

Notice of Meeting

EAST LONDON WASTE AUTHORITY

Monday, 4 February 2008 - Civic Centre, Dagenham, 1:00 pm

Members: Councillor M E McKenzie (Chair); Councillor S Kelly (Deputy Chair); Councillor P R Goody, 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.

28.01.08

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 26.11.07. (Pages 1 - 5)**
3. **Revenue and Capital Estimates and Levy 2008/09 (Pages 7 - 29)**
4. **Treasury Management Strategy for 2008/09, and Prudential Code Indicators 2008/09 to 2010/11 (Pages 31 - 45)**
5. **Risk Strategy - Update for 2008/09 (Pages 47 - 58)**
6. **Rent Review - Reuse & Recycling Centre Sites (Pages 59 - 60)**
7. **Contract Performance - April to December 2007 (Pages 61 - 71)**
8. **MBT Testing of Bio-Mrf Facilities-Update (Pages 73 - 75)**
9. **Department for Communities and Local Government Consultation Paper - Exemption of Posts from Political Restrictions (Pages 77 - 79)**

- 10. Appointment of Auditor (Page 81)**
- 11. To consider the date of the next meeting of the Authority**
- 12. Any other public items which the Chair decides are urgent**
- 13. To consider whether it would be appropriate to pass a resolution pursuant to Section 100A(4) of the Local Government Act 1972**

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. At the time of publishing this agenda there were no confidential or exempt items.

- 14. Other Confidential Business**

EAST LONDON WASTE AUTHORITY

Monday, 26 November 2007
(1:08 - 3:50 pm)

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

1528 Apologies

None

1529 Minutes - To confirm as correct the minutes of the last meeting held on 8 October 2007

We have confirmed as correct the minutes of our meeting held on 10 October 2007.

1530 The new Local Government Performance Framework

We have received the Executive Director's Report and appendices commenting on the Government's White Paper "Strong and prosperous communities", the new performance framework for local authorities and its impact on ELWA, the Constituent Councils and the Joint Waste Management Strategy.

The Executive Director explained that the White Paper proposes a number of fundamental changes to the way in which Councils operate and that there are a reduced number of National Outcome indicators on which all Councils must report (3 for waste). He explained that performance targets would be decided locally by Councils in conjunction with the Government Office for London and other strategic partners, to reflect local priorities and areas for improvement and that ELWA, as a named partner, had a duty to be part of the process of agreeing the targets in the Local Area Agreements (LAAs) that relate to waste management.

We have noted that the three specific national waste indicators are NI 191 residual household waste per head, NI 192 household waste recycled and composted and NI 193 municipal waste landfilled. There are other national indicators that may form important elements of the LAA which ELWA may be required to support, for example, Streetscene issues.

We have agreed to ask Constituent Councils to base any waste management

targets in the Constituent Councils' LAAs on the targets in the Joint Waste Management Strategy agreed between the parties in 2006 in order to avoid a contract renegotiation at this stage.

1531 Budgetary Control Report to 30 September 2007

We have received the Finance Director's usual budgetary control report that compared actual expenditure with original revenue estimates (approved in February) for the six months' period to end September 2007.

We have noted the healthy financial position and the under-spend of £773,000 against profiled budget for the first half year. The Finance Director reported on the main variations as being a lower than expected payment to Shanks.east london compared to the Annual Budget & Service Delivery Plan of some £442,000. This was due to (i) lower payments of disposal credits to the Boroughs for abandoned vehicles (now a producer responsibility) (£110,000), (ii) lower commercial waste income due to re-profiling of Borough collection rounds (£107,000), (iii) additional bank interest receipts of £150,000 as a result of stronger cash flows and increased interest rates and (iv) unbudgeted income in respect of a WEEE Grant for 2007/08 (£104,000).

1532 Finance Projection & Budget Strategy 2008/09 to 2010/11

Having considered a report from the Finance Director on ELWA's Financial Projection and Budget Strategy 2008/09 to 2010/11, which contained particular detail in respect of the forthcoming 2008/09 financial year, we have agreed the strategy as submitted including the strategy for the use of reserves and balances in support of the levy. We are in favour of returning Authority under spending to the Boroughs at the earliest convenience under the levy arrangements.

The Finance Director confirmed that the information in this strategy will be conveyed to Constituent Council Finance Directors to assist in their budget preparations for next year and beyond. We have noted that the report indicated a provisional ELWA Levy for 2008/09 of £36.5m representing a 10.6% increase based on tonnages and costings.

Haverling Members raised concerns about waste collection and potential traffic congestion during the construction and operation of the Olympics site. The Managing Director advised that any collection costs fell to the Boroughs but ELWA needed to consider contingency disposal arrangements.

1533 Personnel Policies

We have considered and discussed the report supplied by the Executive Director

and Human Resources Manager and the proposed policies on Flexible Working, Retirement and Recruitment and Selection, as set out in the appendices.

The Managing Director advised that Members would be consulted prior to any final decisions on retirement that incurred any additional financial implications on the Authority.

1534 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	23 June 2008	(Annual General Meeting) Approval of draft Statement of Accounts
Monday	29 September 2008	Approval of Annual Governance Report
Monday	24 November 2008	Approval of IWMS Contract Annual Budget & Service Delivery Plan (required by 30/11/08)
Monday	02 February 2009	Approval of annual Levy (required by 15/02/09)
Monday	06 April 2009	

Councillor Mrs Twomey offered her apologies for 04 February 2008 and Councillor Weinberg offered his apologies for the 29 September 2008.

1535 Contract Performance 2007/08 - April to October 2007

The Assistant Executive Director presented his progress report on the latest operational and performance issues relating to the Integrated Waste Management Service (IWMS) Contract. The report included tonnage data and contract payments, site operations, glass and green waste collection and recycling (as per Minute 1523) and diversion from landfill for the period April to October 2007. Information from additional contract monitoring carried out by London Remade was also included in the report.

The Assistant Executive Director also reported on a series of communication and co-collection and performance trials being carried out in November and December. Havering Members have enquired about the possible use of waste awareness wording on the outer wrappers of Orange Bag deliveries.

We have noted that the average recycling and composting performance figure (17.1%) was less than the projected 22.7% in the revised Service Delivery Plan

and that the Contractor had incurred a corresponding loss of financial supplements. Noted also that the Contractor is developing a number of possible options to increase recycling and composting performance in relation to glass and compost.

We have expressed concern that the Contractor has not met contract targets and may not be able to recoup earlier missed targets.

We have received a summary of the contract monitoring completed by external reviewers for the period July to October 2007.

We have asked Officers to show a running total for the previous year in the contract waste recycling performance table in future.

1536 Waste and Recycling Performance

We have received and noted the Executive Director's report and Appendix on the measures being taken to assist in future decision making on recycling and waste management in order to get the best from the current infrastructure. The report outlined the background, approach adopted, framework recycling model, recycling trials, enhanced communications strategy and high level discussions on the future.

We have noted that further reports and recommendations will be submitted as work progresses.

1537 Public and Press

We have resolved to exclude the public and press from the remainder of the meeting by reason of the nature of the business to be transacted that included the detailed financial proposals of Shanks.east london in respect of the IWMS Contract, which is exempt from publication by virtue of paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 as amended.)

1538 Declaration of Interest*

In the light of his appointment by the Authority as a Director of ELWA Limited, Councillor Weinberg declared a non-pecuniary interest in the next item and was excused from the remainder of the meeting.

1539 IWMS Contract - Annual Budget and Service Delivery Plan 2008/09 *

We have received the Executive Director's report and have noted the main points concerning the 2008/09 ABSDP as being that a small increase on last year's

overall tonnages is expected; a 47% diversion from landfill exceeding contractual requirement of 40%, recycling across the constituent councils is planned to exceed 22% and an overall cost increase of £5.6m. This increase related to increases in landfill tax, rise in inflation rate of 2.4% on contractual payments and, annual cost of the contractual price increase applied at 01 July 2007. We also note that the only other significant cost increases in future years that can be anticipated relate to increases in waste volumes and unavoidable increases in landfill taxes.

We have received and thanked ELWA Ltd's representatives for delivering their presentation entitled ABSDP Year 7 to us and answering our many questions. We have expressed our concern at recycling performance in the past and their ability to meet the recycling target in 2008/09.

We have discussed issues arising during that presentation and have asked officers to invite ELWA Ltd's representatives to attend our next meeting on 4th February 2008.

We have agreed that consideration and approval of the 2008/09 ABSDP should be deferred until the next Authority meeting on 4 February 2008.

(* 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 the detailed financial proposals of Shanks.east london in respect of the IWMS Contract, which is exempt from publication by virtue of paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 as amended.)

Chair:

Dated:

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(Contact Officer: Geoff Pearce – Tel 020 8708 3588/Tony Jarvis - Tel. 020 8270 4965)

EAST LONDON WASTE AUTHORITY

04 FEBRUARY 2008

FINANCE DIRECTOR'S REPORT

REVENUE & CAPITAL ESTIMATES AND LEVY 2008/09	FOR APPROVAL
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1 Executive Summary

- 1.1 This report sets out the projected outturn for 2007/08, and the proposed budget and levy for 2008/09. The proposals set out in this report have been prepared in accordance with the ELWA financial strategy for the next three years.
- 1.2 In 2007/08 ELWA is projecting a year end underspend of £1,035,000, and it is projected that of the £600,000 original contingency, £390,000 will not be required. These surpluses will be transferred to revenue reserves at the end of the year, and it is proposed in this report that they are used to reduce the levy requirement in 2008/09.
- 1.3 It is proposed that ELWA agree a 2008/09 budget of £44,900,000, an increase of 12.8%. It has been announced that Landfill Tax is due to rise by £8 per tonne from 1st April 2008, this factor alone equates to £2.0 million in the pressures ELWA faces. The remainder of the increase relates principally to inflation and waste growth assumptions. To help offset this increase, it is proposed that the projected 2007/08 year-end underspend, including the unutilised contingency, of £1,425,000 will be applied in full together with a further drawdown of revenue reserves of £325,000. Also, the report recommends the utilisation of £7,400,000 of the PFI Contract reserve.
- 1.4 A levy requirement of £36,300,000 is recommended, an increase of 10.0%, of which 6.1% relates to the increase in landfill tax. The Finance Director's Financial Projection and Budget Strategy report agreed by Members in November 2007 highlighted a potential increase in the 2008/09 levy in the region of 10.6%. This has been reduced to 10.0% mainly as a result of more detailed work on the budget items and a further review of the level of the contingency and reserves.
- 1.5 The 2008/09 ELWA estimates are based upon the submitted Annual Budget & Service Delivery Plan (ABSDP) and it is recommended that provision is made in the contingency for additional, uncertain items such insurance benchmarking.
- 1.6 ELWA Members will understand the impact of its levy on the budgets and Council Taxes of its constituent boroughs, therefore as in previous years, a balance has been sought between prudent financial management that secures the long term operational viability of ELWA and keeping annual increases in the levy requirement to a minimum. 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.

