

## **Notice of Meeting**

### **EAST LONDON WASTE AUTHORITY**

**Monday, 24 November 2008 - Civic Centre, Dagenham, 1:00 pm**

**Members:** Councillor M E McKenzie (Chair); Councillor S Kelly (Deputy Chair); Councillor M Aaron, 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.

17.11.08

R. A. Whiteman  
Managing Director

Contact Officer: Tony Jarvis  
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### **AGENDA**

1. **Apologies for Absence**
2. **Minutes - To confirm as correct the minutes of the meeting held on 29 September 2008 (Pages 1 - 4)**
3. **Annual Audit Letter 2007/08 and Notice of Certification of Completion of Audit (Pages 5 - 13)**

Members are asked to note this item.

4. **Programme of Meetings 2009/10 (Pages 15 - 16)**
5. **ELWA Limited Board (Pages 17 - 40)**
6. **Budgetary Control and Treasury Management Report to October 2008 (Pages 41 - 43)**
7. **Financial Projection and Budget Strategy 2009/10 to 2011/12 (Pages 45 - 55)**
8. **Waste Management to October 2008 (Pages 57 - 63)**

**9. IWMS Contract – ABSDP 2009/10 (Pages 65 - 77)**

Appendix E to this report contains private and confidential information and is included under Agenda Item 14.

**10. IWMS Contract – Service Delivery Plan 2010/11 to 2014/15 (5 Year) (Pages 79 - 85)**

**11. Any other public items which the Chair decides are urgent**

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

**Private Business**

The public and press have a legal right to attend ELWA meetings except where business is confidential or certain other sensitive information is to be discussed. The items below relate to the business affairs of third parties and are therefore exempt under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended.

**13. Contract Monitoring to October 2008 (Pages 87 - 98)**

**14. IWMS Contract – ABSDP 2009/10 - Appendix E (Pages 99 - 100)**

**15. Any other confidential or exempt items which the Chair decides are urgent**

## **EAST LONDON WASTE AUTHORITY**

Monday, 29 September 2008  
(1:10 - 3:08 pm)

**Present:** Councillor M E McKenzie (Chair), Councillor S Kelly (Deputy Chair), Councillor P Sheekey and Councillor Mrs P A Twomey

### **1598 Apologies for Absence**

Apologies for absence were received on behalf of Councillor A Weinberg, Councillor M Aaron, Councillor P Murphy and Councillor B Tebbutt.

### **1599 Welcome and Introductions**

Councillor McKenzie welcomed attendees to the meeting.

### **1600 Minutes (21 July 2008)**

We have agreed the Minutes of our meeting held on 21 July 2008.

### **1601 Statement of Accounts and Annual Governance Report 2007/08**

Noted the Finance Director's report explaining that the External Auditor was planning to provide an unqualified opinion and certificate, without any significant issues being raised in respect of the review and audit of the Accounts for the year ended 31 March 2008.

Our attention was drawn to the Annual Governance Report and draft summary of work undertaken: in the particular the items to note were Item 4 and Tables 1 2 3 and 4. On request, the external auditor provided clarification of the risk factors set out in Table 1 as being the new employer status for ELWA and payroll services.

The District Auditor advised that he had received some recent guidance from the Audit Commission on an additional matter that he needed to report verbally to the Authority. This applied to a large number of authorities. In note 25 the Authority had recorded the market value of PWLB loans as £2.9m based on information from its advisors about the cost of taking out equivalent loans now. In the Commission's view this figure should be based on the redemption value of the loans and be £3m. The difference has no impact on the Income and Expenditure Account or Balance Sheet. The auditor wanted no action other than the point to be noted.

We have offered our thanks to the Auditors for their co-operation and work on the accounts over the years and wish them well for the future. The District Auditors attended for this item only.

### **1602 Budgetary Control Report to 31 August 2008**

The Finance Director presented his report and explained that there was an under spend on budget of £88,000 mainly caused by interest rates exceeding budget,

less tonnages and reduced commercial waste charges.

### **1603 Monitoring Officer Appointment**

We have received and approved the Office Manager's Report.

ELWA's Monitoring Officer, Robin Hanton, advised that he would be leaving the employment of London Borough of Barking & Dagenham on 10 October 2008 and that Eldred Taylor-Camara had been appointed legal advisor to ELWA. The Office Manager's report proposed that Eldred Taylor-Camara be appointed ELWA's Monitoring Officer and any changes be made to the Constitution at the next convenient opportunity.

ELWA's Managing Director expressed his thanks to Robin for his advice to the Authority over many years and extended his very best wishes for the future. Cllr Mrs Twomey expressed that he would be greatly missed as would his knowledge and experience and she wished him all the best for the future and was sorry to see him go. ELWA's Executive Director thanked Robin for all his support over the years. Finally, the Chair echoed these sentiments.

### **1604 Indemnities for Members and Officers**

Received the Legal Advisor's report and clarification commentary on the proposal for indemnities and the protection to be provided to Members and ELWA Officers given the change in employment status of ELWA's staff. We have agreed the recommendation that an indemnity be granted to Members and Officers of ELWA as set out in Appendix A to the report and have instructed officers to secure appropriate additional insurance to cover the Authority's liability under this indemnity in so far as he is of the opinion that such insurance would be financially prudent.

### **1605 Futuresource Conference 2009**

Received the Office Manager's report on Members' attendance at this event in June 2009. The Chair advised that he, the Vice Chair and Executive Director believed this event was an ideal opportunity to promote the work and achievements of ELWA and would like time to consider having a greater involvement in this event. He recommended that further discussion take place between Members and a proposal brought before the Authority at a future date. Members agreed.

### **1606 Waste Management - August 2008**

The Assistant Executive Director talked us through his new style Report and Appendices on the performance of the Joint Waste Management Strategy Contract for the period to August and the development of waste and recycling improvement initiatives and trials related to it. Targets were being met or exceeded by 3 boroughs, ELWA was performing well against NI 193 and that contractor performance for the period was 2.2% lower than projected for the year. Officers were monitoring national discussions concerning waste from Schools/Hospitals following DEFRA's consideration of the Controlled Waste Regulations 1992.

The Chair took the opportunity to remind Members and Officers of the workshop arranged for 2nd October stating that this was the ideal time to discuss borough activities, share experiences and consider ways to improve performance.

We have congratulated the Assistant Executive Director on the format of the report and have noted the recommendations.

### **1607 Partnership Communications Strategy**

We have received and discussed the Executive Director's Report advising on the activities of the ELWA Partnership Communications Group, the Waste and Resources Action Programme's (WRAP) involvement and the Contractor's difficulties with recruiting and retaining Community Education Liaison Officers. The report also advised on the Group's success in securing additional resources and funding from WRAP.

We have been asked to approve the enhanced communications programme as set out in the proposals by WRAP (Appendix A) and funded by ELWA's Contingency fund £150,000 WRAP £150,000 and £100,000 provided in the IWMS contract for 2008/09. Noted that the strategy is intended to run for 3 years and spending will be subject to review and further report.

We have agreed the recommendations.

### **1608 Carbon Counting**

We have received and noted the Executive Director's Report and commentary on the desk-top study carried out by Environmental Resources Management on the carbon implications of various methods of doorstep collection of recyclates. The study had been produced in two parts, Phase A, a theoretical example of evaluation techniques and, Phase B, identification of a practical operational example. The report identified 4 scenarios at Phase A. Phase B proposed to use the Barking trial (scenario 3) as the practical example at a cost of £15,000 to £25,000 and funded by the contingency.

We have approved the recommendations.

### **1609 Private Business**

**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 discussed which included information exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended).

### **1610 Refinancing the Integrated Waste Management Service Contract**

We have received the Executive Director's report and commentary on the processes the Contractor will undertake in order to refinance the IWMS Contract and the issues that may arise. The report provided an overview and progress to date.

Noted that a presentational overview is scheduled to be run by Deloitte in the future and that the formal refinancing proposal, together with the Value for Money

Report will be brought forward for consideration at an Authority meeting subsequent to that overview being given.

### **1611 Contract Monitoring to August 2008**

We have received commentary from the Assistant Executive Director on his Report and Appendices. He explained that this was in a new format as requested at our last meeting and formed part of the Monthly Bulletin Report.

We have received an overview of the Report and Appendices paying particular attention to the Contract Monitoring Indicators table. We have requested that cross referencing is added to ease the link to textual explanations in the report.

We have considered the report and noted the monitoring programme completed in the period, and noted the issues arising and remedial actions taken in accordance with the new monitoring regime.

### **1612 Closed Landfill Strategy**

Received the Executive Director's progress report on negotiations with Thurrock Thames Gateway Development Corporation for land at Aveley and adjacent to the A13 in Thurrock. The report identified the concessions achieved by the Authority, the financial and risk implications and concluded that the Heads of Terms were the best that could be reasonably achieved given the circumstances.

Following the Executive Director's response to questions about planned uses for the land and the implications for ELWA, we have approved, in principle, the revised Heads of Terms and given authority to proceed with the legal documentation.

### **1613 Closed Landfill Sites - Insurance**

We have received the Finance Director's commentary on his joint report with the Executive Director and agree that Environmental Impairment Liability Insurance covering third party "gradual pollution and contamination" risk is acquired on all four landfill sites (Gerpins Lane, Hall Farm, Aveley1 and Wennington Farm) for a three year term at a cost of £66,255. As a result of market testing by the Authority's brokers for suitable cover, we have agreed to waive the requirements in respect of formal tenders for this insurance.

### **1614 2nd October 2008 Workshop - Agenda**

Noted the Executive Director's commentary about the tabled draft Agenda and he advised that the workshop would be run by London Remade. One Member commented that the Agenda should include Government targets and this was agreed. Cllr Mrs Twomey offered her apologies for this event.

Chair: .....  
Dated:.....

30 October 2008

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East London Waste Authority  
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Dear Rob

**East London Waste Authority  
Annual Audit Letter 2007/08**

I attach our finalised Annual Audit Letter for 2007/08. Can I draw your attention to the intention of the Audit Commission to publish the Letter in due course on its website, along with the letters relating to all of our other audited bodies.

The Code of Audit Practice requires that a copy of the Letter is provided to all Members of the Authority. I understand that the Letter will be included on the agenda of the November 2008 Authority meeting.

