably near future. Borrowing purely to invest or on-lend for speculative purposes remains unlawful and the Authority will not engage in such activity.

### **3. Investment Balances and the Liquidity of Investments**

- 3.1. Based on cash flow forecasts the Authority's cash balances are estimated to range between £20 million - £30 million in 2007/08.
- 3.2. The minimum amount of its overall investments that the Authority will hold in short-term investments is £4 million
- 3.3. Giving due consideration to the level of balances over the next three years, the need for liquidity, its spending commitments and provisioning for contingencies, it is determined that up to £15 million of total fund balances could be invested for longer than one year.

### **4. Investments defined as Capital Expenditure**

The Authority will not make any investments that may be defined as capital expenditure under the Local Government Act 2003.

### **5. Provision for Credit-related losses**

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

### **6. Asset class limits**

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

UK Government and Local Authorities	50%
Banks- Specified	100%
Money Market Funds – Specified	75%
Building Societies - Specified	100%
Monetary Institutions outside Europe – Specified	15%
Unspecified Investments – including un-rated Building Societies	75%
Non UK Government and Supranational Bonds	15%

### **7. End of Year Investment Report**

A report on the Authority's investment activity will continue to be included as part of the annual Treasury Management report.

**PRUDENTIAL INDICATORS (relating to Capital Expenditure)****1. Capital expenditure**

	2007/08 estimate £'000	2008/09 estimate £'000	2009/10 estimate £'000
Total	500	-	-

**2. Ratio of financing costs to net revenue stream**

	2007/08 estimate	2008/09 estimate	2009/10 estimate
	%	%	%
Ratio	0.7	0.6	0.6

**3. Capital Financing Requirement**

Measurement of the underlying need to borrow for capital purposes.

	2007/08 estimate	2008/09 estimate	2009/10 estimate
	£'000	£'000	£'000
Total	1,549	1,465	1,384

**4. Estimate of the incremental impact of capital investment decisions proposed in the Capital Programme report, over and above capital investment decisions taken in previous years**

	2007/08 estimate	2008/09 estimate	2009/10 estimate
	£'000	£'000	£'000
On Total Levy	-	-	-

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