- 1.7 A prudent level of reserves is 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.
- 1.8 The ELWA Management Board supports the contents and recommendations, and the Finance Service of each Constituent Council has been briefed on the issues in this report.

2 Introduction

- 2.1 This report presents the draft Revised Revenue and Capital Estimates for 2007/08 and the Revenue and Capital Estimates for 2008/09. Members are asked to consider the estimates and determine the levy for 2008/09.
- 2.2 The key strategic themes of this report were set out in the Financial Projection and Budget Strategy 2008/09 to 2010/11 report agreed at your last meeting.

3 Legal Background to Levy

- 3.1 ELWA is required to inform the Constituent Councils as to the amount of its levy requirement by the 15th 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.
- 3.2 There is no specific power enabling ELWA to make a supplementary levy during the course of the year should it require additional resources due to unforeseen circumstances. If borrowing (other than for normal cashflow management purposes) were required to finance a revenue deficit, this would be subject to the approval of, and any conditions laid down by, the Secretary of State.
- 3.3 The levy requirement is made up of the ELWA budget plus any contingency provisions, and drawings from or contributions to reserves including the PFI reserve.

4 Levy Apportionment

- 4.1 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.
- 4.2 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;
- 4.3 This levy report is prepared on the basis set out in paragraph above.

5 2007/08 Revised Revenue Estimate

- 5.1 The revised revenue estimate for 2007/08 is £38,755,000. This compares to the original revenue estimate of £39,790,000 and thus, represents a potential underspend for the year of £1,035,000. Appendix A shows a summary of these estimates.
- 5.2 The main budget variations for 2007/08 have been referred to in the regular budget monitoring reports and financial position update reports during this year. The position set out above, is slightly improved from that reported at your last meeting.
- 5.3 The main reasons for the surplus in 2007/08 is that the total tonnage of waste to be handled this year is lower than initially anticipated (£0.4 million), and improved investment income (£0.3 million), and recycling/disposal credits (£0.2 million). Tonnages are now expected to be in the region of 500,000 tonnes compared to the original estimate for 2007/08 of 506,000 tonnes. The additional investment income arises due to more favourable cash flows, and the expenditure on disposal credits has reduced largely due to clarification of producer responsibility in respect of abandoned vehicles. Other variations include reduced income from commercial waste, additional grant income, and reduced costs in respect of tonne mileage payments.
- 5.4 In 2007/08 a contingency of £600,000 was set. It is anticipated that £390,000 of this will not be required during the rest of the year. This together with the underspend will be added to Revenue Reserves. Appendix B1 contains further details regarding the utilisation of the 2007/08 Contingency.

6 Underlying Cost Pressures 2008/09

- 6.1 The basic elements of the ELWA budget are:
- the Shanks.east london's proposed ABSDP for 2008/09. The contractual costs is the key item of expenditure as the estimated annual contractual cost accounts for nearly 95% of ELWA's total gross expenditure;
 - the cost of services not subject to the IWMS Contract, for example, management of Aveley I site, strategy, support and administration costs;
 - offsetting income, for example, generated by commercial waste charges to the Boroughs, investment and bank interest receipts.
- 6.2 The key financial pressures in the preparation of the ELWA budget for 2008/09 are as follows:
- the full year effect of the 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 2008/09 is 509,000 tonnes. This key tonnage projection was part of the ABSDP report to the last ELWA meeting;

- a general rise in the cost of waste disposal including higher taxation (e.g. a further increase in landfill tax from £3 to £8 per tonne in each of the next few years);
- 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 2.37% to 15.00% depending on the item.

6.3 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.

7 2008/09 Net Revenue Estimate

7.1 The net revenue estimate for 2008/09 is £44,900,000 an increase of £5,110,000 (12.8%) over the 2007/08 original net revenue estimate. A summary of the detailed net revenue estimate for 2008/09 is contained in Appendix A. A detailed commentary is provided in paragraph 8, below.

8 Particular issues in the Net Revenue Estimate

8.1 Inflation

The 2008/09 detailed Revenue Estimates include provision for:

- increases in general costs, including pay, of between 2.5% and 15.0%;
- an inflationary rise of 2.37% in IWMS contract cost from 1st April 2008 in line with the indexation provisions within the contract.

8.2 IWMS Contract Costs

The financial year 2008/09 will be the sixth full year of ELWA's IWMS Contract with Shanks.east London. This is the single largest element (approx. 95%) 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 2008/09 ABSDP underpins the 2008/09 estimate and 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 2008/09. This report was deferred by Members for future consideration. The estimated costs have been used to prepare the levy projection for 2008/09. No assumptions have been made in terms of underperformance and possible penalties.

It is estimated that the annual contractual costs will be £47,701,000 in 2008/09. This represents an increase of £5,731,000 (13.7%) compared to 2007/08. 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.

The ABSDP assumes a total contract waste figure of 509,000 tonnes. The advice of Technical officers is that this tonnage estimate is reasonable and reflects normal trends in waste. For the purposes of setting the levy for 2008/09 a projection of 509,000 tonnes has been used which represents an increase of approximately 1.5% compared to the projected tonnage outturn for 2007/08.

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 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. The market rent is reviewed every five years and therefore the outcome of the first review is included in this sixth year of the IWMS Contract.

8.3 Landfill Allowances Trading Scheme

Under the Landfill Allowances Trading Scheme (LATS) if an Authority landfills more than a set allowance it will incur financial penalties, hence there is a potential market for surplus allowances. It now appears unlikely that there will be any LATS costs or penalties for ELWA in 2007/08 or 2008/09. The current value of any surplus allowances is unclear but is likely to be minimal, if anything at all, as most waste authorities expect to have annual surpluses. Consequently, this report assumes no income for any anticipated surplus Landfill Allowances accruing to the Authority for 2007/08 or 2008/09. 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.

8.4 Landfill Tax

For 2008/09 and beyond, the rate of landfill tax for 'active' waste is to increase by at least £8 per year on the way to a medium to long-term rate of £56 per tonne. There are expectations that this maximum figure will rise further in the near future.

From 1 April 2008 the new level of landfill tax for 'active' waste will be £32 per tonne. This is an increase of £8 per tonne from the 2007/08 rate. It is reflected in the IWMS contract pricing structure and effectively increases the ELWA levy by approximately £2.0 million (6.1%). The level of landfill tax for 'inactive' waste will increase to £2.50 per tonne with effect from 1 April 2008.

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.

8.5 Other EU Directives

Many of the recent EU initiatives to enforce producer responsibility have now been implemented and for example new arrangements are now in place for producer compliance schemes in respect of electrical and electronic equipment and end of life vehicles. These have reduced disposal costs for ELWA although some of those costs had been covered by specific grants. Further measures on producer responsibility namely the EU batteries and Accumulators Directive, on which the Government is consulting and which must be transposed into national law by September 2008, may have implications for 2008/09 depending upon the consultation outcome.

8.6 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. The formula has been updated by inflation in line with RPI of 2.5%. In addition, provision has been made for anticipated additional costs in respect of the diversion of vehicles from Jenkins Lane due to construction works at that site on the Orange Bag MRF facility planned between January 2008 to June 2008.

8.7 Officers

The estimates provide for the continuing costs of the approved staffing arrangements for ELWA, including the additional officer post agreed during the year.

8.8 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 services will be reviewed during 2008/09 to reflect changes in ELWA's requirements.

8.9 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 from £64.50 to £70.00 to reflect the increase in the average cost of waste disposal to ELWA. Following the implementation of EU directives on the subject, ELWA has ceased to pay disposal credits to the Boroughs in respect of abandoned vehicles as these are now subject to producer responsibility schemes.

8.10 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 continuous budget provision of £200,000 is included in the detailed 2008/09 Estimates. In addition a further provision of £250,000 is proposed for 2008/09 to support a co-ordinated partnership communications campaign across the ELWA area to reduce contamination and increase participation and set-out rates for recyclates.

8.11 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.

8.12 Commercial & Industrial Waste Charges

ELWA makes charges to Boroughs for commercial and industrial waste disposal based upon the tonnage disposed of. Under the IWMS Contract, Shanks.east london must accept and deal with this Council waste.

This stream of waste will count against the ELWA LATS allocation if it is landfilled. ELWA therefore needs to keep under consideration the impact of this waste stream, including the impact on LATS, when setting its commercial and industrial waste charges in the future. To reflect the increased average unit cost of the IWMS contract it is proposed that the normal charge for 2008/09 is increased from £69 to £80 per tonne. This reflects the increase in the average cost of waste disposal to ELWA and the assumption that this waste would be landfilled and therefore incur additional landfill taxes.

To incentivise Councils to recycle, a lower rate of £70 per tonne, compared to £64 in 2007/08, in respect of specific loads of recyclable commercial waste delivered to an ELWA site is recommended. This reflects the increase in the average cost of waste disposal to ELWA but with the saving that landfill taxes will not be incurred.

The proposed charges of £80 and £70, as set out above have been the subject of full consultation with Borough Officers.

The estimated income to ELWA for 2008/09 based on the latest forecast waste figures charged at the proposed new rates for 2008/09 (assuming all waste is charged at £80 per tonne) is shown below.

	<u>Estimate</u> <u>2007/08</u> <u>(tonnes)</u>	<u>Estimate</u> <u>Income</u> <u>2007/08</u> <u>(£'000)</u>	<u>Estimate</u> <u>2008/09</u> <u>(tonnes)</u>	<u>Estimate</u> <u>Income</u> <u>2008/09</u> <u>(£'000)</u>
Barking & Dagenham	8,766	605	8,800	704
Havering	11,685	806	11,700	936
Newham	14,862	1,025	14,900	1,192
Redbridge	14,415	995	14,450	1,156
	<u>49,728</u>	<u>3,431</u>	<u>49,850</u>	<u>3,988</u>

8.13 Other Supplies and Services

The detailed estimates for 2008/09 include specific budget provisions of £60,000 in respect of the ongoing biodegradability testing of landfill residues at Frog Island and Jenkins Lane and of £25,000 for recruitment costs.

9 **Capital Expenditure**

9.1 Through the IWMS Contract 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. The costs of this are reflected within the contract charges.

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 and 2008/09 but also, for example, when the Government's future targets for increased recycling and recovery are implemented. It is prudent to seek to smooth the impact on the levy over this period and over the term of the contract 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 was 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 2007/08 and 2008/09. The PFI Contract Reserve had been built up in accordance with paragraph 10.2 above and is to be released to partially offset and smooth the expected IWMS Contract cost increases in 2007/08, 2008/09 and future years. It is recommended in this report that £7,400,000 of these reserves be used to primarily fund the step increase in the IWMS contract cost for 2008/09, leaving a projected level of £13,535,000 as at 31 March 2009. Further drawings are planned in subsequent years.

	£'000
Balance as at 31.3.07	17,543
PFI credit received in 2007/08	4,537
Utilisation in 2007/08	(5,500)
Balance at 31.3.08	16,580
PFI credit to be received in 2008/09	4,355
Utilisation in 2008/09	(7,400)
PFI Contract Reserve balance at 31.3.09	13,535

11 The 2008/09 Contingency Reserve

11.1 In order to deliver a sustainable budget that is able to adapt to unknown factors, it is prudent for the Authority to set aside a provision or contingency, for these unknown events.