Yours sincerely

Sharon Martin  
*Senior Audit Manager*

cc. Geoff Pearce, Finance Director  
Tony Jarvis, Executive Director  
Jon Hayes, District Auditor

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# Annual Audit Letter

East London Waste Authority

Audit 2007/08

November 2008





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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary

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## Key messages

- 1 We gave an unqualified opinion on the Authority's accounts and an unqualified value for money conclusion on 30 September 2008.
- 2 Our audit of the draft accounts identified one material amendment to the Statement of Total Recognised Gains and Losses. We did not identify any amendments to the Balance Sheet or Income and Expenditure Account.

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## Recommendations

Recommendation	
R1	Ensure that the Statement of Recognised Gains and Losses reconciles to the movement in equity reported in the Balance Sheet.

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# Purpose, responsibilities and scope

- 3 This letter summarises the key issues arising from our work carried out during the year. I have addressed this letter to members as it is the responsibility of the Authority to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. I have made recommendations to assist the Authority in meeting its responsibilities.
- 4 The letter also communicates the significant issues to key external stakeholders, including members of the public. I will publish this letter on the Audit Commission website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 5 I have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).
- 6 As your appointed auditor, I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
  - the Authority's accounts; and
  - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that I consider the Authority should be addressing. I have listed the reports issued to the Authority relating to the 2007/08 audit at the end of this letter.

# Audit of the accounts

- 8 As your appointed auditor, I have issued an unqualified opinion on the Authority's accounts on 30 September 2008.
- 9 The draft financial statements initially submitted for audit were returned to officers as the Statement of Total Recognised Gains and Losses (STRGL) did not reconcile to the movement in total equity reported in the Balance Sheet. Revised financial statements, which corrected the material errors in the STRGL were subsequently provided. No amendments were required to the Balance Sheet or the Income and Expenditure Account.
- 10 Before giving my opinion I reported to the Authority on the issues arising from the 2007/08 audit. My report, the Annual Governance Report, did not include any significant issues other than that detailed in paragraph 9 above.

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## Whole of Government accounts

- 11 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Authority is required to submit a 'consolidation pack' to Communities and Local Government and I am required, as your auditor, to undertake a range of procedures and report on the pack. Our audit concluded that the consolidation pack was consistent with the audited accounts except for one difference in classification relating to deferred consideration, which was recorded as a long term debtor in the consolidation pack as no equivalent heading to that used in the Authority's Balance Sheet was available on the pro forma.

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# Use of resources

- 12 As your appointed auditor, I am required to conclude on whether I am satisfied the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.
- 13 I concluded that the Authority did have proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 14 On 1 June 2007, the Authority became an employing body and staff are now employed directly rather than on secondment from the constituent London Boroughs. Our work considered whether appropriate staffing policies and procedures had been put in place and whether internal control remained sound following the transfer of staff. We found this to be the case, but as at 31 March 2008 the Authority's Constitution had not been updated fully to reflect this change in status, although arrangements were in place to do so.

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## Best value performance plan

- 15 I issued my report on the Authority's 2007/08 best value performance plan on 3 December 2007. There were no recommendations.
- 16 Our work on the 2007/08 performance indicators has concluded that arrangements are in place to produce indicators that are fairly stated.

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# Closing remarks

- 17 I have discussed and agreed this letter with the Executive Director and the Finance Director. The letter will be part of the agenda for the Authority meeting in November 2008 and we will provide copies to all Authority members.
- 18 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year.

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**Table 1      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit plan	May 2007
Best value performance plan	December 2007
Report to those charged with governance	September 2008
Opinion on financial statements	30 September 2008
Value for money conclusion	30 September 2008
Annual audit letter	November 2008

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- 19 The Authority has taken a positive and constructive approach to our audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

Jon Hayes  
District Auditor  
November 2008

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, covering the £180 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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(Contact Officer: Shirley-Ann Gray - Tel. 020 8270 4964)

**EAST LONDON WASTE AUTHORITY****24 NOVEMBER 2008****OFFICE MANAGER'S REPORT**

<b>PROGRAMME OF MEETINGS 2009/2010</b>	<b>FOR APPROVAL</b>
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**1 Purpose**

1.1 Set out below, for Members' consideration, is the proposed programme of ELWA meetings for the forthcoming municipal year.

**2 Background**

2.1 This programme has been based around specific dates by which ELWA is either legally or contractually required to approve key matters as referred to below.

**3 Meeting Dates**

<i>Dates Agreed 2008/09</i>	<i>Monday</i>	<i>02 February 2009</i>	<i>Approval of annual Levy required by 15/02/09</i>
	<i>Monday</i>	<i>06 April 2009</i>	
<b>Dates Proposed for the Municipal year 2009/10</b>	<b>Monday</b>	<b>22 June 2009</b>	<b>(Annual General Meeting) Approval of draft Statement of Accounts</b>
	<b>Tuesday</b>	<b>29 September 2009</b>	<b>Approval of Annual Governance Report (required 30.09.09)</b>
	<b>Monday</b>	<b>23 November 2009</b>	<b>Approval of IWMS Contract Annual Budget &amp; Service Delivery Plan required by 30/11/09</b>
	<b>Monday</b>	<b>01 February 2010</b>	<b>Approval of annual Levy required by 15/02/10</b>
	<b>Monday</b>	<b>12 April 2010</b>	

3.1 Officers have scheduled one date on a Tuesday to avoid a religious holiday.

3.2 It is proposed that the Authority meetings are held at the Civic Centre, Dagenham and start at 1.00 p.m. on the above dates.

3.3 Members are asked to note that the Constitution states "If a Member fails to attend one of three consecutive meetings of the Authority, unless the failure was due to a reason approved by the Authority, the Authority will recommend to the relevant Constituent Council that the Member be replaced and not considered for re-appointment by the Council to the Authority for a period of at least two years."

#### **4 Recommendation**

Members are asked to:-

- a) note the above programme of meetings and the wording of the Constitution relating to attendance.

Shirley-Ann Gray  
**OFFICE MANAGER**

#### **Appendices**

None

#### **Background papers**

26.11.07 Report & Minute 1534 Programme of Meetings 2008/09

*(Contact Officer: Tony Jarvis- Tel. 020 8270 4965)***EAST LONDON WASTE AUTHORITY****24 NOVEMBER 2008****EXECUTIVE DIRECTOR'S REPORT**

<b>ELWA LTD BOARD – 15 OCTOBER 2008</b>	<b>FOR INFORMATION</b>
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**1 Purpose**

- 1.1 To report back to the Authority on the meeting of the ELWA Ltd Board meeting on the 15<sup>th</sup> October.

**2 Background**

- 2.1 Councillor Alan Weinberg was reappointed by the Authority in July to the position of 'A' Director of ELWA Ltd.
- 2.2 The minutes of the ELWA Ltd Board meeting on 15<sup>th</sup> October have not yet been circulated but the agenda for the meeting on the 15<sup>th</sup> and the minutes of the previous meeting on the 30<sup>th</sup> July are attached at Appendix A.

**3 ELWA Ltd Accounts 2007/08**

- 3.1 The Report and Financial Statements for the year ended 31<sup>st</sup> March 2008 are attached at Appendix B following approval by the Board in October.

**4 Commentary**

- 4.1 The Board Meeting on the 15<sup>th</sup> October was held at Frog Island and lasted from 10.30am to 12pm. It was attended by Ian Goodfellow, Michael Dunn and Paul Griffin Smith from Shanks Waste Management and Alan Weinberg from ELWA, who chaired the meeting. Also in attendance, as observers, were Steve Ray, Richard Tarrant, Tony Jarvis and Mark Ash.
- 4.2 The main discussion points on the agenda were the following issues:-
- flies had become an increased problem in the summer months. The Environment Agency had required Shanks to implement an Action Plan to reduce the nuisance and by September the problem was reducing;
  - a recycling and composting outturn of 21% for the year was still being predicted by Shanks but a revised forecast is being prepared in order to respond to ELWA's letter on this subject. Alan Weinberg raised the problem of continuing poor performance in July and August and this was discussed; a particular problem has arisen in the last two weeks because of third party Mrfs were not accepting orange bag recyclates from ELWA. Weekly monitoring reports were to be circulated to the Board Members and ELWA. Shanks also agreed to write to ELWA to explain the recent loss of orange bag recyclates;

- ELWA Officers described the constructive debate at the recent member workshop and how this will feed into the service planning for the future. Also the significance of the current collection trials was discussed on future service planning;
- the topic of refinancing was raised and Shanks representatives said that the priority aims were to increase borrowings but reduce interest rates. ELWA representatives made the point that the Authority would be concerned if refinancing resulted in ELWA Ltd being in a financially weaker position to deliver its obligations;
- the date of the next meeting was agreed for 10th December 2008.

4.3 The “A” Director of ELWA Ltd and officers attending the meeting of the ELWA Ltd Board will be able to provide further explanations if required.

## **5 Recommendation**

5.1 Members are recommended to note this report.

Tony Jarvis  
**EXECUTIVE DIRECTOR**

## **Appendices**

- A ELWA Limited Board Agenda 15<sup>th</sup> October and minutes of previous meeting.
- B ELWA Limited 2008 Statutory Accounts

## **Background Papers**

None

**10.30 am on 15<sup>th</sup> October 2008 at Frog Island  
AGENDA**

- 1. Apologies for Absence**
- 2. Minutes of previous meeting**
- 3. Matters arising not covered by agenda**
- 4. Operation Directors – Summary of Period to date**
  - Health & Safety
  - Recycling
  - Construction
- 5. ELWA Ltd Matters**
  - Refinancing / Delay
- 6. ELWA Matters**
  - FYSDP / ABSDP
  - Contract Targets / Borough Recycling initiatives
  - Supplements Recycling / Diversion / LATS
  - National Indicators: Revised borough targets
- 7. Secretarial Matters**
- 8. Contract Performance**
  - Recycling Performance
  - Diversion Performance
  - JL Orange Bag Construction Update
- 9. Communications Strategy / Wastewatch**
- 10. B&D – Orange Bag Separate Collection Trials (MEL Contamination Results)**
- 11. Any other business**
- 12. Date of the Next meeting**

Attendees: A Weinberg (Chairman)  
I Goodfellow  
R Hilliard  
F Welham  
M Dunn  
D Stockley  
P Griffin Smith (Secretary)

In attendance: T Jarvis  
S Ray  
J Wilson  
R Tarrant

**ELWA LIMITED**  
**Minutes of a Board Meeting held at Frog Island,**  
**Rainham, Essex on Wednesday 30 July, 2008 at 10.30 am**

Present: A E Weinberg (Chairman)  
F Welham  
D Stockley  
R D Hilliard

Attending: T Jarvis  
J Wilson  
P Griffin-Smith (Secretary)

Apologies: I F Goodfellow  
M Dunn  
S Ray  
R Tarrant

**01 Minutes**

The minutes of the meeting held on 30 April 2008 were approved as an accurate record subject to clarification at minute 05 that any additional staff to achieve the 22% recycling rate would only be required as necessary.