11.2 A number of items have been identified that may result in additional costs in 2008/09, although the timing and amounts are not certain. Without the agreement for a contingency, resources would not be available to fund these. The following items set out in paragraphs 11.5 to 11.8 have been identified, and very approximate estimates added in terms of their value.

11.3 The Contingency provision is made directly from the Revenue Reserves and as such does not impact upon the levy requirement.

11.4 The 2008/09 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.

11.5 IWMS Contract

A provision of £200,000 is recommended for potential costs related to the IWMS contract negotiations including the contractual insurance benchmarking arrangements and legal costs should a dispute arise during the course of the year or for other unforeseen circumstances.

11.6 Communications Plan

An independent review by the Waste and Resources Action Programme (WRAP) of communications activity by the partners (ELWA, Shanks and the Boroughs) has put forward a number of recommendations including a more co-ordinated approach allied with a significant increase in spending. Officers are considering the recommendations but have in principle accepted that enhanced waste awareness and recycling campaigns should improve recycling performances across the area. A £250,000 contingency provision is recommended for 2008/09. No resources will be sanctioned until approved by Members. A report to the next meeting will set out the partnership approach to be adopted and recommend the spending priorities for 2008/09.

11.7 Waste Regulation

A £100,000 contingency provision is recommended for 2008/09. This would be used to meet, for example, the cost of any unforeseen reaction to the Battery Directive, any additional costs that arise following the implementation of Hazardous Waste regulations, and any implications of the current debate around the definitions of household waste. There has been a lively debate during 2007 at a national level, about the definitions of waste, particularly household waste. In October 2007 the Department of Environment, Food and Rural Waste Affairs (Defra) issued a letter to English Waste Authorities on the classification and reporting of waste. The Defra interpretation of the definition of household waste was no surprise to ELWA Officers but some organisations are reviewing their current practices and procedures. This could result in the Boroughs being requested to collect more waste defined as household waste in the future for ELWA to dispose of.

11.8 Increased Tonnages

Shanks.east london's ABSDP for 2008/09 includes projected tonnages of 509,000. The cost of increases in waste volumes above this level has previously been provided in the contingency. However tonnage growth seems to have stabilised in the last few years. Therefore, no specific provision has been made in the contingency for 2008/09 but the situation will be kept under review on an annual basis.

11.9 Appendix B2 sets out the relevant details and indicates a total Contingency Reserve of £550,000 for 2008/09 (£600,000 in 2007/08). The release of the Contingency will be subject to further detailed reports during the course of the year as required.

12 **2008/09 Revenue Reserves**

12.1 ELWA must hold adequate balances to allow sufficient scope to cope with the strategic, operational and financial risks facing the Authority (in particular overspends), and also to allow flexibility to implement new developments.

12.2 The Local Government Act 2003 includes provisions that require Authorities to maintain an adequate level of balances. There are potential intervention powers if Government believes balances are at too low a level. In addition, under this Act the Finance Director must give his opinion on the adequacy of reserves and the robustness of the estimates.

12.3 There are a number of reasons for holding working balances and these include:

- A fund to cushion the impact of unexpected events – these can include potential overspends, which have been the main pressure on balances over recent years. In particular changing service demand or changes in government regulations, but can also include changes in inflation from projections, e.g. a 1% change in tonnages would have a £0.5 million impact on ELWA budgets.
- To help fund transitional pressures
- To help cushion the impact of uneven cash flows and avoid unnecessary borrowing

12.4 ELWA has accepted in previous years a minimum level of normal operational balances. ELWA's revenue balances at the end of 2007/08 are expected to be £9,372,000. It is recommended in this report that in total £1,750,000 of these reserves be used to fund the £550,000 contingency with the balance of £1,200,000 being used to support the levy for 2008/09, leaving a projected level of £7,622,000 as the overall revenue reserves as at 31 March 2009 (this assumes that net expenditure during 2008/09 is as per the original budget).

12.5 The Finance Director, in conjunction with other ELWA Directors, has undertaken the annual detailed exercise to review the risks faced by ELWA in 2008/09 and beyond (see Appendix C). In the light of this and recent years' experiences of financial volatility and uncertainty, the balances of £7.6 million are recommended by all the Directors.

12.6 It is important to stress again that ELWA cannot make a supplementary levy. Any net deficit must be managed via contingency and reserves.

12.7 The effect of the levy and expenditure on Revenue Reserves in 2007/08 and 2008/09 is shown below:

	£'000
Working Revenue Balance 1.4.2007	9,847
Transfer to support Levy for 2007/08	(1,900)
Estimated Addition to Balances in 2007/08 (Revenue underspend)	1,035
Unused 2007/08 Contingency	390
Estimated Working Balance at 31.3.2008	9,372
Transfer to fund Contingency for 2008/09	(550)
Transfer to support Levy for 2008/09	(1,200)
Projected Working Balance at 1.4.2008	7,622

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. concerning the proper environmental protection of the site and the continuation of existing operations on the site.

14 2008/09 Levy

14.1 The levy requirement is made up of the ELWA net revenue estimate plus minus any contingency provisions, and drawings from or contributions to reserves including the PFI reserve.

14.2 The levy for 2008/09 is recommended to be £36,300,000 including the contingency of £550,000 and after applying £7,400,000 from the PFI reserve and £1,750,000 of Revenue reserves. This represents an increase of 10.0% compared to 2007/08.

	<u>2007/08</u> <u>£'000</u>	<u>2008/09</u> <u>£'000</u>
Detailed revenue estimate	39,790	44,900
Contingency reserve	600	550
Withdrawal from Revenue Reserves	-1,900	-1,750
Withdrawal from PFI Contract Reserve	-5,500	-7,400
Levy Requirement	<u>32,990</u>	<u>36,300</u>

14.3 The Finance Director's Financial Projection and Budget Strategy report agreed by Members in November 2007 highlighted a potential increase in the 2008/09 levy in the region of 10.6%. This has been reduced to 10.0% mainly as a result of more detailed work on the budget items and a further review of the level of the contingency and reserves.

14.4 The apportionment of the levy between individual boroughs is as follows:

<u>Actual Levy 2007/08 £'000</u>		<u>Tonnages</u>	<u>Apportion Tonnages £'000</u>	<u>Band D Basis</u>	<u>Apportion Band D £'000</u>	<u>Proposed Levy 2008/09 £'000</u>
6,182	Barking & Dagenham	69,011	4,971	51,430	1,733	6,704
8,556	Havering	90,033	6,485	88,342	2,976	9,461
9,607	Newham	113,620	8,184	72,830	2,453	10,637
8,645	Redbridge	90,573	6,521	88,326	2,977	9,498
<u>32,990</u>	Total	<u>363,237</u>	<u>26,161</u>	<u>300,928</u>	<u>10,139</u>	<u>36,300</u>

14.5 For information purposes, the following gives the total levy and estimated commercial waste charge:

<u>Levy and Charge 2007/08 £'000</u>		<u>Levy 2008/09 £'000</u>	<u>Estimated Commercial Waste Charge 2008/09 £'000</u>	<u>Levy and Charge 2008/09 £'000</u>
6,867	Barking & Dagenham	6,704	704	7,408
9,653	Havering	9,461	936	10,397
10,487	Newham	10,637	1,192	11,829
9,530	Redbridge	9,498	1,156	10,654
<u>36,537</u>	Total	<u>36,300</u>	<u>3,988</u>	<u>40,288</u>

15 Levy Projections for 2009/10 and 2010/11

15.1 The Finance Director's Financial Projection and Budget Strategy report agreed by Members in November 2007 highlighted a potential levy in the region of £40.6 million for 2009/10 and £45.1 million for 2010/11 levies. The reserves position at the end of 2010/11 is projected to be £5.4 million for revenue reserves and £6.7 million for the PFI Contract reserve.

15.2 The levy forecasts for 2009/10 to 2010/11 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 position, apportionments and reserve figures for the next three years based on the data used for the 2008/09 levy apportionment is summarised in the table below:

	2008/09		2009/10		2010/11	
	£'000	Increase	£'000	Increase	£'000	Increase
Revenue Budget	44,900		48,869		52,059	
PFI Grant for year	-4,355		-4,181		-4,014	
Transfer to PFI Reserve	4,355		4,181		4,014	
Contingency	550		1,000		1,000	
Sub-Total	45,450		49,869		53,059	
Transfer from PFI	-7,400		-8,250		-6,750	
Transfer from Revenue	-1,750		-1,000		-1,250	
Total levy	36,300	10.0%	40,619	11.9%	45,059	10.9%
Levy apportionments						
Barking & Dagenham	6,704	8.4%	7,501	11.9%	8,321	10.9%
Havering	9,461	10.6%	10,586	11.9%	11,743	10.9%
Newham	10,637	10.7%	11,902	11.9%	13,204	10.9%
Redbridge	9,498	9.9%	10,630	11.9%	11,791	10.9%
Year End Reserves						
Revenue Reserves	7,622		6,622		5,372	
PFI reserve	13,535		9,466		6,730	
Capital reserve	400		400		400	

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

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 2008/09 levy.

18 Value For Money

18.1 ELWA has previously tendered and secured its IWMS Contract which accounts for nearly 95% of its gross total expenditure. This Contract has resulted in significant service improvements.

18.2 ELWA officers have taken into account the need to provide continuing value for money in the preparation and formulation of the 2008/09 levy and will continue to seek further improvements in the future in the area of the IWMS Contract and in other areas.

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 C 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:

- (i) the revised estimates for 2007/08, totalling £38,755,000 (paragraph 5.1);
- (ii) note the utilisation of the 2007/08 contingency as explained in paragraph 5.4;
- (iii) the revenue estimates for 2008/09, totalling £44,900,000 excluding contingency and contributions from reserves (paragraph 7.1);
- (iv) the charges for commercial and industrial waste and Disposal credits for 2008/09:

Disposal Credits	£70 per tonne	(paragraph 8.9)
Commercial & Industrial Waste – recyclable	£70 per tonne	(paragraph 8.12)
Commercial & Industrial Waste – other	£80 per tonne	(paragraph 8.12)

- (v) the utilisation of the PFI Contract Reserve of £7,400,000 for 2008/09 (paragraph 10.4);
- (vi) a Contingency Reserve of £550,000 for 2008/09 (paragraph 11.9);
- (vii) a contribution from Revenue Reserves of £1,750,000 (paragraph 12.4);
- (viii) that on the basis of (iii) to (vii) above, ELWA determines its levy for 2008/09 in the sum of £36,300,000 (paragraph 14.2);
- (ix) the policy on Reserves and associated criteria for use (paragraphs 10 to 13); and
- (x) the continuation of existing arrangements for the payment of the levy and funding of Constituent Councils in 2008/09 (paragraph 16).