**02 Matters Arising from the Previous Minutes**

Matters arising from the previous meeting had either been completed or were being progressed. It was noted although the Company had concluded from the trials undertaken that the existing orange bags were fit for purpose the Authority had requested supporting evidence of this.

**03 Managing Director's Report**

DS presented the report

Health and Safety

There had been one RIDDOR reported since the last meeting as well as a number of minor accidents, actions for which had been taken to avoid re-occurrence. There had also been a quantity of needles and swabs discovered in Orange bags from Jenkins Lane, the origins of which were proving difficult to establish.

Mr Hilliard provided an update on fly nuisance which had been discussed at the recent Liaison meeting with representatives from the EA, Environmental health officers from Havering and the local community. Whilst the EA had been impressed with Shanks' efforts to mitigate the issue they had noted that general housekeeping improvements at Frog Island and Jenkins Lane would also help.

**Action: SR/Mark Aspden**

Operations

It was reported that a recycling performance achieved 20.53% in June. A composting contract had been signed with Greenview for a minimum of 100,000 tonnes with delivery from July. Mr Wilson also noted that glass volumes would need to be increased.

Construction

Completion of the orange bag MRF facility plant at Jenkins Lane had been pushed back to October 2008 due to plant delays.

04 **ELWA Ltd matters**

Refinancing

It was noted that discussions were progressing between the Authority, their and Shanks' advisers on the refinancing now that the main facilities had been commissioned and the majority of construction expenditure spent.

Statutory Accounts

The Board approved the Report and Financial Statements for the year ended 31 March 2008 and authorised Mr Stockley to sign them on their behalf, subject to confirmation from the Authority's Finance Department that they had no comments or queries.

**Action: DS**

It was further agreed that insufficient time had been given for the Authority to review the draft accounts and that in future all Board papers should be distributed in good time.

Long Stop Date extension and Fourth Credit Amendment Agreement

Mr Welham explained that it was necessary for appropriate amendments to be made to the banking and credit agreements in order to reflect the actual position regarding the original planning delay and timing of equity injection. It was resolved that Mr Welham be authorised to execute the necessary documentation on behalf of the Company subject to Mr Jarvis confirming with Deloitte that they had no comments or queries.

**Action: FW**

05 **ELWA matters**

No matters were raised under this item. See item 10 below.

06 **Secretarial matters**

Contrary to that minuted at the last meeting it was noted that this would in fact be the last ELWA Ltd meeting Mr Wilson would attend prior to his retirement. On behalf of the Board the Chairman thanked him for his valuable contribution over past years. It was noted that Mr Ash would attend future meetings in place of Mr Wilson.

It was confirmed that Michael Dunn had been appointed to the Board in the capacity of Managing Director.

07 **Contract Performance**

As noted in Managing Director's Report.

08 **Barking and Dagenham Orange Bag Separate Collection Trials**

Mr Jarvis updated the meeting on the initial results of a trial in Barking and Dagenham involving 8,500 properties where collections had been segregated into orange bags, glass, more regular green collections and residual waste wheelie bins. Although only having started in July the quantity of orange bags had doubled evidencing the significant improvements associated with separate collections although a number of variables played a part including communication/education costs and additional vehicle movements, the latter impacting adversely on the carbon footprint. Full results of the trial would be considered in due course.

09 **Update on 21 July 2008 Authority meeting**

Mr Jarvis provided an update on the above meeting attended by Mr Goodfellow and Mr Ray, both of whom had been well received. The Authority had reiterated their ongoing concern regarding the 22% level of recycling performance which Shanks had confirmed it was targeted to achieve for 2008/09. Mr Jarvis tabled a letter to Mr Goodfellow dated 29 July 2008 which the authority had issued following the 21 July meeting seeking reassurance on a number of points;

- A revised recycling performance profile against which performance could be monitored in the remaining months of the year.
- A description of actions to be taken to achieve the revised profile and their timing.
- Copy correspondence regarding the contractual position on Bio MRF glass.
- Specific details on recommended changes to trade and bulky waste collections.
- Precise information on orange bag strength.
- More information on lack of small orange bag capture.
- A monitoring system for orange bag contamination levels at Jenkins Lane Mrf
- Further consideration on education campaigns to reach wider groups

**Actions: SR /  
RT**

10 **Financial report**

Mr Tarrant's financial report for the quarter to 30 June 2008 was taken as read.

11 **Any Other Business**

No matters were raised under this item.

It was agreed that future meetings would be held at 10.30am at Frog Island on Wednesday 15 October and Wednesday 10 December 2008.

There being no further business the meeting was closed.

Signed .....  
(Chairman)

Date .....



**ELWA LIMITED**

**Registered Number 2700386**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2008**

# **ELWA LIMITED**

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## **ELWA LIMITED DIRECTORS' REPORT**

The Directors present their Annual Report and the audited financial statements for the year ended 31 March 2008.

### **BUSINESS REVIEW, PRINCIPAL ACTIVITY AND FUTURE OUTLOOK**

The Company entered into a 25 year Private Finance Initiative contract with East London Waste Authority (ELWA), the authority set up to manage the disposal of the waste arising in four East London boroughs, on 25 December 2002 for the provision of waste management services. As part of this contract the Company is committed to building new waste management facilities which it will operate until the end of the contract, when the facilities will revert to ELWA ownership. The Company's immediate holding company, Shanks Waste Management Limited, holds sub contracts for the construction and operation of the new and existing facilities and for the disposal of waste. The main facilities at Frog Island and Jenkins Lane have completed their commissioning phase and are now fully operational.

The loss before tax for the year was £136,000 (2007: £2,549,000 loss). The reduction in losses was principally due to increased turnover following completion of the new waste management facilities offset by increased depreciation post commissioning of fixed assets and the related cessation of capitalisation of finance costs. Notwithstanding this loss, all activities are in line with the Directors' plans for the Company though future returns are dependent on the continuing successful operations of the new waste management facilities.

On 31 December 2007, the Company issued 1,687,500 Class 'C' Shares of £1 each at par. The proceeds from this share issue were used as part of the repayment of a bank loan of £22,500,000. On the same day, the Company received a subordinated loan of £20,812,500 from its immediate parent undertaking, Shanks Waste Management Limited, which was also used to repay this bank loan.

At the end of the year, the retained profit and loss account stood at a deficit of £13,647,000 (2007: £14,152,000). No dividend was paid or is proposed for the year (2007: £Nil). Fixed assets stand at £95,759,000 (2007: £89,526,000) and net borrowings totalled £102,383,000 (2007: £93,719,000). The decrease in borrowings reflects the repayment of the bank loan and further expenditure during the year on the new waste management facilities.

### **KEY PERFORMANCE INDICATORS (KPIs)**

Given the broad contractual framework agreed with ELWA, the principal KPI for the Company is the volume of waste processed during the year and subsequent diversion of waste from landfill disposal. For 2008, the Company processed 498,000 tonnes (2007: 497,000 tonnes) and diverted 216,000 tonnes or 43% from landfill disposal (2007: 132,000 tonnes or 27%).

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Company is a wholly-owned subsidiary of Shanks Group plc. Risks are principally managed by Shanks Group plc for the Group as a whole. The principal risks and uncertainties of Shanks Group plc are discussed in its Annual Report and Accounts for the year ended 31 March 2008.

**ELWA LIMITED**  
**DIRECTORS' REPORT (continued)**

**DIRECTORS**

The Directors who held office during the year and up to the date of this report were as follows:

I Goodfellow  
R D Hilliard  
A E Weinberg  
F A N Welham  
D Stockley (appointed 29 October 2007)  
M Dunn (appointed 30 April 2008)  
N I Aitchison (resigned 30 April 2008)

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE REPORT AND THE FINANCIAL STATEMENTS**

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with Section 234ZA(2) of the Companies Act 1985 the Directors confirm

(a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the Directors have taken all the steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**ELWA LIMITED**  
**DIRECTORS' REPORT (continued)**

**EMPLOYMENT POLICIES**

The Company currently has no active employees and is managed and directed by the Board of Directors who will continue to manage the on-going operations of the Company whilst fulfilling other employment obligations outside of the Company.

No remuneration is paid to any of the Directors as a consequence of this arrangement.

**AUDITORS**

A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be put to the members at the Company's Annual General Meeting.

By Order of the Board

D Stockley  
Director  
29 August 2008

Registered Office:  
Dunedin House  
Auckland Park  
Mount Farm  
Milton Keynes  
Buckinghamshire  
MK1 1BU

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ELWA LIMITED**

We have audited the financial statements of ELWA Limited for the year ended 31 March 2008 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors

London

29 August 2008

**ELWA LIMITED  
PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2008**

	<u>Note</u>	<u>2008</u> £'000	<u>2007</u> £'000
TURNOVER – CONTINUING ACTIVITIES	2	41,415	32,435
Cost of sales		(34,973)	(30,665)
		<hr/>	<hr/>
GROSS PROFIT		6,442	1,770
Administrative expenses		(1,032)	(1,387)
		<hr/>	<hr/>
OPERATING PROFIT ON CONTINUING ACTIVITIES BEFORE INTEREST AND TAX		5,410	383
Net interest and other finance costs	6	(5,546)	(2,932)
		<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAX	3	(136)	(2,549)
Tax	7	641	700
		<hr/>	<hr/>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAX AND RETAINED PROFIT/(LOSS) FOR THE YEAR	15	<u>505</u>	<u>(1,849)</u>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 MARCH 2008**

The Company has no recognised gains or losses other than the profit/(loss) for the year.

**ELWA LIMITED**  
**BALANCE SHEET AS AT 31 MARCH 2008**

	<u>Note</u>	31 March <u>2008</u> £'000	31 March <u>2007</u> £'000
<b>FIXED ASSETS</b>			
Intangible fixed assets	8	5,056	5,312
Tangible fixed assets	9	90,703	84,214
		<u>95,759</u>	<u>89,526</u>
<b>CURRENT ASSETS</b>			
Debtors	10	7,766	6,056
CREDITORS: amounts falling due within one year	11	(5,693)	(30,091)
NET CURRENT ASSETS/(LIABILITIES)		<u>2,073</u>	<u>(24,035)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		97,832	65,491
CREDITORS: amounts falling due after more than one year	12	(101,368)	(71,219)
TOTAL NET LIABILITIES		<u>(3,536)</u>	<u>(5,728)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	10,111	8,424
Profit and loss account	15	(13,647)	(14,152)
TOTAL EQUITY SHAREHOLDERS' FUNDS	16	<u>(3,536)</u>	<u>(5,728)</u>

Approved by the Board of Directors on 29 August 2008.