Geoff Pearce
FINANCE DIRECTOR

Appendices

- A Summary of Original and Revised Revenue Estimates for 2007/08 and Forward Estimates for 2008/09
- B1 Contingency and Claims on Contingency for 2007/08
- B2 Proposed Contingency for 2008/09
- C Financial Risk Analysis 2008/09

Background Papers

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

EAST LONDON WASTE AUTHORITY**SUMMARY OF REVENUE ESTIMATES**

	<u>Original Estimate 2007/08 £'000</u>	<u>Revised Estimate 2007/08 £'000</u>	<u>Forward Estimate 2008/09 £'000</u>
<u>EXPENDITURE</u>			
<u>Employees</u>	412	412	436
<u>Premises Related Expenditure</u>	147	108	151
<u>Transport Related Expenditure</u>	14	5	14
<u>Supplies and Services</u>			
IWMS Contract payments	41,970	41,571	47,701
Other (inc cost of Support Services)	499	499	608
<u>Third Party Payments</u>			
Tonne Mileage Payments	600	525	600
Recycling/Disposal Credits	320	90	100
Recycling Initiatives	200	200	205
Rents Payable - Land Leases	210	215	267
<u>Capital Financing Costs</u>	285	285	256
Total Gross Expenditure	44,657	43,910	50,338
<u>Income</u>			
Commercial Waste Charges	-3,547	-3,431	-3,988
Interest on Cash/Bank Balances	-1,300	-1,600	-1,430
Rent from Aveley Methane Ltd	-	-	-
Other Income	-20	-124	-20
Total Income	-4,867	-5,155	-5,438
NET COST OF SERVICES	39,790	38,755	44,900
PFI Grant Received	-4,537	-4,537	-4,355
Transfer to PFI Contract Reserve	4,537	4,537	4,355
Contingency	600	210	550
	40,390	38,965	45,450
Transfer from PFI Contract Reserve	-5,500	-5,500	-7,400
Transfer from Revenue Reserve	-1,900	-1,900	-1,750
	32,990	31,565	36,300
Levy Receivable	-32,990	-32,990	-36,300
REVENUE SURPLUS FOR YEAR	0	-1,425	0

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CONTINGENCY AND CLAIMS ON CONTINGENCY FOR 2007/08

An overall contingency of £600,000 was set for the current financial year 2007/08 and to date there are actual and potential claims of £210,000 against this contingency.

	Contingency	Claims in-year	Note
	£'000	£'000	
General provision for unforeseen circumstances	100	45	1
Closed Landfill Sites - Provision for costs (inc insurance)	150	-	2
Provision for IWMS Contract negotiations (inc insurance benchmarking)	150	40	3
Waste Regulation including biodegradability testing	200	125	4
Total	600	210	

Notes:

Note 1. Costs relating to staff recruitment.

Note 2: No call on this contingency item is expected for 2007/08.

Note 3. Costs relating to Orange Bag Testing Trials and specialist advice.

Note 4: Costs relating to biodegradability testing at Frog Island and Jenkins Lane to be undertaken this year. Programme continues in 2008/09.

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EAST LONDON WASTE AUTHORITY
PROPOSED CONTINGENCY RESERVE FOR 2008/09

	<u>£'000</u>
A. Provision for IWMS Contract negotiations including insurance benchmarking or other unforeseen circumstances	200
B. Waste Regulation including Hazardous Waste, definitions of Household Waste and Disposal Credits to 3 rd Parties	100
C. Specific provision for an increased Communications Campaign	250
TOTAL	<hr/> 550 <hr/>

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EAST LONDON WASTE AUTHORITY

FINANCIAL RISK ANALYSIS FOR 2008/09 (as at January 2008)

Risk	Likelihood	Worst Case	Value of Risk
	%	£m	£m
Discriminatory law changes i.e. concerning waste management, definition, or regulation	30	0.6	0.2
General change in law – impact on IWMS contract - share of capital expenditure	10	5.0	0.5
New national and regional waste strategies	40	2.0	0.8
Urgent revenue and/or capital expenditure arising from unforeseen event (e.g. local disaster, strikes, extreme weather)	10	5.0	0.5
Landfill sites – pollution/other claims & costs – sudden or gradual events	5	10.0	0.5
Aveley Methane contingency plan for gas extraction	40	0.5	0.2
IWMS contract – termination payments (e.g. compensation for a Force Majeure event)	10	30.0	3.0
Waste increases above service plan assumptions	30	0.5	0.2
Resources to invest in improved performance	40	3.75	1.5
IWMS Contract – Construction and Operational Insurances – liability for uninsured losses and deductibles	40	0.5	0.2
TOTAL			£7.6m

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EAST LONDON WASTE AUTHORITY**04 FEBRUARY 2008****FINANCE DIRECTOR'S REPORT**

TREASURY MANAGEMENT STRATEGY 2008/09 AND PRUDENTIAL CODE INDICATORS 2008/09 TO 2010/11	FOR DECISION
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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.
- 1.3 It is a statutory requirement under Section 33 of the Local Government Act 1992, for the Authority to produce a balanced budget. In particular, a local authority is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level which is affordable within the projected income of the Authority for the foreseeable future. In addition it requires the Authority to set a number of Prudential Indicators for three years.

2 Treasury Management Strategy 2008/09

- 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/maturity of investments 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 2008/09

3.1 In February 2007, the Authority set Prudential Indicators for limits on external debt and upper limits on fixed rate and variable rate interest rate exposures for 2007/08. These have not been exceeded during the year.

3.2 ELWA's total borrowing of £2,144,000 at 31 March 2007 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 and 2008/09 the total PWLB borrowing maturing is £111,000 and £423,000 respectively. 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 2008/09 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 2009/10 and 2010/11:

Borrowing Requirement	2008/09 £'000	2009/10 £'000	2010/11 £'000
Capital Spending	500	-	-
Loan Redemptions	423	-	-
Less – Minimum Revenue Provision	(423)	-	-
Estimated Borrowing Requirement	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 It is recommended that to retain maximum flexibility for 2008/09 that the above 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:

	2008/09 £'000	2009/10 £'000	2010/11 £'000
External Debt b/f	2,033	2,533	2,533
Borrowing requirement	500	-	-
	2,533	2,533	2,533
Short term/cash flow needs and contingency provision	10,000	11,000	11,000
Authorised External Debt Limit	12,533	13,533	13,533

- 4.3 The significant level of short-term cash flow needs is to ensure sufficient cover for timing differences in the receipt and payment of the monthly IWMS Contract invoices.
- 4.4 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.
- 4.5 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 Authority's Capital Programme

- 5.1 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.
- 5.2 At this meeting Members need to consider the Prudential Indicators as part of the formulation of the 2008/09 levy which is set out in a separate report on this agenda.
- 5.3 There is currently no planned Capital Programme for 2008/09 to 2010/11 except in relation to the need to undertake any work following the outcome of the current landfill site surveys.
- 5.4 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 C.

6 Annual Investment Strategy 2008/09

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

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 Prudential Indicators for capital expenditure as set out in Appendix C; and
- (d) the Annual Investment Strategy as set out in Appendices D and E.

G Pearce
FINANCE DIRECTOR

Appendix

- A Treasury Management Policy Statement
- B Treasury Management Prudential Indicators
- C Prudential Indicators for capital expenditure
- D Annual Investment Strategy 2008/09
- E Investment Criteria

Background Papers

None

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.

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TREASURY MANAGEMENT PRUDENTIAL INDICATORS

Authorised Limit for External Debt	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	12,533	13,533	13,533
Other Long Term Liabilities	-	-	-
TOTAL	12,533	13,533	13,533

Operational Boundary for External Debt	2008/09 £'000	2009/10 £'000	2010/11 £'000
Borrowing	7,033	7,110	7,110
Other Long Term Liabilities	-	-	-
TOTAL	7,033	7,110	7,110

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)	2008/09 £m	2009/10 £m	2010/11 £m
Fixed Rate	(8.0)	(7.5)	(5.0)
Variable Rate	(35.0)	(30.0)	(25.0)

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	20%	0%
12 Months and within 24 months	40%	0%
24 Months and within 5 years	60%	0%
5 Years and within 10 Years	80%	0%
10 Years and above	100%	0%

Upper Limit for Total Principal sums invested for more than 364 days	2008/09 £m	2009/10 £m	2010/11 £m
Total	10	7.5	5.0

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PRUDENTIAL INDICATORS (relating to Capital Expenditure)

1. Capital expenditure

	2008/09 estimate £'000	2009/10 estimate £'000	2010/11 estimate £'000
Total	500	-	-

2. Ratio of financing costs to net revenue stream

	2008/09 estimate	2009/10 estimate	2010/11 estimate
	%	%	%
Ratio	0.7	0.6	0.6

3. Capital Financing Requirement

Measurement of the underlying need to borrow for capital purposes.

	2008/09 estimate	2009/10 estimate	2010/11 estimate
	£'000	£'000	£'000
Total	1,465	1,384	1,307

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

	2008/09 estimate	2009/10 estimate	2010/11 estimate
	£'000	£'000	£'000
On Total Levy	-	-	-

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ANNUAL INVESTMENT STRATEGY 2008/09

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

Specified Investments are those investments that offer high security and liquidity. They must have a maturity of no longer than 364 days.

Non-Specified Investments are those investments deemed to have a greater potential of risk, such as investments for longer than one year or with institutions that do not have credit ratings, like some Building Societies. Limits must be set on the amounts that may be held in such investments at any one time during the year. The Authority's approved Specified and Non Specified Investments are detailed at Appendix E.

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 £21 million - £32 million in 2008/09.

3.2. The minimum amount of its overall investments that the Authority will hold in short-term investments is £10 million to ensure sufficient liquidity to meet timing differences in payments especially, in respect of the monthly IWMS contract invoices.

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 £10 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.

CREDITWORTHINESS

Credit Ratings - The Authority adopts a range of credit rating criteria. Creditworthiness is based mainly on the credit ratings supplied by Fitch Ratings Ltd, one of the leading ratings agencies. Information provided by the other two principal rating agencies - Moody's, and Standard & Poors is taken into consideration where appropriate. Credit ratings are provided for long-term and short-term creditworthiness. For Banks there are individual and support ratings. Fitch use letters and numbers to denote ratings. Ratings are internationally comparable.

Traditionally Building Societies were un-rated as their primary business is one of savings and mortgage lending. In recent years however, a number of the larger Building Societies have sought credit ratings. Investment in a credit rated Building Society for less than one year is therefore a specified investment. Building Societies who do not have a credit rating will need to continue to meet the Authority's existing approved criteria.

Credit Rating Criteria

Following advice on suitable credit rating criteria received from the Authority's treasury advisers, the Authority has previously determined the minimum long-term, short-term and other credit ratings it deems to be "high" for each category of investment and this is set out in the Authority's Treasury Management Practices document.

Credit rated deposit takers - will be required to meet a combination of the following criteria:

Category	Authority Criteria		Range of Fitch ratings	
	Highest	Lowest	Highest	Lowest
Long term credit	AAA	A	AAA	D
Short term credit	F1+	F1	F1+	D
Individual standing	A	C	A	E
Support	1	3	1	5

Long Term – relates to long-term credit quality;

Short Term – relates to short-term credit quality;

Individual – Strength of the organisation;

Support – Fitch's assessment of whether the bank would receive support if necessary.

These credit rating criteria will be used for all specified and non-specified investments.

Other Non-Specified Investments

- **Un-rated Mutual Building Societies** – The society must have at least £1bn capitalisation and be ranked in the top twenty building societies. **Investment is restricted to one year.**

- **Un-rated Banking and Building Society Subsidiaries** – Parent company credit ratings must meet the requirements for other credit rated deposit takers. **Investment is restricted to one year**
- **Non UK Government Bonds and Supranational Bonds** – Bonds must be AAA rated or Government backed. **Professional advice required. Long-term investment likely to be undertaken by an external fund manager.**

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

All investments must be sterling-denominated.

Investment	Security / ELWA Minimum Credit Rating	Use
Term deposits with the UK government or with English local authorities	High security	In-house
Term deposits with other LA's	High security	In-house
Term deposits with credit-rated banks, including callable deposits	Short term F1+, Long term A Individual C, Support 3 or Short term F1, Long term A Individual C, Support 3	In-house
Term deposits with credit-rated building societies	Short term F1, Long term A Market capitalisation over £1bn	In-house
Money Market Funds	AAA rated and assets of at least £100m.	In-house
UK Government Gilts : up to 1 year	Government backed	To be used in-house after consultation/ advice from Treasury Advisor or use an external fund manager.
Forward deals with credit rated banks < 1 year (i.e. negotiated deal period plus period of deposit)	Short term F1+, Long term A Individual C, Support 3 or Short term F1, Long term A Individual C, Support 3	In-house
Certificates of Deposit issued by banks and building societies.	Short term F1+, Long term A Individual C, Support 3 or Short term F1, Long term A Individual C, Support 3	External Fund Manager
Gilt Funds and Bond Funds	Long Term A	External Fund Manager
Treasury bills [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]	Government Backed	In-house or use external fund manager.

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

Investment	ELWA Minimum Credit Criteria	Maximum maturity Period	Use
Term deposits with the UK government or with English local authorities	High security	5 years	In-house
Term deposits with credit rated banks	Short term F1, Long term A Individual C, Support 3	5 years	In-house
Callable deposits with credit rated bank	Short term F1, Long term A Individual C, Support 3	5 years	In-house after consultation/ advice from Treasury Advisor
Forward deposits with credit rated banks	Short term F1, Long term A Individual C, Support 3	5 years	To be used in-house after consultation/ advice from Sector.
Term deposits with credit-rated building societies	Short term F1, Long term A Market capitalisation over £1bn	5 years	In-house
Deposit with un-rated building society	Market Capitalisation over £1b, rank in top 20 building societies.	1 year	In-house
Sovereign issues ex UK govt gilts : any maturity	AAA	5 years	Advice from Treasury Advisor. Use external fund manager
Deposits with un-rated bank	Bank's parent must be rated. Short term F1, Long term A Individual C, Support 3	1 year	In-house
Bonds issued by multilateral development banks	AAA	5 years	In house and External Fund Manager
Certificates of Deposit issued by banks and building societies.	Short term F1, Long term A Market capitalisation over £1bn	5 years	External Fund Manager
Bonds issued by a financial institution guaranteed by the UK Government		5 years	In house and External Fund Manager

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EAST LONDON WASTE AUTHORITY**4 FEBRUARY 2008****EXECUTIVE DIRECTOR'S REPORT**

RISK STRATEGY – UPDATE FOR 2008/09	FOR APPROVAL
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1 Purpose

1.1 To update the Risk Register approved last year (Minute 1476).

2 Background

2.1 A Risk Management Strategy was approved in 2006 (Minute 1405)

2.2 The Risk Registers and a Risk Matrix were further developed last year with the support of a risks management consultant from the JLT Group (who are also the Authority's insurance advisers) and the Insurance and Risk Manager at the London Borough of Redbridge.

2.3 This report reviews and updates the Risk Registers in the light of current information.

2.4 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 Risk Register

3.1 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 paragraph 3.2.

3.2 The Registers have been reviewed and with a further year's experience some risks have been down-rated in terms of likelihood and/or impact. Strategic Risk No. 4 has been up-rated, while the Annual Budget and Service Delivery Plan for 2008/09 is the subject of discussion.

3.3 The Risk Registers assess 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. In order to simplify this report only the Net position is displayed in Appendix C1.

4 The Risk Matrix

4.1 Appendix C sets out a Risk Matrix.

4.2 Taking account of the high level controls in place and the mitigation arrangements, the Net Risk Matrix is presented in Appendix C1.

4.3 Risk items placed in the top right (heavily shaded) of the Risk Matrix need to be considered as a priority in terms of further controls and mitigation (as far as that is possible).

4.4 There are still two Strategic Risks (items 6 and 10) in this category, even after the application of High Level Controls and Mitigation Measures. (Item 6 would be in this position in the Risk Matrix of most Local Authorities where the service is outsourced and Item 10 would be in this position in the Risk Matrix of most Waste Disposal

Authorities because of the amount of environmental regulation and legislation at the present time).

- 4.5 There are no Operational Risks currently in the top right of the Risk Matrix Table, ie. needing priority consideration at this time. However, there are two Operational Risks (8 and 9) in the middle (shaded) area where the contingency plans need to be regularly reviewed.
- 4.6 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. The values attributed to each category of risk have been reviewed to reflect the current circumstances, and the Authority's higher level of turnover and resources.

5 Financial Implications

- 5.1 Most of the work to update the Register and Matrix this year has been carried out by Arden House staff with support from the Risk & Insurance Manager at the London Borough of Redbridge. Limited external advice has been sought from the Authority's insurance adviser which will incur costs of less than £1,000.
- 5.2 The development of any further 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.
- 5.3 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. This assessment is included in the Levy Report elsewhere on the Agenda.

6 Conclusion and Recommendations

- 6.1 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.
- 6.2 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 Net Risk Matrix in Appendix C1;
 - 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 – Net	
C2	The Risk Matrix - Definitions	
Background Papers		
06/02/06	Authority Report and Minute 1405	Risk Strategy
05/02/07	Authority Report and Minute 1476	Development of Risk Registers
23/12/02	IWMS Contract	Risk Matrix

RISK MANAGEMENT STRATEGY



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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Agenda Item 5 - Appendix B1

ID Number	Risk Description	Consequences	Category	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
				Gross	Net	Gross	Net			
1	Abolition of the Authority	<ol style="list-style-type: none"> Higher precept costs Disruption to waste disposal planning Adverse media attention Four Boroughs more remote from service. 	Corporate	2	2	2	2	Legislation required Political opposition / London Councils	Compatible strategic goals with GLA	Managing Director
2	Corporate divisions and disagreements	<ol style="list-style-type: none"> Delayed decision making 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
3	Withdrawal of cooperation of Borough(s)	<ol style="list-style-type: none"> Long term future of partnership in doubt Relationship with contractor suffers. Performance falls 	Partnership	2	2	3	2	Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.	IWMS Service Delivery Plans	Board
4	Breakdown of relationship with Shanks Waste Management Ltd	<ol style="list-style-type: none"> Non co-operation by Contractor Problems not resolved. Performance suffers. Eventual failure of PFI contract 	Partnership	3	2	3	3	Contractual Provisions & Penalties. Role of ELWA Ltd to resolve. Dispute Resolution Procedures in Contract.	Partnership interfaces at all levels. IWMS Service Delivery Plans.	Executive Director
5	Major Service failure by ELWA Ltd	<ol style="list-style-type: none"> Re-tender costs for ELWA. Adverse media attention. Massive threat to services 	Performance	2	2	3	3	Representation on ELWA Ltd Board. Contract Monitoring by ELWA, Boroughs and London Remade. Intervention by the Banks.	Service Delivery Plans include contingency arrangements. Penalty regime for service failures. Parent Co. guarantee	Operations Director
6	Termination of IWMS Contract e.g. on Force Majeure event or insolvency of Shanks Waste Management Ltd	<ol style="list-style-type: none"> Re-tender costs for ELWA Ltd Adverse media attention Disruption of services 	Financial	2	2	4	4	Provisions in IWMS Contract 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
7	Failure to effectively manage waste in accordance to regulations	<ol style="list-style-type: none"> Site closures Waste not dealt with Fines Adverse media attention 	Environmental	1	1	3	3	Contractual requirements. 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
8	Instantaneous pollution event on a closed landfill site e.g. explosion	<ol style="list-style-type: none"> Clear-up costs Scrutiny of techniques used Adverse media attention Local resident concerns H&S Event Financial penalties by EA Prosecution On-site remediation 	Environmental	2	2	3	2	Site engineering pre 1990 Risk assessments in 2005 Inspection by on-site staff.	Insurance cover is in place for rapid or instant event.	Technical Director

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	<ol style="list-style-type: none"> 1. Clear-up costs 2. Scrutiny of techniques used 3. Adverse media attention 4. Local resident concerns 5. Financial penalties eg EA 6. Prosecution 7. On and off site remediation 	Environmental	3	2	3	3	<p>Site engineering pre 1990 Risk assessments in 2005 Bi Annual testing since 2005</p>	<p>Periodic review of availability of Environmental impairment liability insurance is undertaken by advisors.</p>	Technical Director
10	New statutory requirements	<ol style="list-style-type: none"> 1. New investment required. 2. Change in contract negotiated. 	Legislative	3	2	3	3	<p>Maintain high level of national involvement and expertise.</p>	<p>Contingency plans. Change of law provisions in IWMS Contract.</p>	Executive Director
11	Financial reserves are too low to meet unforeseen circumstances	<ol style="list-style-type: none"> 1. Progress is limited by lack of resources 2. Subsequent levy increases are unpredictable 	Finance	2	1	2	2	<p>Medium Term financial strategy. Risk Management strategy. Joint strategies with Borough and Contractor.</p>	<p>Maintain risk register. Maintain reserves at adequate level. Keep insurances under review. Awareness of potential new regulations.</p>	Financial Director
12	Performance of ELWA adversely impacts upon the four Borough's CPA scores	<ol style="list-style-type: none"> 1. Failure in joint working and joint planning 2. Disputes hamper progress 3. Pressure on future ELWA strategies 4. Impact on contractor 	Performance	3	2	2	2	<p>Joint Waste Management Strategy. Open dialogue at all levels with Boroughs.</p>	<p>IWMS Service Delivery Plans. ELWA staff support CPA process in Boroughs.</p>	Board
13	Loss of key staff / lack of succession planning	<ol style="list-style-type: none"> 1. Authority fails to meet statutory requirements. 2. Lack of knowledge and experience in monitoring the PFI contract. 3. Loss of strategic direction. 	Performance	3	2	2	2	<p>Review structure. Additional members of staff. Succession planning</p>	<p>Use of advisors. Arrangements with London Remade. Involvement of Borough Officers.</p>	Managing 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 to 2007
- B Annual review of Insurance Arrangements
- C Work Plan Monitoring ELWA Management Board 2007
- D IWMS Contract Provisions 2002
- E ELWA Constitution
- F Joint Waste Management Strategy 2005
- G Medium Term Financial Forecasts and Levy Reports annually
- H Annual External and Internal Audit Reports
- J Contingency Reviews in Service Delivery Plans