D Stockley  
Director



**ELWA LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	<u>Note</u>	<u>2008</u> £'000	<u>2007</u> £'000
Total operating profit		5,410	383
Amortisation of intangible assets		256	256
Depreciation of tangible fixed assets		3,980	1,985
(Increase)/decrease in debtors		(1,092)	917
(Decrease)/increase in creditors:		<u>(2,635)</u>	<u>(1,338)</u>
Net cash flow from operating activities:		5,919	2,203
Returns from investments and servicing of finance:			
Interest paid	(7,051)	(5,722)	
Interest received	297	132	
Finance costs and fees incurred	<u>(124)</u>	<u>(187)</u>	
		(6,878)	(5,777)
Tax (paid)/received		(278)	357
Capital expenditure - purchase of tangible fixed assets		<u>(9,005)</u>	<u>(12,613)</u>
Net cash flow before use of liquid resources and financing		(10,242)	(15,830)
Financing:			
Issue of share capital during the year		1,687	-
Debt financing	(a)	<u>8,555</u>	<u>15,830</u>
Movement in cash		<u>-</u>	<u>-</u>
Reconciliation of net cash flow to movement in net debt:			
Movement in cash		-	-
Debt financing	(a)	<u>(8,555)</u>	<u>(15,830)</u>
Change in net debt resulting from cash flows		(8,555)	(15,830)
Amortisation of loan fees		<u>(109)</u>	<u>(181)</u>
Movement in net debt in the year		(8,664)	(16,011)
Net debt at 31 March 2007		<u>(93,719)</u>	<u>(77,708)</u>
Net debt at 31 March 2008	(b)	<u>(102,383)</u>	<u>(93,719)</u>

**ELWA LIMITED**  
**NOTES TO THE CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 MARCH 2008**

	<u>2008</u> £'000	<u>2007</u> £'000
(a) <u>Analysis of financing</u>		
Short term loan repayment	(22,500)	-
Short term loan advances	(1,015)	-
Long term loan advances	30,040	15,830
	<u>8,555</u>	<u>15,830</u>
Net loan advances during the year	<u>8,555</u>	<u>15,830</u>

(b) Analysis of net debt in the balance sheet

	At 31 March <u>2007</u> £'000	Cash <u>flows</u> £'000	Non- <u>cash items</u> £'000	At 31 March <u>2008</u> £'000
Debt due within one year	(22,500)	21,485	-	(1,015)
Debt due after more than one year	(71,219)	(30,040)	(109)	(101,368)
Total	<u>(93,719)</u>	<u>(8,555)</u>	<u>(109)</u>	<u>(102,383)</u>

Non-cash items comprise the amortisation of loan fees.

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008**

**1 ACCOUNTING POLICIES**

**(a) Basis of preparation**

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom Accounting Standards.

**(b) Financial support**

The financial statements are prepared on a going concern basis, notwithstanding the deficit on shareholders' funds. The principal liability of the Company is bank debt, which is repayable between one and five years. In conjunction with the terms of the 25 year waste disposal contract held by the Company, the Company entered into agreements with its lenders for certain loan facilities, the availability of which is dependent on the Company achieving performance and milestone targets under the 25 year contract. The Directors believe that the lenders will continue to provide financial support for the Company in line with the terms of the loan facilities, as the Company has achieved these targets to date.

**(c) Turnover**

Turnover, all of which occurred in the United Kingdom, represents the invoiced value of goods and services provided exclusive of value added tax. Turnover is recognised when processing occurs or the service is provided.

**(d) Goodwill**

Goodwill arises when the cost of acquiring subsidiaries and businesses exceeds the fair value attributed to the net assets acquired. Capitalised goodwill is written off over its useful life in accordance with FRS10. For goodwill arising in respect of businesses operating under long term Private Finance Initiative contracts the goodwill is written off over the term of the contract, which may exceed 20 years. The profit or loss on disposal or closure of a business is calculated after taking into account any goodwill.

**(e) Fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and less provision for any impairment. Depreciation is provided on assets to write off their cost by equal annual instalments over their estimated useful economic lives. The expected lives are:

Plant and equipment	5-10 years
Fixtures and fittings	3 years
Buildings	over the remaining life of the contract

Depreciation is charged on assets as they are completed in line with the construction plan. Project related costs including planning and management costs are capitalised as incurred but will be depreciated when each discrete element of the construction phase becomes operational.

**(f) Capitalisation of finance costs**

Finance costs directly attributable to separately identifiable major capital growth projects have been capitalised as part of the tangible fixed asset cost during the period of construction.

**(g) Deferred finance costs**

Loan fees paid in respect of bank borrowings are set against the balance of the related bank loans and are subsequently amortised in proportion to the projected level of the bank loans over the period of those loans. Bank loan commitment fees are initially included as prepaid and are subsequently charged to the profit and loss account on the same basis as loan fees.

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**1 ACCOUNTING POLICIES - continued**

**(h) Deferred tax**

Deferred tax is provided in full in respect of timing differences arising between the treatment of certain items for tax and accounting purposes. Deferred tax assets in respect of trading tax losses are only recognised where the tax losses are expected to be recovered. Deferred tax provisions have not been discounted.

**(i) Financial instruments**

Fixed rate bank borrowings are initially stated at the amount of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding. The interest differential amounts due to/from on interest rate swaps are accrued until settlement date and are recognised as an adjustment to interest expense.

**2 SEGMENTAL INFORMATION**

The turnover and operating loss are wholly attributable to the Company's business of waste management in the United Kingdom. All of the Company's business turnover and operating loss relates to continuing operations.

**3 LOSS ON ORDINARY ACTIVITIES BEFORE TAX**

The loss is stated after charging:

	<u>2008</u> £'000	<u>2007</u> £'000
Amortisation of goodwill	256	256
Depreciation of owned tangible fixed assets	3,980	1,985
Auditors' remuneration for audit services	8	8
	<u>          </u>	<u>          </u>

**4 DIRECTORS' EMOLUMENTS**

The salaries of the Directors appointed by Shanks Group plc were paid by other Shanks Group plc undertakings. The Director appointed by the East London Waste Authority (ELWA) was entitled to receive Members' Allowances from the London Borough of Redbridge, one of the four London Boroughs which are the Constituent Councils to ELWA. No remuneration of the Directors was paid or is payable by ELWA Limited. The Directors estimate that no emoluments paid by either Shanks Group plc undertakings, ELWA or the London Borough of Redbridge relate to services provided to the Company

**5 EMPLOYEES**

There were no employees, excluding Directors, of the Company during the year. The Company's immediate parent company, Shanks Waste Management Limited, was contracted to provide management and administrative support to the Company.

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**6 NET INTEREST AND OTHER FINANCE COSTS**

	<u>2008</u> £'000	<u>2007</u> £'000
Interest payable on bank overdrafts and loan facilities	6,461	5,671
Interest receivable	(297)	(132)
Interest payable to immediate parent undertaking	537	-
	<hr/>	<hr/>
Net interest payable	6,701	5,539
Other finance costs	309	388
	<hr/>	<hr/>
Total net interest and finance costs	7,010	5,927
Finance costs capitalised as part of tangible fixed assets	(1,464)	(2,995)
	<hr/>	<hr/>
	<u>5,546</u>	<u>2,932</u>

Other finance costs arise on commitment fees and on the amortisation of loan fees.

**7 TAX**

	<u>2008</u> £'000	<u>2007</u> £'000
The tax charge/(credit) based on the loss for the year is made up as follows:		
Corporation tax at 30% (2007: 30%)		
- prior year	-	(79)
Deferred tax (see note 13)		
- current year	(63)	(765)
- prior year	(578)	144
	<hr/>	<hr/>
	<u>(641)</u>	<u>(700)</u>

The tax charge/(credit) assessed for the year is lower than the United Kingdom standard rate of corporation tax of 30% (2007: 30%). The differences are explained below:

	<u>2008</u> £'000	<u>2007</u> £'000
Loss on ordinary activities before tax	(136)	(2,549)
Tax credit based on UK tax rate	(41)	(765)
Tax effect of the following items:		
Adjustment to prior year tax	-	(79)
Capital allowances	(457)	(4,402)
Tax losses carried forward	498	5,167
	<hr/>	<hr/>
Corporation tax credit for the year	<u>-</u>	<u>(79)</u>

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**8 INTANGIBLE FIXED ASSETS**

	<u>Goodwill</u> £'000
Cost:	
At 1 April 2007 and at 31 March 2008	6,400
Amortisation:	
At 1 April 2007	1,088
Charge for the year	256
At 31 March 2008	<u>1,344</u>
Net book value:	
At 31 March 2008	<u>5,056</u>
At 31 March 2007	<u>5,312</u>

**9 TANGIBLE FIXED ASSETS**

	<u>Land and buildings</u> £'000	<u>Plant and machinery</u> £'000	<u>Construction in progress</u> £'000	<u>Total</u> £'000
Cost:				
At 1 April 2007	59,088	5,047	32,536	96,671
Additions	-	35	10,434	10,469
Transfers from construction in progress	40,926	-	(40,926)	-
At 31 March 2008	<u>100,014</u>	<u>5,082</u>	<u>2,044</u>	<u>107,140</u>
Depreciation:				
At 1 April 2007	10,161	2,296	-	12,457
Charge for the year	3,210	770	-	3,980
At 31 March 2008	<u>13,371</u>	<u>3,066</u>	<u>-</u>	<u>16,437</u>
Net book value:				
At 31 March 2008	<u>86,643</u>	<u>2,016</u>	<u>2,044</u>	<u>90,703</u>
At 31 March 2007	<u>48,927</u>	<u>2,751</u>	<u>32,536</u>	<u>84,214</u>

Included in the cost of tangible fixed assets are capitalised finance costs of £7,478,000 (2007: £6,014,000).

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**10 DEBTORS**

	<u>2008</u> £'000	<u>2007</u> £'000
Trade debtors	3,428	2,764
Prepayments and accrued income	2,278	1,873
Other taxation and social security	-	-
Deferred tax asset (see note 13)	2,060	1,419
	<u>7,766</u>	<u>6,056</u>

**11 CREDITORS: Amounts falling due within one year**

	<u>2008</u> £'000	<u>2007</u> £'000
Bank loans repayable within one year	-	22,500
Trade creditors	-	2,465
Amounts owed to immediate parent undertaking:		
- trading balances	4,418	4,562
- subordinated loan (see note 12)	1,015	-
Accruals	260	153
Other tax and social security	-	133
Corporation tax	-	278
	<u>5,693</u>	<u>30,091</u>

Further details in respect of the bank loans and the subordinated loan are set out in note 12.

**12 CREDITORS: Amounts falling due after more than one year**

	<u>2008</u> £'000	<u>2007</u> £'000
Bank loans	81,570	71,219
Amounts due to immediate parent undertaking		
- subordinated loan	19,798	-
	<u>101,368</u>	<u>71,219</u>
Creditors: Amounts falling due after more than one year are repayable as follows:		
- between one and two years	569	2,784
- between two and five years	9,176	8,982
- in over five years	91,623	59,453
	<u>101,368</u>	<u>71,219</u>

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**12 CREDITORS: Amounts falling due after more than one year (continued)**

Creditors comprise a subordinated loan due to immediate parent undertaking of £20,812,500 (2007: £Nil) and a base facility bank loan. The repayment terms of the base facility are fixed and final repayment scheduled for 30 September 2028. The Company has entered into interest rate swap contracts which effectively fix the rate between 6.43% and 6.68%. The subordinated loan due to fellow group undertakings bears interest at 10.35% and will be repaid only after obligations on the Base Facility loan have been met.

As at 31 March 2008, the interest rate swap contracts had a book value of £Nil (2007: £Nil) and a fair value of £2,887,000 loss (2007: £722,000 loss). The notional principal amount of the outstanding interest rate swap contracts at 31 March 2008 was £91,958,000 (2007: £93,208,000). The expiry dates of the swaps range from 1 April 2008 to 31 March 2026.

The bank loans are secured by means of a fixed and floating charge on the assets of the Company.

**13 DEFERRED TAX**

	Deferred tax £'000
At 1 April 2007	1,419
Credit for the year	641
	<hr/>
At 31 March 2008	2,060
	<hr/> <hr/>

The deferred tax asset is made up as follows:

	<u>2008</u> £'000	<u>2007</u> £'000
Capital allowances	(2,262)	(6,334)
Tax losses	4,322	7,753
	<hr/>	<hr/>
	2,060	1,419
	<hr/> <hr/>	<hr/> <hr/>

The deferred tax provision on capital allowances has been reduced during the year to reflect the lower level of cumulative capital allowances claimed to date in the Company's tax returns. This reduction is fully offset by the corresponding reduction in the deferred tax asset recognised on trading losses carried forward.

As a result of changes announced in the 2007 Budget, UK corporation tax will reduce from 30% to 28% effective from April 2008 and the deferred tax impact of this has been included above. There will also be a phased withdrawal of industrial buildings allowances over a period of 4 years and a reduction in general pool writing down allowances from 25% to 20% which will be enacted in the Finance Act 2008. Any deferred tax adjustments arising from these changes will be included in the accounts for the year ending 31 March 2009.



**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**14 SHARE CAPITAL**

	<u>2008</u>	<u>2007</u>
	£	£
Authorised		
19 (2007: 19) Class 'A' Shares of £0.01 per share	-	-
81 (2007: 81) Class 'B' Shares at £0.01 per share	1	1
10,423,694 (2007: 10,423,694) Class 'C' Shares at £1.00 per share	10,423,694	10,423,694
	<u>10,423,695</u>	<u>10,423,695</u>
Allotted, called up and fully paid		
19 (2007: 19) Class 'A' Shares of £0.01 per share	-	-
81 (2007: 81) Class 'B' Shares at £0.01 per share	1	1
10,111,194 (2007: 8,423,694) Class 'C' Shares at £1.00 per share	10,111,194	8,423,694
	<u>10,111,195</u>	<u>8,423,695</u>

On 31 December 2007, the Company issued 1,687,500 Class 'C' Shares of £1 each at par. The proceeds from this share issue were used as part of the repayment a bank loan of £22,500,000 on the same day.

Class Rights

The Class 'A' and 'B' Shares have voting rights, which rank pari passu but as non-equity shares do not rank for dividend. Both classes have precedence in the event of any capital repayment. The Class 'C' Shares have no voting rights but do rank for dividend.

Holders of Class 'A' Shares have the right to appoint only one of the Directors of the Company, whereas holders of Class 'B' shares have the right to appoint not more than seven Directors of the Company. Such Directors may only be removed by the holders of the respective Class of shares under which the Director was originally appointed. Holders of Class 'C' Shares have no rights to appoint Directors.

Class rights can only be varied if approval is obtained from 75% or more of the holders of each individual class of share.

The class rights of the Class 'A' Shares are deemed to be varied by the holders of the Class 'B' and 'C' Shares taking defined actions which effect the status of the Company and its principles and objectives.

**15 RESERVES**

	<u>Profit and loss account</u>
	£'000
As at 1 April 2007	(14,152)
Retained profit/(loss) for the year	505
As at 31 March 2008	<u>(13,647)</u>

**ELWA LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2008 (continued)**

**16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>2008</u> £'000	<u>2007</u> £'000
Profit/(loss) after tax and retained profit/(loss) for the year	505	(1,849)
Issue of Share Capital during the year	1,687	-
Net movement in equity shareholders' funds	<u>2,192</u>	<u>(1,849)</u>
Opening equity shareholders' funds	(5,728)	(3,879)
Closing equity shareholders' funds	<u>(3,536)</u>	<u>(5,728)</u>

**17 NOTE OF THE HISTORICAL COST PROFITS AND LOSSES**

There is no material difference between the reported profits/(losses) for the year and that which would be reported under the historical cost convention.

**18 CAPITAL COMMITMENTS**

The amount of capital expenditure authorised by the Directors for which no provision has been made in the financial statements is:

	<u>2008</u> £'000	<u>2007</u> £'000
Expenditure contracted for	<u>10,063</u>	<u>20,351</u>

Prior year comparatives have been restated for consistency purposes.

**19 CONTINGENT LIABILITIES**

The Company has granted to its bankers, guarantees relating to the repayment of outstanding debt. There are no contingent liabilities or post balance sheet events.

**20 RELATED PARTY TRANSACTIONS**

In accordance with FRS 8 – Related Party Transactions, the Company, being a wholly owned subsidiary of another company, which prepared a statement of related party transactions including that of this Company, has not prepared such a statement itself.

**21 IMMEDIATE AND ULTIMATE PARENT COMPANY**

The Company's immediate holding company during the year was Shanks Waste Management Limited. The ultimate parent company is Shanks Group plc, a company registered in Scotland. Copies of the group accounts may be obtained from the Company Secretary, Shanks Group plc, Dunedin House, Auckland Park, Mount Farm, Milton Keynes, Buckinghamshire, MK1 1BU.

(Contact Officer: Prakash Mistry: 020 8708 3735)

## EAST LONDON WASTE AUTHORITY

24 NOVEMBER 2008

### FINANCE DIRECTOR'S REPORT

<b>BUDGETARY CONTROL AND TREASURY MANAGEMENT REPORT TO 31 OCTOBER 2008</b>	<b>FOR INFORMATION</b>
--	------------------------

#### 1 Introduction

- 1.1 This budgetary control report compares ELWA's actual expenditure to the original revenue estimates, approved in February 2008, for the period April to September 2008 and is based on information supplied by Shanks East London and the four Constituent Councils.
- 1.2 Budgetary control reports are presented for monitoring and control purposes.

#### 2 Revenue Estimates

- 2.1 After seven months of the financial year, there is an overall underspend against profiled budget amounting to £550,000 with material variances explained below.
- 2.2 The payment to Shanks East London is lower than was projected in the Annual Budget & Service Delivery Plan (ABSDP) because approximately 3.6% (as at September 08) less tonnage has been disposed than was originally estimated.
- 2.3 The lower tonnage has contributed to a saving of £325,000. Similar trends as a result of reduced tonnage has also been noted in commercial waste, with an income under achievement to date of £71,000 and Tonnage mileage charges being lower than anticipated reflecting a saving of £44,000 to date.
- 2.4 Larger cash balances as a consequence of reduce payments to Shanks, together with increase savings interest rates available at present has also generated a positive interest receivable variance of £72,000 to date.
- 2.5 The contingency position after seven months has also produced an under utilisation of £158,000, which is reflected in the accounts.
- 2.6 These factors, together with some other minor variances, has led to an improved underspend against profiled budget, after seven months, amounting to £550,000.
- 2.7 ELWA's original Contingency sum for 2008/09 is £550,000 and this comprises £200,000 for IWMS Contract negotiations, including insurance benchmarking or other unforeseen circumstances, £100,000 for Waste Regulation including Hazardous Waste, definitions of Household Waste and Disposal Credits to third parties, and £250,000 for an increased Communications Campaign. There are reports elsewhere on the Agenda in relation to proposals for utilising the Contingency. Based on a recent review it is now likely that only £280,000 of the contingency will be required for this financial year.

2.8 To date, due to market conditions, there have been no sales of surplus Landfill Allowance Trading Scheme (LATS) allowances and Officers will continue to keep this situation under review.

2.9 Any revenue under-spend and unutilised contingency for the year will be added back to Revenue Reserves at the end of the year.

### **3 Prudential Indicators and Treasury Management**

3.1 The Prudential Indicators for 2008/09 agreed by the Authority at its meeting in February 2008, covering borrowing, lending and capital expenditure limits, are monitored by the Finance Director on a monthly basis. The Authority remains within the limits set by the Prudential Indicators.

3.2 The Authority has continued to adhere to the Treasury Management and Annual Investment Strategy agreed by members at your meeting in February 2008. The Investment Strategy defines a comprehensive and rigorous range of credit rating criteria. These criteria have been fully observed. A list of current investments will be provided to members at your meeting together with an update on the current position.