Agenda Item 5 - Appendix B2

East London Waste Authority (ELWA) Ltd – Operational Risk Register January 2008

ID No.	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
1	Loss of Arden House and documents contained within	<ol style="list-style-type: none"> Unable to access important documents Loss of critical data Monitoring and reporting are weakened 	2	2	2	1	Landlord responsibilities for accommodation. Daily IT backup by LBBD	Key contractual documents held elsewhere (Wragge & Redbridge). IT link up for home-working or hot desking within LBBD. Insurance	Office Manager
2	Closure of public waste disposal site	<ol style="list-style-type: none"> Unable to receive waste from public Potential for fly tipping near the site Adverse local media attention Poor perception of the Authority 	2	1	2	1	Contractual performance requirements. Alternative sites if one closes	Penalty regime on contractor.	Assistance Executive Director
3	Trespass on closed landfill site leading to death / serious injury	<ol style="list-style-type: none"> HSE / Police investigation Adverse national media attention ELWA security provisions called into question 	2	2	3	2	Quarterly review of site security. Appropriate signage	Insurance cover.	Assistance Executive Director
4	Closure of a key waste facility	<ol style="list-style-type: none"> Service to Boroughs disrupted Significant costs if a long period. 	2	1	3	2	Contractor contingency plans.	Penalty regime on contractor. ELWA Ltd Insurances	Assistance Executive Director
5	Major Health & Safety event at a waste site or at office	<ol style="list-style-type: none"> HSE / Police investigation Adverse national media attention ELWA Ltd safety provisions called into question Disruption to admin 	2	2	2	1	Contractual requirements. Contract Monitoring Landlord requirements.	Penalty regime on contractor. Contractor Health and Safety procedures monitored.	Assistance Executive Director / Office Manager
6	Major failure of technology e.g. shakers / pushers / Screens / Conveyors	<ol style="list-style-type: none"> Performance is poor Viability of contract is in doubt 	3	2	3	2	Contractual performance requirements receive waste.	Penalty regime on contractor. ELWA Ltd insurance cover.	Assistance Executive Director
7	High level of customer complaints	<ol style="list-style-type: none"> Poor perception of the Authority Adverse media attention Indicator of contractor failure? 	2	2	2	2	Contractual service requirements. Complaints monitoring systems.	Penalty regime on Contractor. Contract monitoring by ELWA, Boroughs and London Remade	Contracts Manager
8	Extreme weather conditions e.g. Heavy snow, flood	<ol style="list-style-type: none"> Failure to transfer waste to landfill sites Backlog of waste High cost of clearance 	3	3	2	2	Contractual service requirements.	Contractor contingency plans. Thames Barrier. Borough diversions.	Assistance Executive Director
9	Discovery of hazardous substances	<ol style="list-style-type: none"> Suspension of activities Cost of removal and treatment of substances 	3	3	2	2	Contractual service requirements.	Specific contractor arrangements for hazardous waste. Contingency plans.	Assistance Executive Director
10	Failure to meet stakeholder expectations	<ol style="list-style-type: none"> Criticism of ELWA and ELWA Ltd 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
11	Increased risk of enforcement notice due to failure to comply with Regulations	<ol style="list-style-type: none"> Contractor's costs increase Indicator of that viability of contract is in doubt 	2	2	3	2	Contractual performance requirements. Contract monitoring	Penalty regime on contractor.	Executive Director
12	Lone working (both office and site)	<ol style="list-style-type: none"> Personal attack on a member of staff Personal injury/incapacity not discovered 	2	2	1	1	Risk assessments.	Security arrangements with Arden House. Working practices and communication equipment on sites. Insurance	Executive Director
13	Operational incidents on landfill site e.g. leachate overflow	<ol style="list-style-type: none"> High cost of remediation and correction Adverse media attention 	2	2	2	2	Site engineering pre 1990. Risk assessments in 2005 Bi-annual testing of gas equipment.	Insurance re: sudden events	Assistance Executive Director

ID No.	Risk Description	Consequences	Likelihood		Impact		High Level Controls	Mitigation Controls	Risk Holder
			Gross	Net	Gross	Net			
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	1	2	1	Inspection by on-site staff. Authority's anti fraud and corruption strategy. Contractual provisions on corrupt gifts and fraud.	Insurance. Internal and external audit.	Financial Director
15	Poor performance of collecting authorities	1. Failure to meet Borough recycling targets. 2. Failure to meet ELWA Pooled/Contractual Targets	2	1	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
16	Insufficient waste produced to meet contract minimums	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.	Executive Director
17	Asset obsolescence over the term of the contract, or changed performance requirements	1. Contract renegotiation required if performance falls 2. Contract renegotiation if targets changed and assets do not meet new targets	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.	Assistance Executive Director
18	Waste produced in excess of contract maximums	1. Contract renegotiation or tendering process for excess 2. Disruption to services.	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
19	Waste increases above budgetary assumptions	Costs increase pro rata to waste increase	2	2	2	2	Service Delivery Plans Budgetary Control	Waste minimisation National Legislation on producer responsibility	Assistant 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

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Application of the Risk Registers to the Risk Matrix

Agenda Item 5 - Appendix C1

Net Strategic Risk items placed in a Matrix

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

Net Operational Risk items placed in a Matrix

Likelihood				Minimal (1)	Moderate (2)	Critical (3)	Calamitous (4)
Almost Certain (4)							
Likely (3)		8,9					
Unlikely (2)	1, 5, 12	3, 6, 7, 10, 11, 19					
Improbable (1)		2	4, 14, 16, 18				
				Impact			

Likelihood	0% - 5%	6% - 35%	36% - 75%	76% - 100%
Likelihood Assessment for Risk Matrix	1	2	3	4

Impact	Minimal	Moderate	Critical	Calamitous
Cost	Up to £50k	£50k to £2m	£2m to £5m	above £5m
Service	Minor disruption	Service disruption	Significant disruption	Total service loss
Reputation	Isolated complaints	Adverse local media coverage	Adverse national media coverage	Ministerial intervention
Impact Assessment for Risk Matrix	1	2	3	4

The table above illustrates likelihood assessment criteria and the impact definitions in terms of cost, service disruption and damage to reputation. This table of definitions has been applied to Appendices C1.

(Contact Officer: Dave Hawes - Tel. 020 8270 4980)

EAST LONDON WASTE AUTHORITY**4th FEBRUARY 2008****CONTRACT MANAGER'S REPORT**

RENT REVIEW – RRC SITES	FOR APPROVAL
--------------------------------	---------------------

1 Purpose

- 1.1 To provide the Members with details of the revised valuation of the market rent for the borough sites managed within the IWMS contract.

2 Background

- 2.1 At the commencement of the IWMS contract a number of sites previously managed by the individual boroughs were incorporated into the contract. It was agreed at that time that the boroughs should be paid an annual fee for these leases at a sum established by the District Valuer Services.
- 2.2 At that time it was also agreed that this valuation should be reviewed every 5 years, as the contract commenced December 2002 the review is now due.

3 Re Evaluation

- 3.1 The District Valuer was instructed to carry out the re-evaluation the result of which were :-

	Existing		Revised	
	PA (£)	Qtr (£)	PA (£)	Qtr (£)
Land adjacent to Jenkins Lane	16,600	4,150	23,000	5,750
Ilford Recycling Centre	54,000	13,500	63,000	15,750
Chigwell Road site	39,500	9,875	53,500	13,375
Gerpins Lane site	45,000	11,250	67,000	16,750
Frizlands Lane site	43,000	10,750	60,000	15,000
Total	198,100	49,525	266,500	66,625

4 Financial Implications

- 4.1 As a result of the review the payment to the boroughs has risen by £68,400 pa, a rise of 35% [average 7% per year]. As this review was anticipated, provision for the increase for the last quarter of this year is contained within existing budget.
- 4.2 Provision has been made for the increased rent payments in the Estimates for 2008/09 reported elsewhere on this Agenda.

5 Recommendations

5.1 Members are requested to:-

- i) approve the updated lease payments to the Boroughs for Borough sites included in the IWMS Contract arrangements.

Dave Hawes
CONTRACT MANAGER

Appendix	
	None
Background Papers	
	District Valuer's report

*(Contact Officer: John Wilson- Tel. 020 8270 4997)***EAST LONDON WASTE AUTHORITY****4th FEBRUARY 2008****ASSISTANT EXECUTIVE DIRECTOR'S REPORT**

CONTRACT PERFORMANCE - APRIL TO DECEMBER 2007	FOR INFORMATION
--	------------------------

1 Purpose

- 1.1 To report on the performance of the Integrated Waste Management Strategy (IWMS) Contract for the period April to December 2007.

2 Tonnage Data and Contract Payments

- 2.1 As can be seen from Appendix A the tonnage for this period was 382K tonnes, approximately 8k tonnes less than anticipated in the Annual Budget & Service Delivery Plan, producing a saving against budget to date of £560k.

2.2 Site Operations

- 2.3 There have been no major changes to operational facilities since July.

- 2.4 All the RRC sites operated over the Christmas/New Year holiday periods without any problems of note. The two major Bio Mrf sites continued to receive borough wastes as per the revised collection schedules despite varying problems at the sites due to equipment breakdowns, which were compounded by the as expected post Christmas increase in wastes.

3 Contract Monitoring

- 3.1 Due to the revised collection programmes over Christmas and the expected increase in RCV collected wastes the monitoring emphasis was placed upon Frog Island and Jenkins Lane. The on site monitoring confirmed the throughput of waste was being frequently interrupted by the difficulties in maintaining a continuing and efficient Optibag process.

4 Recycling Performance

- 4.1 The revised Service Delivery Plan, agreed by the Board in March 2007, anticipated that to achieve a year-end percentage of 22% for 2007/08, recycling and composting performance would need to rise from approximately 18.4% in April 2007 to over 25% in March 2008. The recycling performance from April to December is shown in Appendix B. This was 16.74%, which is lower than the cumulative 24.5% that was projected in Shanks' revised plan. The performance in the month of December fell to 13.91%. This was due to the low green wastes and low dry recyclates separated at the RRC sites and that no glass was recycled from the Bio Mrfs. This poor recycling performance brings the projected 24% level for January through to March into a sharper focus since the present circumstances indicate that these future projections are also certain to be missed.