### **4 Recommendation**

4.1 Members are asked to note this report.

Geoff Pearce  
**FINANCE DIRECTOR**

<b>Appendix</b>	
A	Budget Monitoring Statement to 31 October 2008
<b>Background papers</b>	
None	

**EAST LONDON WASTE AUTHORITY**

**BUDGET MONITORING STATEMENT TO 31 OCTOBER 2008**

	<b>Original Budget 2008/09 £'000</b>	<b>Profiled Budget to 31.10.08 £'000</b>	<b>Total Actuals to 31.10.08 £'000</b>	<b>Variance to 31.10.08 £'000</b>
<b><u>EXPENDITURE</u></b>				
<b><u>Employee and Support Services</u></b>	436	254	254	0
<b><u>Premises Related Expenditure</u></b>	151	88	88	0
<b><u>Transport Related Expenditure</u></b>	14	8	5	-3
<b><u>Supplies and Services</u></b>				
Payments to Shanks.East London	47,701	27,948	27,623	-325
Other (inc cost of Support Costs)	608	355	339	-16
<b><u>Third Party Payments</u></b>				
Disposal Credits	100	58	66	8
Recycling Initiatives	205	120	120	0
Tonne Mileage	600	350	306	-44
Rent payable - property leases	267	155	155	0
<b><u>Capital Financing Costs</u></b>	256	149	149	0
<b>TOTAL GROSS EXPENDITURE</b>	<b>50,338</b>	<b>29,485</b>	<b>29,105</b>	<b>-380</b>
<b><u>Income</u></b>				
Commercial Waste Charges	-3,988	-2,326	-2,255	71
Bank Interest Receivable	-1,430	-834	-906	-72
Other Income	-20	-12	-23	-11
<b>TOTAL INCOME</b>	<b>-5,438</b>	<b>-3,172</b>	<b>-3,184</b>	<b>-12</b>
Contingency Allocated	550	321	163	-158
<b>NET EXPENDITURE ON SERVICES</b>	<b>45,450</b>	<b>26,634</b>	<b>26,084</b>	<b>-550</b>
PFI Grant Receivable	-4,355	-2,541	-2,541	0
Transfer to PFI Contract Reserve	4,355	2,541	2,541	0
Levy Receivable	-36,300	-21,175	-21,175	0
Transfer from PFI Contract Reserve	-7,400	-4,317	-4,317	0
Contribution from Reserves	-1,750	-1,021	-1,021	0
<b>REVENUE SURPLUS FOR PERIOD</b>	<b>0</b>	<b>121</b>	<b>-429</b>	<b>-550</b>

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(Contact Officers: Geoff Pearce Tel 0208 708 3588, or Prakash Mistry - Tel. 0208 708 3735)

## EAST LONDON WASTE AUTHORITY

24 NOVEMBER 2008

### FINANCE DIRECTOR'S REPORT

<b>FINANCIAL PROJECTION AND BUDGET STRATEGY: 2009/10 to 2011/12</b>	<b>FOR APPROVAL</b>
---	---------------------

#### 1 Introduction

1.1 In accordance with good practice and in order to comply with Financial Standing Orders this report presents the Authority's Financial Projection and Budget Strategy for the three years from 2009/10 to 2011/12 with particular focus on 2009/10.

#### 2 Summary

2.1 In recent years ELWA has managed to achieve a relatively moderate and stable trend in levy increases despite volatility in markets and sharply rising disposal costs with increased regulatory requirements.

2.2 The key elements of this three year financial plan are as follows

- a) The level of levy increases within this plan has reduced from that projected last year, from 11.9% to 7% for 2009/10 and from 10.9% to 7% for 2010/11. This is largely due to reductions in tonnage disposals as well as improved performance on Landfill diversion rates.
- b) The levels of reserves are reduced to appropriate levels based on the risk profile.
- c) Landfill tax increases of £8 per tonne in each year have been accommodated within this plan. The first two years' increases have already been announced by the government and the final year's £8 increase is assumed at this juncture.

2.3 Table 1 overleaf summarises the draft financial plan for the next three years, highlighting the expenditure budget requirements, the proposed levy increases and draw down of reserves.

<b>Summary Budget</b>	<b>2009/10 £k</b>	<b>2010/11 £k</b>	<b>2011/12 £k</b>
Revenue Budget	46,777	50,455	53,428
Annual PFI Grant	(4,181)	(4,014)	(3,854)
Transfer to PFI Reserve	4,181	4,014	3,854
Contingency	300	300	300
<b>Sub Total</b>	<b>47,077</b>	<b>50,755</b>	<b>53,728</b>

<b><u>Financed By</u></b>			
Transfer from PFI Reserve	(6,949)	(8,195)	(8,087)
Transfer from General Reserve	(1,287)	(1,000)	
Levy	(38,841)	(41,560)	(45,641)
Levy Increase over previous year	7%	7%	9.82%
<b><u>Year End Reserves</u></b>			
PFI Reserve	10,767	6,586	2,353
Capital Reserve	400	400	400
General Reserve	6,900	5,900	5,900

- 2.4 This plan continues the previous policy of returning Authority underspends to the Boroughs at the earliest possible time under the levy arrangements. For example, the anticipated underspend as a result of improved performance of £1m for 2008/09 has been added to the figure for reserves but then applied immediately in reducing the levy for 2009/10. This under spend has meant a lower levy increase in 2009/10 than projected in last year's financial plan.
- 2.5 The key item within the revenue budget is Shanks East London's Annual Budget and Service Delivery Plan (ABSDP). The associated annual contractual cost accounts for nearly 95% of ELWA's total gross expenditure. For 2009/10 contract costs have increased by £2.9m against budget. The increase comprises of landfill tax amounting to £1.8m, inflation increase of £1.8m and additional cost of improved diversion from landfill of £0.2m. This is offset by reductions on overall tonnage disposed saving £0.9m.
- 2.6 The proposal to finance these increase costs is a combination of 7% levy increases in 2009/10 and 2010/11 and a larger increase of 9.82% in 2011/12 together with utilising the reserves in order to smooth the levy increases for the next three years.
- 2.7 As a consequence of additional landfill tax rises of £8 per annum for the next three years, the revenue budget has incorporated subsequent increases in commercial waste disposal charges to the boroughs of equivalent amount. For 2009/10 the charge per tonne will rise from the current charge of £80 per tonne to £88 per tonne, an increase of 10%.
- 2.8 The contingency of £0.3m per annum largely reflects uncertainty around tonnage growth and possible need for incentives to improve or maintain recycling performance. This is historically very low level of contingency and may limit flexibility during the year.
- 2.9 The boroughs should see the levies for 2009/10 to 2011/12 in the context of the rising costs of waste disposal including the impact of landfill tax, increases in tonnages and inflation. The Authority's IWMS contract, supported by Private Finance Initiative (PFI) funding, is not only a response to legislative requirements but is also an attempt to cap and smooth the cost of future waste disposal cost increases by



means of a long term contract which significantly reduces the amount of waste landfilled. Cost increases can be mitigated by adopting the policy of restraining waste and increasing recycling.

- 2.10 In the absence of the contract and based on projected increases in landfill tax levels and increases in inflation, the ELWA levies in the future would be very much higher. This would primarily be attributable to increased landfill prices due to the increased scarcity of landfill, to increased expenditure on landfill taxes, to penalties under the landfill allowances regime, and to the need for extra capital investment on ELWA and Borough sites to meet the Government's stricter recycling and recovery targets.
- 2.11 The PFI reserve exists to smooth the IWMS contract step price increases in the early years of the contract. It was good financial practice and agreed ELWA policy that a suitable level of PFI Contract Reserve be set aside in the years prior to such changes to avoid large step increases in the levy for those years. These step price increases have ceased; however new pressures outside ELWA control in particular the annual increases on landfill taxes and the PFI reserve exists to serve this need. It is proposed that a large portion of grant is drawn down in the next three years. The current government policy (Budget 2007) is that the annual landfill tax increases to £48 per tonne in 2010/11 and the government will review on future rises. For this plan a further £8 per tonne increase has been factored in for 2011/12, with a caveat that this figure may rise once the review has concluded.
- 2.12 As agreed by members a risk-based approach has been adopted to calculate the level of General Reserves required for the authority. For financial year 2009/10 a minimum figure of £6.9m is required to manage the authority's financial risks.

### **3 Financial Projection and Levy Forecast: 2009/10 to 2011/12**

- 3.1 ELWA Members will understand the impact of its levy on the boroughs' budgets as well as Council Taxes and it is important to keep any annual increases to a minimum subject to the continual need for financial prudence and operational viability. These two pressures must be balanced and Members must also take a three-year view on the budget strategy. It is likely that ELWA will continue to face uncertainty in the future and financial pressures cannot be ruled out for the remainder of the current year and for the years 2009/10 to 2011/12.
- 3.2 Table 2 below shows the impact of the proposed levy increases by borough, based on the 2008/09 apportionment rate and based on current estimates of total waste collected in these years. These are likely to change when the February levy report is produced.

<b>Boroughs - Levy</b>	<b>2009/10 £k</b>	<b>2010/11 £k</b>	<b>2011/2012 £k</b>
Barking And Dagenham	7,172	7,675	8,428
Havering	10,123	10,831	11,895
Newham	11,382	12,179	13,374
Redbridge	10,164	10,876	11,944

- 3.3 The boroughs should see the levies for 2009/10 to 2011/12 in the context of the rising costs of waste disposal including the impact of landfill tax, increases in tonnages and inflation. The Authority's IWMS contract, supported by Private Finance Initiative (PFI) funding, is not only a response to legislative requirements but is also an attempt to cap and smooth the cost of future waste disposal cost increases by means of a long term contract which significantly reduces the amount of waste landfilled. In the absence of the Contract and based on projected increases in landfill tax levels and increases in inflation, the ELWA levies in the future would be very much higher.
- 3.4 This is primarily attributable to increased landfill prices due to the increased scarcity of landfill, to increased expenditure to landfill taxes, to penalties under the landfill allowances regime, and to the need for extra capital investment on ELWA and borough sites to meet the Government's improved recycling and recovery targets.
- 3.5 This Financial Projections and Budget Strategy highlight various complex issues facing ELWA which necessitates a prudent approach to its Projection and Strategy. Waste management generally continues to be subject to many changes, a number of which are driven by the Government's national agenda and beyond ELWA's control. This Projections and Strategy have been prepared in conjunction with, and are supported by, all of the ELWA Directors.
- 3.6 When considering this Financial Projections and Budget Strategy, Members will need to have regard to the Authority's longer-term position and the level of its reserves over the next few years.
- 3.7 Comments On Key Financial Issues

The key pressures on the ELWA levy are as follows:

- a) An issue of concern for the future will be the pace of development of the Thames Gateway and the impact of the Olympics which will significantly add to waste growth over the next decade;
- b) General rise in the cost of all aspects of waste management including recycling infrastructure costs and landfill disposal including higher taxation: [a further increase in landfill tax of £8 per tonne each year until 2010/11 is known for certain, with an assumption that 2011/12 increase being similar. In 2009/10 the further £8 per tonne increase in landfill tax adds an extra £1.8m or 3.6% on contract value];
- c) The implications of recent EU and UK legislation on particular issues, for example, the Government's new Waste Strategy and the debate stimulated by Defra about the definition of 'household waste';
- d) Service and performance improvements may need to be driven by an injection of funds from contingencies and reserves (for example, the approval of a new Communications Strategy in September 2008);
- e) The need to hold a reasonable level of reserves to meet the costs associated with unforeseen circumstances and the uncertainties of waste disposal at the current time; and

f) Risks around inflation.

3.8 The basic elements of the ELWA levy are:

- a) As mentioned above the key item is Shanks East London's Annual Budget and Service Delivery Plan (ABS DP). The associated annual contractual cost accounts for nearly 95% of ELWA's total gross expenditure;
- b) The cost of services not subject to the IWMS Contract, for example, management of Aveley I site, strategy, support and administration costs. This expenditure is likely to increase in line with inflation but is managed through some cost saving in particular tonne mileage charges. There is an element of risk management about maintaining the closed landfill sites and this has implications for reserves;
- c) Offsetting income, for example, generated by commercial waste charges to the Boroughs, investment income and the PFI Grant; and
- d) Other items including contingency provisions and use of reserves.

3.9 ELWA and its Constituent Boroughs benefit directly from significant additional revenue funding in the form of PFI credits. Constituent boroughs also receive funding from Government for waste management via the main revenue support grant.

### **2009/10 Levy Forecast**

3.10 The 2009/10 levy will be the seventh full year under the new contractual arrangements. The provisional ABS DP for 2009/10 assumes a total ELWA Waste figure of approximately 500,500 tonnes (waste growth of 0.5% over the likely outturn for 2008/09). For the levy report due in February 2009 advice of Technical Officers from all the four boroughs will be required to test the reasonableness of 500,500 tonnage projections.

3.11 The current provisional contract cost forecast for Shanks East London for 2009/10 is £50.6m an increase of £2.9m compared with a budget of £47.7m for 2008/09. In 2008/09 the IWMS Contract cost reached its maximum cost in real terms as the entire planned infrastructure will be completed during the year. ELWA's waste management costs are now effectively capped in cost per tonne terms apart from external factors such as rising landfill taxes, inflation and tonnage growth.

3.12 A figure of £1.8m increase has been included for landfill tax of £8 per tonne announced by the Chancellor in March 2007. It is worth noting that this increase in contract price would have been £0.75m more if Shanks had not planned to achieve the higher diversion from landfill rate of 54%. Contractually, the minimum requirement for diversion from landfill is 40% for 2009/10.

3.13 The revenue reserves at 31st March 2009 are estimated to be around £8.2m. These reserves have been built up over the last few years to reflect a risk based approach to the issue.

3.14 This Financial Projections and Budget Strategy assume no income for the anticipated surplus Landfill Allowances accruing to the Authority nor any penalties for any

potential deficit of Landfill Allowances for the years to 2011/12. This is because the current value of any sale of surplus allowances is likely to be nil.

3.15 The final detailed Revised Estimates for 2008/09 and the Revenue Estimates for 2009/10 will be prepared in conjunction with borough officers and the contractor during the period up to mid-January 2009. Clearly there could be further changes to the figures in this report in the light of any new information over the coming weeks and months. The 2008/09 and 2009/10 Estimates will be finalised for approval at the ELWA meeting in early February 2009, including consideration of the Authority's reserves position.

3.16 In summary:-

- a) The previous projection for 2009/10 was for a levy of £40.6m, an increase of 11.9% compared to the 2008/09 levy;
- b) The proposed levy of 7% will bring the levy down to £38.8m. The reduction largely results from lower cost estimates than planned in particular diversion from landfill and anticipated under spend in the current year (2008/09) of £1m;

### **2010/11 to 2011/12 Levy Forecasts**

3.17 The main component will continue to be the IWMS Contract cost which in turn will reflect waste growth, inflation, landfill taxation and improved landfill diversion performance. Based on these factors and the proposed use of reserves recommended in this and previous reports, the indicative figures for the ELWA levy in 2010/11 to 2011/12 are in the region of £41.5m to £45.6m respectively i.e. an annual increase of 7% for 2009/10 and 2010/11 and a larger increase in 2011/12 of 9.82%.

3.18 The levy forecasts for 2010/11 to 2011/12 clearly can only be taken as an attempt to provide the most helpful indication presently possible for planning purposes, together with an explanation of some of the relevant factors concerned. However, a change in any of a number of uncertain factors, for example landfill allowances, waste growth and inflation assumptions and any new legislation could significantly impact on the overall projections.

3.19 It should be noted that the anticipated key costs would have been much higher if the Authority had not embarked upon the current IWMS. For example, the controls exerted over waste flows by the contractor, particularly at the old Civic Amenity sites, have reduced tonnage by 20% compared to that anticipated.

3.20 Furthermore, the success of diverting waste from landfill, by virtue of the current infrastructure (to almost 54% diversion in 2009/10) has significantly reduced the Authority's exposure to landfill taxes and potential penalties under the landfill allowances regime.

#### **4. General Budget Strategy**

- 4.1 ELWA is well placed compared to many Waste Disposal Authorities (WDA) in that it has a clear waste management strategy being implemented via an Integrated Waste Management Strategy (IWMS) Contract. In general terms ELWA is less exposed to the need for unplanned or unbudgeted significant new capital expenditure than most WDAs.
- 4.2 However it remains exposed to other risks, the major issues being around waste levels, as follows:-
- a) Volumes of waste could increase by more than the 0.5% assumed in these figures. This is quite likely as Thames Gateway (eg Barking Riverside) developments proceed and as a result of the Olympics and its legacy. The extra cost is £0.4m per 1% increase in waste.
  - b) Inflation at greater than 2.53% will increase these costs. The extra costs are £0.5m per 1%.
  - c) Landfill Tax increases of above £8 per tonne p.a. will increase these costs. Every £1 per tonne on landfill tax increases costs by £0.3m p.a.
  - d) New Regulations over waste, for example, the definitions of household waste, could increase waste and therefore increase costs.
  - e) There is a contractual arrangement to benchmark operational insurance costs incurred by ELWA Ltd and if these increase significantly ELWA will share some of the increase. Action is being taken under the Closed Landfill Strategy to reduce exposure to risks from the sites.
  - f) Problems around contract delivery and / or the need to change the contract.
- 4.3 The responsibility for, and maintenance of, four closed landfill sites continue to carry a significant financial risk for ELWA. Currently maintenance operations are at relatively low cost but the nature of the sites creates some financial uncertainty for the future.

#### **5. Budget Strategy for PFI Credits and PFI Contract Reserve**

- 5.1 As previously agreed by Members, ELWA's Financial Projection and Budget Strategy must take account of both the reducing value of the PFI credit in cash terms over 25 years and the increases in contract costs when, for example, the Government's targets for increased recycling and recovery are implemented in accordance with the requirements of the IWMS contract. It is prudent to seek to level this trend over this period to give greater financial stability
- 5.2 As the IWMS contract has step price increases in the early years it is good financial practice and agreed ELWA policy that a suitable level of PFI Contract Reserve be set-aside in the years prior to such changes (for example in 2009/10) to avoid large step increases in the levy for those years.
- 5.3 These step price increases have ceased; however new pressures outside ELWA control in particular the annual increases on landfill taxes require financing with the PFI grant as an option. It is proposed that a large portion of grant is utilised in the

next three years to cover this abnormal cost increases. The current government policy is that the annual landfill tax increases will maximise to £48 per tonne in 2010/11 with further rises of £8 per tonne assumed within this plan.

- 5.4 This Financial Projection and Budget Strategy assumes that the forecast PFI Contract Reserve of approximately £13.5m as at 31st March 2009 is reduced from 2009/10. For example, the IWMS contract cost is forecast to increase by £2.9m in 2009/10 but by management of the PFI credits in the earlier years the predicted levy increases for 2009/10 to 2010/11 are smoothed to around 7% by utilising the built-up PFI Contract Reserve.
- 5.5 If the Authority had not entered into the IWMS Contract the Authority would not have benefited from PFI Credit and it would have been exposed to very significant increases in the levy in any event, arising from increasing rates of landfill tax, for excess landfilling (under Landfill Allowances regime) and an escalation of landfill costs due to market forces.

## **6. Strategy for Revenue Reserves**

- 6.1 The Authority has accepted in earlier years that the minimum level of normal operational revenue balances should be set and the suggested approach is risk-based approach. The estimated total financial cost of risks facing the Authority in 2009/10 has been reassessed by Officers and is deemed to be a minimum of £6.9m.
- 6.2 The Authority's Auditors in their Annual Reports over recent years have commented favourably on the Authority's medium to long-term approach to financial planning. This includes the need for the Authority to continue to monitor and agree the level of reserves it holds.
- 6.3 This Financial Projections and Budget Strategy assume that the Revenue Reserves which are estimated at £8.2m by the end of 2008/09 are reduced to £5.9m over the next three years to match the current assessed profile of the risks facing ELWA during this period. However, this would be subject to an annual assessment of the risks and plans for the Authority.

## **7. Budget Strategy**

- 7.1 The foregoing sets out the Authority's financial issues for the next three years. This highlights that there continues to be the need for the Authority to prudently move forward whilst managing the risks before it. Therefore the following Strategy is being proposed:
- 7.2 That the Authority recognises the need to ensure there is an effective Budget Strategy in place to drive forward the financial planning process. The Budget Strategy is determined by policies and priorities contained within plans of the Authority.
- 7.3 That the Authority recognises the need to seek new funding and new ways of working. The Authority will also continue to look at new ways of working and to improve value for money.
- 7.4 That, while addressing its priorities and setting a balanced and prudent budget, the Authority will seek to keep any increase in the levy to the lowest possible level.

7.5 The Authority will also seek to manage the risks it faces including through the maintenance of an adequate and prudent level of reserves.

## 8. Conclusion

8.1 Waste Disposal has been, and continues to be, subject to much new legislation and regulation. This has created uncertainty in waste flows and in costs. All the Directors recommend the continuation of the existing strategy of seeking to smooth out increases in the levy. Whilst some risks identified in earlier years have been reduced, many are still present. It is thus difficult to project beyond three years and annual reviews are necessary. As the IWMS contract continues, even lower levels of reserves may be possible but they cannot be recommended yet.