- 4.2 The lower than expected recycling/composting performance reflects the low seasonal recyclates at the RRC sites, and under performance of the Orange Bag recycling and more significantly the delays to 'back end' recycling from the refining section of the Bio Mrfs. These consist of recycling a glass fraction, and composting a 'fine' fraction (less than 6mm in size). The loss of this 'back end' recycling has had a 6% impact on Shanks being able to meet their overall recycling performance.
- 4.3 The composting of the 'fine' fraction will not happen this financial year, because facilities to receive this material have not yet been secured and its ultimate end use not yet proven. The most likely outlet to receive this material has first to obtain permissions to build new vessels to increase capacity, and is not expected to be in place before next June. Meanwhile other potential outlets are being actively pursued by Shanks.
- 4.4 Although the promised glass contract got off to a good start in November it then faltered when the receiving contractor had problems with his cleaning systems. Whether this was due to this glass or some other reason is yet to be proven and investigations are ongoing. The bottom line however is that no glass was delivered in December which seriously affected that months recycling performance.
- 4.5 In principle the two options for the glass and 'fines' are feasible, but depend upon third parties who are not directly in Shanks' control and Shanks' alternatives are at the moment limited. Therefore, any closure of these outlets has immediate repercussions on the overall recycling rate, because the weighted increased performance for the winter months needed to compensate for the under performance in the early part of the year assumed these facilities would be available. The lack of a composting option has added extra emphasis and significance to this glass recycling. Although Shanks are dealing with this glass issue with the Contractors and trials and new equipment are being commissioned, these efforts unfortunately take time to install and are therefore not an immediate remedy.
- 4.6 Although efforts are being made for alternative locations, and various cleaning trials are being pursued, based upon the performance for the first nine months and the reasoning given above, the achievement of the 22% recycling target for 2007/8 looks impossible.
- 4.7 Appendix B shows the recycling and composting performance for April to December compared to the agreed revised plan proposed by Shanks' for 2007/08 and compared to the similar period for last year.

5 Diversion from Landfill

- 5.1 The contractual target for diversion from landfill is 40% for 2007/8. This target is being exceeded with a diversion of 44.71% due to the success of the SRF market. This also provides the Authority with a potential LATS benefit.
- 5.2 The performance against LATS allowances for 2007/8 is shown at Appendix C. This shows a surplus of 50341 allowances for the above period i.e. a greater diversion of biodegradable waste from landfill than was necessary to meet the government target.

5.3 Unfortunately, to date, there is still not a 'market' for the sale of surplus LATs , and is likely to remain the same for the remainder of this year, with the majority of the WDAs having sufficient allowances to meet their 2007/8 targets, and therefore will be potential sellers not buyers. Therefore although these Allowances have a potential value, without a buyer this cannot be realised. ELWA currently has 109706 allowances banked.

6 Conclusion

- 6.1 Overall waste levels for this nine month period, although increasing over 2006/7, are lower than projected.
- 6.2 Recycling and composting performance averaged 16.74% compared to the 22% recycling performance required under the contract. Shanks continue to suffer a loss in financial supplements arising from the lower than required recycling performance.
- 6.3 The 45% diversion from landfill is better than projected which reflects the continued success for the Secondary Recovered Fuel (SRF) recovery.
- 6.4 The low recycling performance for 2007/8 and the difficulty in recovering lost ground, emphasises the need for the recycling rate to get off to a good early start in the 2008/9 financial year.

7 Recommendation

Members are asked to note this report.

John Wilson
ASSISTANT EXECUTIVE DIRECTOR

Appendices

- A Contract Waste Performance 2006/07 and 2007/08
- B Contract waste recycling & composting performance 2006/07 and 2007/08
- B1 Monthly contract recycling
- C Performance against LATS target

Background Papers

None

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Contract Waste 2006-7 and 2007-8

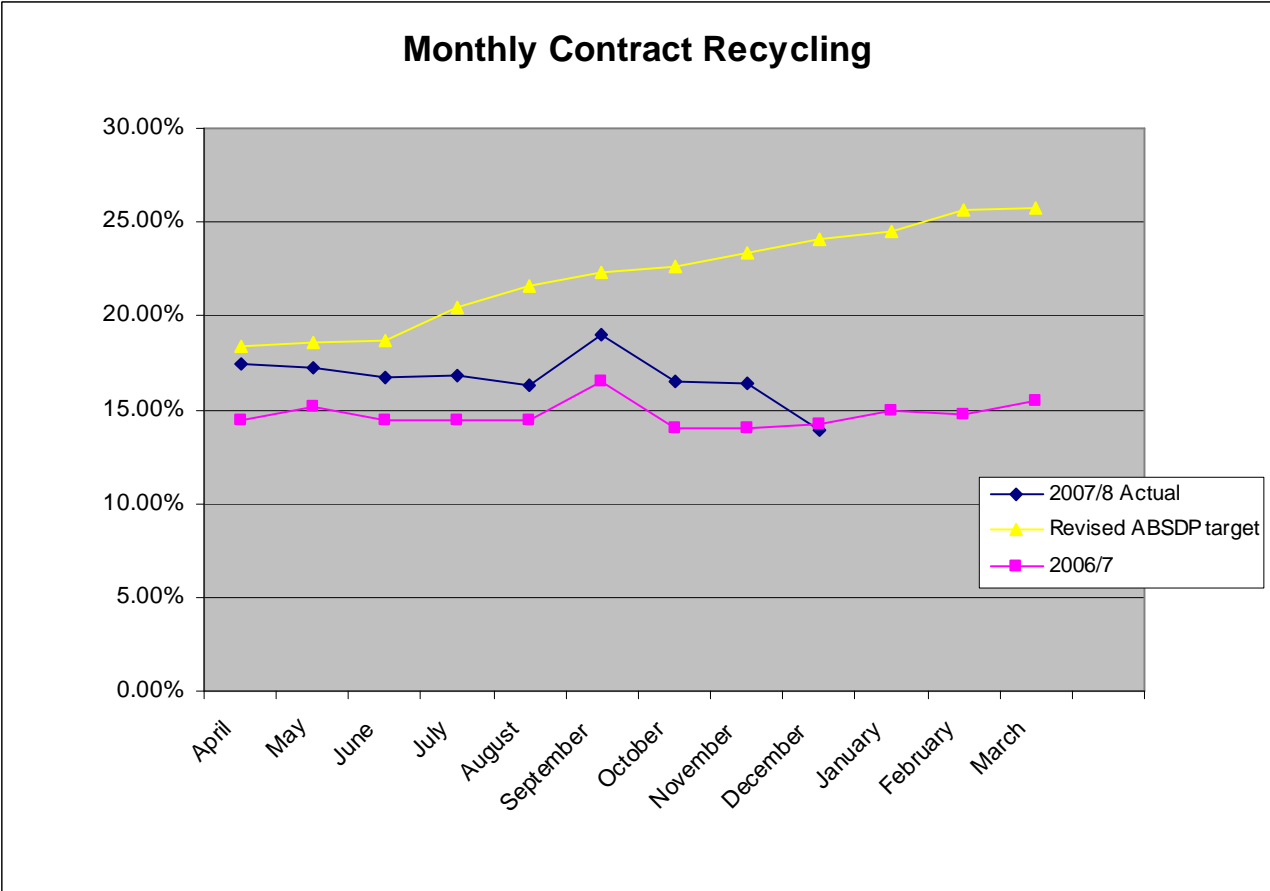
	Contract Tonnages						Contract Sums £K		
	ABSDP		Actual Tonnage		RRC Tonnage		2006/7	2007/8	
	2006/7	2007/8	2006/7	2007/8	2006/7	2007/8	Actual	ABSDP	Actual
April	45511	41984	40573	42736	8178	9895	£2,658	£2,865	£2,885
May	43378	47106	45523	43237	8484	8205	£2,869	£3,124	£3,019
June	47851	49818	48144	43209	9533	8517	£2,954	£3,198	£2,956
July	42148	42726	41277	44372	6913	8572	£2,695	£3,759	£3,730
August	42771	43578	42113	45446	6963	10103	£2,732	£3,797	£3,796
September	45056	44385	42869	42778	7617	8807	£2,758	£3,774	£3,688
October	40311	40948	41114	43339	6113	7719	£2,705	£3,680	£3,768
November	40915	41738	40719	41001	5533	6866	£2,667	£3,656	£3,614
December	38838	38351	35895	36227	4418	5359	£2,471	£3,564	£3,396
9 Months to December	386779	390634	378227	382345	63752	74042	£24,509	£31,416	£30,852
January	38244	39116	40802		4772		£2,722	£3,599	
February	35448	35823	35087		5064		£2,444	£3,274	
March	40960	40872	41999		7472		£2,726	£3,677	
Annual Total	501431	506445	496115		81061		£32,401	£41,965	

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Contract Waste Recycling & Composting Performance 2006-7 and 2007-8

Month	Recycling		Composting		Total Recycling			Shanks Improvement plan
	Tonnages	Percentage	Tonnages	Percentage	2006/7	2007/8	2007/8 Actual	
April	4256	10.5%	1596	3.9%	5852	7,467	14.4%	18.4%
May	4249	9.3%	2658	5.8%	6907	7,442	15.2%	18.5%
June	4130	8.6%	2822	5.9%	6952	7,207	14.4%	18.7%
July	4129	10.0%	1843	4.5%	5972	7,460	14.5%	20.4%
August	4526	10.7%	1572	3.7%	6098	7,389	14.5%	21.6%
September	5152	12.0%	1942	4.5%	7094	8,120	16.5%	22.3%
October	4145	10.1%	1600	3.9%	5745	7,154	14.0%	22.6%
November	4370	10.7%	1356	3.3%	5726	6,727	14.1%	23.3%
December	4097	11.4%	1002	2.8%	5099	5,048	14.2%	24.1%
9 Months to December	39054	10.3%	16391	4.3%	55445	64014	14.7%	21.1%
January	5285	13.0%	793	1.9%	6078		14.9%	24.5%
February	4304	12.3%	883	2.5%	5187		14.8%	25.7%
March	5236	12.5%	1264	3.0%	6500		15.5%	25.7%
Annual Total	53879	10.9%	19331	3.9%	73210		14.8%	22.0%

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Performance against LAT'S Target

Month	Contract Waste		LANDFILL		LATS Target		Landfilled
	Tonnage	Biodegradable	Tonnage	Biodegradable	Tonnage	Difference	
April	42,736	29,915	25,975	18,183	22,097	3,915	60.8%
May	43,237	30,266	24,815	17,371	22,097	4,727	57.4%
June	43,209	30,246	25,952	18,166	22,097	3,931	60.1%
July	44,372	31,060	24,047	16,833	22,097	5,264	54.2%
August	45,446	31,812	23,293	16,305	22,097	5,792	51.3%
September	42,778	29,945	21,065	14,746	22,097	7,351	49.2%
October	43,339	30,338	23,447	16,413	22,097	5,684	54.1%
November	41,001	28,701	23,664	16,565	22,097	5,532	
December	36,259	25,381	19,931	13,952	22,097	8,145	
January		0		0	22,097		
February		0		0	22,097		
March		0		0	22,097		
Accumulative Total	382,378	267,664	212,189	148,532	265,164	50,341	

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*(Contact Officer: John Wilson- Tel. 020 8270 4997)***EAST LONDON WASTE AUTHORITY****4th FEBRUARY 2008****ASSISTANT EXECUTIVE DIRECTOR'S REPORT**

MBT TESTING OF BIO MRF FACILITIES UPDATE	FOR INFORMATION
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1 Purpose

- 1.1 To update members on the results of the biodegradable testing of the Frog Island MBT facility.

2. Background

- 2.1 Under the Waste Emission Trading (WET) Act, the Landfill Allowance Trading Scheme (LATS) was introduced by the Government to control the biodegradability of the UK's waste sent to landfill to comply with the EU Landfill Directive. Members have previously been appraised of the details of these schemes but for the purpose of this report, the importance is that the biodegradability of any waste landfilled has significant financial implications for Waste Disposal Authorities and hence ELWA.
- 2.2 With the introduction of ELWA's IWMS contract it was apparent that the effect of treating the waste through an MBT process would reduce the biodegradability of the residual wastes and hence would have a beneficial LATS impact. What was not known was by how much. The LATs Regulations were introduced after the IWMS contract agreement and therefore not part of the contract conditions. The responsibility for meeting the LATS rests with ELWA, therefore the need for us to test, as there is no contractual requirement for Shanks to measure the biodegradability of the fractions in the MBT process since this has no direct bearing on their contractual obligations. Shanks officers have however been very cooperative in assisting ELWA in this testing.
- 2.3 Following a report last year, members agreed that £75k should be spent in employing WRc Laboratories to analyse and establish the performance of the Frog Island and Jenkins Lane Bio Mrfs in terms of their performance in reducing the biodegradability of ELWA's wastes.
- 2.4 The Jenkins Lane Bio Mrf having recently completed its mechanical performance testing is now undergoing a full suite of tests to measure its biodegradation performance similar to that for Frog Island. Since these tests have yet to produce any results, this report only refers to testing at Frog Island.

3. Results

- 3.1 Treating wastes through via a MBT process produces 5 fractions which have bio degradable potential, they are:-
- Original
 - Residues
 - SRF
 - Filter Dust
 - Fines

- 3.2 The weight of each fraction is known; as measuring these outputs is a contract requirement. The different fractions are sampled in accordance with an agreed sampling procedure and taken to the WRc laboratories where they under go testing for over 100 days, to measure their potential to produce methane.
- 3.3 It should be noted that not all the above fractions will necessarily be landfilled since they have the potential to be recovered either as use as a fuel (SRF) or as a compost (Fines and Filter dust). If these fractions are not recovered then they will be landfilled therefore it is important to understand the biodegradable potential of each fraction to be able to determine the benefits or liabilities of recovery or non recovery.
- 3.4 Tests have been ongoing since last year and the results to date are forming a pattern which is what we hoped. The intention is that after more tests and a consistent pattern has been established we can successfully argue with the Environment Agency that testing becomes less frequent.
- 3.5 Without getting into the detail of the testing the results as applied to 2006/7 are at Appendix A. These results suggest that the MBT saves ELWA considerable value in terms of avoided landfill tax and allows ELWA to avoid potential penalties if they had to landfill above their annual allowance. For instance
- If 100000 tonnes were landfilled it would cost ELWA approximately £600k in landfill taxes and use up almost 70000 landfill allowances
 - If the same 100000t were processed through an MBT approx 50000t would be landfilled costing £300k in landfill taxes and using up only 35000 allowances.
- 3.6 What the analysis indicated is that the biodegradable element (BMW) of the original waste gets concentrated by the MBT process such that some fractions have less weight but higher BMW. The benefit of this analysis is that in future years it will be even more important to understand what needs to be diverted to maximise the LATs benefit.

4. Recommendation

That members note this report.

John Wilson
ASSISTANT EXECUTIVE DIRECTOR

Appendix		
A	ELWA/Shanks Frog Island BMW diversion calculation	
Background Papers		
05.02.07	Report and Minute 1478	Testing the Biodegradability of Waste

ELWA/Shanks Frog Island BMW diversion calculation
 BM100 based

Parameter	Units	Input MSW	Heavy Rejects (bioresidue)	Fines	Filter dust	SRF (landfilled)	Total Landfilled
Mass Flow	t/a	101340	37780	9436	152	2580	
%BMW	% wet wt	68	72	63	97	76	
t BMW	t/a	68810	27088	5964	147	1956	
% DM of BMW	% wet wt	56	78	83	88	87	
t DM of BMW	t/a	38740	21075	4950	129	1709	27862.4
%LOI of DM	% DM	79	82	52	71	84	
t LOI of BMW	t/a	30643	17281	2569	91	1439	21380.1
DR4 test results	mg O/kg LOI	180000	137000	274000	213000	145000	
Actual BM100	l/kg LOI	348	289	430	323	270	
Biogas production	m3	10663868881	4994274415	1104635297	29326285	388576203	
% Biogas of Input	%		46.8	10.4	0.3	3.6	
Diversion if Landfilled	%		53.2	89.6	99.7	96.4	

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(Contact Officer: Robin Hanton – Tel: 020 8227 3201)

EAST LONDON WASTE AUTHORITY

4 FEBRUARY 2008

LEGAL ADVISOR'S REPORT

DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT CONSULTATION PAPER – EXEMPTION OF POSTS FROM POLITICAL RESTRICTIONS	FOR CONSIDERATION
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1 Purpose

- 1.1 To inform Members of provisions in the Consultation Paper affecting ELWA and to recommend a response.

2 The Consultation Paper

- 2.1 The Department for Communities and Local Government have issued a Consultation Paper “Orders and Regulations Relating to the Conduct of Local Authority Members in England”. Although the paper largely concerns the detailed arrangements for putting into effect Orders and Regulations to provide a revised ethical regime for the conduct of Members, Chapter 6 of the Paper is of particular relevance to Waste Disposal Authorities.
- 2.2 The Local Government and Housing Act 1989 provides that a person is disqualified from becoming a Member of a Local Authority or of engaging in certain political activities, including holding office in a political party if he or she holds a politically restricted post under the 1989 Act. Politically restricted posts include all posts remunerated at spinal column point 44 (currently £37,542) or above, and those posts considered politically sensitive within the criteria of the Act. The granting and supervision of exemptions from the political restriction is the responsibility of an Independent Adjudicator. The Local Government & Public Involvement in Health Act 2007 transfers this responsibility from the Independent Adjudicator to an Authority’s Standards Committee.
- 2.3 The Consultation Paper has identified Waste Disposal Authorities as being subject to requirements with regard to politically restricted posts but not being subject to the requirement to establish a Standards Committee. The relevant Chapter (Chapter 6) of the Consultation Paper is appended.
- 2.4 The question is asked as to whether it is thought necessary for the Secretary of State to make Regulations to provide for Authorities not required to have Standards Committees to establish committees to undertake functions with regard to the exemption of certain posts from political restrictions, or will affected Authorities make arrangements under Section 101 of the Local Government Act 1972 instead. Responses to the Consultation Paper are required by 15 February 2008.
- 2.5 It is proposed that a response to the question be that Waste Disposal Authorities should be given the option of either establishing a committee for the purpose or making arrangements with another Authority. In ELWA’s case, this would give the opportunity of making arrangements with one of the Constituent Boroughs should it be felt more appropriate.

3 Recommendation

- 3.1 That the response proposed in paragraph 2.5 be sent to the Department for Communities and Local Government.

Robin Hanton
LEGAL ADVISOR

Appendix	
A	Chapter 6 Extract of Department of Communities and Local Government Publication "Orders and Regulations Relating to the Conduct of Local Authority Members in England – Consultation" paper
Background Papers	
February 2008.	Department of Communities and Local Government Publication "Orders and Regulations Relating to the Conduct of Local Authority Members in England – Consultation"

Extract taken from Orders and Regulations Relating to the Conduct of Local Authority Members in England Consultation



Chapter 6

The granting and supervision of exemptions of certain local authority posts from political restrictions

Purpose

63. The purpose of the regulations is to prescribe that a local authority which is not required to establish a standards committee, should establish a committee to exercise functions in respect of the granting and supervision of exemptions from political restrictions.

Proposals

64. Section 202 of the 2007 Act inserts a new section 3A into the Local Government and Housing Act 1989 to provide that the granting and supervision of exemptions of posts from political restrictions should be a matter for relevant local authorities' standards committees. There are, however, some authorities subject to requirements with regard to politically restricted posts which are not required to establish standards committees. The only such authorities of which we are aware are waste disposal authorities.

65. In order to ensure that such authorities are able to make decisions on the exemption of certain posts from political restrictions, in accordance with section 3A of the Local Government and Housing Act 1989, we propose that those relevant authorities which are not required to have standards committees should establish committees to undertake this function. We propose to provide in the regulations that the rules regarding the minimum number of members the committee should have, the proportion of members who should be independent and the requirement to have an independent chair, which apply to standards committees, as set out in the 2000 Act, as amended, and the regulations discussed above regarding standards committees should also apply to the committees of these authorities.

66. This provision should not prevent these types of authorities from instead discharging their responsibilities with regard to the granting and supervision of exemptions from political restrictions by entering into agreements with other authorities to carry out this role on their behalf, under section 101 of the Local Government Act 1972. We propose therefore that authorities should have the option of which of the above approaches to take, so that it would only be in circumstances where the authority has not made arrangements for the discharge of this function by another authority that it would be required to set up its own committee to undertake the function itself.

Question

Q15. Do think it is necessary for the Secretary of State to make regulations under the Local Government and Housing Act 1989, to provide for authorities not required to have standards committees to establish committees to undertake functions with regard to the exemption of certain posts from political restrictions, or will the affected authorities make arrangements under section 101 of the Local Government Act 1972 instead? Are you aware of any authorities other than waste authorities which are not required to establish a standards committee under section 53(1) of the 2000 Act, but which are subject to the political restrictions provisions?

The full consultation code may be viewed at

http://www.cabinetoffice.gov.uk/regulation/consultation/consultation_guidance/the_code_and_consultation/index.asp#codeofpractice

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*(Contact Officer: Shirley Gray - Tel. 020 8270 4964)***EAST LONDON WASTE AUTHORITY****4 FEBRUARY 2008****OFFICE MANAGER'S REPORT**

APPOINTMENT OF AUDITORS	FOR INFORMATION
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1 Purpose

- 1.1 To advise Members on the appointment of new external auditors for the next five year period.

2 Introduction

- 2.1 On 13 December 2007 the Audit Commission Board, under Section 3 of the Audit Commission Act 1998, appointed PricewaterhouseCoopers LLP our external auditors with David Braithwaite being the appointed auditor for ELWA .
- 2.2 The appointment will start with the audit of the accounts for 2008/09.
- 2.3 To date external audits have been carried out by the Audit Commission, led by Jon Hayes and reporting to Members on a regular basis. Finalisation of 2007/08 accounts will be carried out by Jon and his team.

3 Financial Issues

- 3.1 PricewaterhouseCoopers LLP will invoice ELWA for the audit fees calculated in accordance with the Audit Commission Act 1998 and the Commission's work programme and scales of fees.

4 Recommendation

- 4.1 Members are asked to:-
- i) note this report.

Shirley-Ann Gray
OFFICE MANAGER

Appendix		
None		
Background Papers		
28/12/07	Audit Commission Letter	Appointment of External Auditor

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