8.2 ELWA, by letting an IWMS contract and gaining PFI support has put itself in a good position and is better placed to manage the future. This has been demonstrated by the higher levels of levy increases and predicted future levy increases in other Joint Waste Disposal Authorities. This report sets out the projected financial pressures on ELWA, proposes a Strategy for the use of reserves and suggests that the overall levy increase will be in the region of 7% per annum for the next two years and an increase of 9.82% in year 3.

These increases are dampened due to the use of reserves as set out in this report. Without the IWMS Contract and the related PFI Credit this forecast would have had to anticipate higher levels. The Finance Director will continue consulting with Borough Directors of Finance during the next couple of months regarding the details of this Financial Projection and Budget Strategy. Detailed calculations of actual levy increases will be considered at the February meeting of the Authority prior to the start of the 2009/10 financial year.

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

## 9. Recommendation

9.1 Members are asked to agree the Financial Projection and Budget Strategy for the years 2009/10 to 2011/12.

Geoff Pearce  
**FINANCE DIRECTOR**

<b>Appendix</b>	
A	Financial Risk Analysis for 2009/10 (as at October 2008)
<b>Background papers</b>	
None	

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**EAST LONDON WASTE AUTHORITY**

**FINANCIAL RISK ANALYSIS FOR 2009/10 (as at October 2008)**

<b>Risk</b>	<b>Likelihood</b> %	<b>Worst Case</b> £m	<b>Value of Risk</b> £m
Discriminatory law changes i.e. concerning waste management, definition, or regulation	60	0.6	0.4
General change in law – impact on IWMS contract - share of capital expenditure	10	5.0	0.5
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 & costs –gradual events	5	6.0	0.3
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	60	0.5	0.3
Resources to invest in improved performance – arising from national and local waste strategies	50	2.5	1.3
Authority Insurances (excluding IWMS Contract) - liability for uninsured losses and deductibles	10	2.0	0.2
IWMS Contract Operational Insurances – liability for uninsured losses and deductibles	40	0.5	0.2
<b>TOTAL</b>			<b>£6.9m</b>

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*(Contact Officer: Mark Ash - Tel. 020 8270 4997)***EAST LONDON WASTE AUTHORITY****24 NOVEMBER 2008****ASSISTANT EXECUTIVE DIRECTOR'S REPORT**

<b>WASTE MANAGEMENT – SEPTEMBER 2008</b>	<b>FOR INFORMATION</b>
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**1 Purpose**

- 1.1. To report on the performance of the Joint Waste Management Strategy (JWMS) contract for the period to September.
- 1.2. To report on the development of waste and recycling improvement initiatives and trials related to the JWMS.

**2 Performance against New National Performance Framework**

- 2.1 Appendix A shows the four Boroughs' individual performance against NI 191 Residual Household waste per head, NI 192 Household waste composted and recycled and NI 193 Municipal waste landfilled up to September 2008.
- 2.2 Points to note are :
  - a) Since the last report to the Authority the target numbers have been profiled to best reflect seasonal variations for each quarter;
  - b) Newham's performance on NI 191, although only a local target, is performing in line with expectations;
  - c) Havering are marginally above the planned figure for NI 191 however the actual tonnage is on a downward trend and should therefore perform in line with expectations at year end.
  - d) ELWA is continuing to perform well against indicator NI 193 (Municipal waste landfilled).

**3 Background information**

- 3.1 Waste arisings in September were 41,423 tonnes. This is lower than profiled in the Annual Budget and Service and Delivery Plan (ABSDP) and is in line with tonnages received in August. This means that the year to date (YTD) waste arisings are 9602t less than anticipated in the ABSDP.
- 3.2 The achieved primary recycling and primary composting rate for September was 19.4% against a profiled 23%. The year to date performance is 18.9%, 3.1% lower than the ABSDP projected 22% for the year to date. In terms of tonnage this equates to a shortfall in recycling and composting of approximately 10,000 tonnes for the YTD.

3.3 The reasons for the variations have been outlined and explained in more detail in the ELWA Monthly bulletin report for September and the Contract Monitoring report in the confidential part of the agenda.

## 4 Service Impacts

### 4.1 Revised Waste Framework Directive

4.1.1 Following a second reading agreement in the European Parliament on the 17<sup>th</sup> June the Council of the European Union adopted the revised Waste Framework Directive on 20<sup>th</sup> October 2008.

4.1.2 The revised framework for waste management is aimed at encouraging re-use and recycling of waste as well as simplifying current legislation. In addition it promotes the use of waste as a secondary resource with the intention of reducing the amount of waste to landfill.

4.1.3 Greater focus is placed on waste minimisation and Member states are obliged to design and implement waste prevention programmes.

4.1.4 The five step hierarchy of waste management (as listed below) must now be applied by Member States when developing national waste policies rather than be used as a 'guiding principle' as before.

- Waste prevention (preferred option);
- Re-use;
- Recycling;
- Recovery (including energy recovery) and;
- Safe disposal (as a last resort)

Deviation will be permitted if it provides a better environmental outcome.

4.1.5 Article 11 of the directive has caused the most controversy. The directive sets new recycling targets, i.e. by 2020 Member States must recycle 50% of their household and similar waste and 70% of their construction and demolition waste. The text of Article 11 reads:

*".....Member States shall take the necessary measures designed to achieve the following targets:*

- a) *by 2020 the preparing for re-use and the recycling of waste materials such as at least paper, metal, plastic and glass from households and possibly from other origins as far as these waste streams are similar to waste from households, shall be increased to a minimum of overall 50% by weight"*

4.1.6 The wording of this text appears to exclude green waste and other materials such as food and green waste from contributing to this 50% target. However it is understood (from DEFRA July 2008) that the UK interpretation of this directive will allow green and food waste to be counted. It is also understood that the four materials described i.e. paper, metal, plastic and glass will contribute to the overall recycling target and the 50% does not apply to each individual material. As with existing targets the 50% relates to a National target and not to individual local authorities.

4.1.7 Article 11 also states that “by 2015 separate collection shall be set up for at least the following: paper, metal, plastic and glass”. It is understood that the UK interpretation is: “after 2015 where this is the most effective means of increasing recycling rates in the local circumstances” which would allow the continuation of collecting these materials together for a MRF to separate out at a later stage.

4.1.8 Member States have 2 years to transpose into national law.

## **4.2 Waste licence exemptions**

4.2.1 In July 2008 Defra in conjunction with the Environment Agency released a consultation on revised waste exemptions from Environmental permitting.

4.2.2 Exemptions have been provided from the need for an environmental permit (formerly a waste management licence) for many years. Exempt waste operations are not unregulated but are subject to lighter touch regulation. The composting operation at Aveley is operating under an exemption and could therefore be affected by the outcomes of this consultation.

4.2.3 Existing exemptions are issued based on the type of operation including, but not exhaustively, the quantity of waste processed and the nature of the waste.

4.2.4 Concentrating on the composting operation at Aveley the current volume of waste that is allowed to be processed under an exemption is 1000m<sup>3</sup> at any one time, approximately 4600m<sup>3</sup> per annum. The new proposal is to reduce this to 40t at any one time (approximately 460t of input per annum).

4.2.5 Ultimately this would mean for ELWA that an Environmental Permit would have to be applied for at an anticipated cost of £2800. There would also be a requirement for greater management involvement in this operation and the operator would be required to hold a Certificate of Technical Competence (COTC). The Assistant Executive Director already holds this certification.

4.2.6 The secondary implication of these proposed licensing is that as the material produced at Aveley will no longer be produced under an exemption it could mean that a permit would have to be applied for in order to spread this material on Aveley 1. The full implications of this are not yet known and ELWA officers will continue to investigate this.

4.2.7 The changes to the system are to begin on 1<sup>st</sup> October 2009.

## **4.3 Primary Care Trust (PCT) Orange bags for clinical waste**

4.3.1 On October 22<sup>nd</sup> the Assistant Executive Director attended a joint National Performance Advisory Group (NPAG) and NHS meeting at London Councils to discuss the issues surrounding the PCT use of orange bags for clinical waste. The function of NPAG is to develop a national programme of benchmarking and best value services in response to the demand from NHS managers for comparative data and processes, networking opportunities and sharing of good practice.

4.3.2 The issues faced by ELWA were presented at this meeting, along with the concerns of other London Boroughs represented at this meeting. A consensus was reached among those around the table that the PCT issued orange bag could be changed to a 'tiger striped' bag with a preference that orange was not one of the colours. NPAG stated that they would feed this information into the NHS Local Environmental Network Meeting to be held in November.

#### **4.4 Controlled Waste Regulations (CWRs) and Hospital Waste.**

4.4.1 At the same joint NPAG/NHS meeting above, the issue of collecting and disposing of hospital waste as household waste was also discussed. The background to this was also reported in the previous report to Members. In general some but not all of the waste arising from premises forming part of a hospital may be considered as household waste under the CWRs. It is being suggested by some that the task of separating this material from other similar material from the commercial or industrial hospital waste streams, and presenting this to the collection authority, may be more onerous and more expensive than the hospital contracting with a waste management company to take all of the waste unsorted.

4.4.2 ELWA officers are not aware of any pressures from hospitals within the ELWA area to provide a free of charge disposal service for their household waste at present.

#### **4.5 Markets for recyclates**

4.5.1 The current economic climate is causing a major shift change in the market of recycle materials. The export market for materials has become volatile raising issues of long term demand and quality of materials.

4.5.2 There has been a sudden decline in recovered commodity prices most notably for steel, paper and plastics.

4.5.3 The low demand for materials is having the effect of squeezing out the materials in the low quality end of the spectrum.

4.5.4 ELWA must pay particular attention to this issue as some of the materials that are recovered by the contractor will undoubtedly fall within the low quality category. The risk attached to this is that the contractor will not be able to find a viable market for this material thus adversely affecting the recycling performance as a result of increased material sent to landfill.

4.5.5 The financial impacts on the contractor have not been considered in this report.

#### **5 LATS performance**

5.1 Subject to ratification by the Environment Agency (EA), ELWA banked an additional 6657t of surplus LATS allowances in the month of September due to Shanks over performance of diversion from landfill.

5.2 ELWA officers received communication from the EA that after the EA's calculation a reduction of 24,000t will be applied to the total surplus LATS benefits. ELWA officers have disputed this figure and have sent justification to the EA as to why the EA's calculation is incorrect. As yet there has been no further communication.

- 5.3 Any surplus LATS banked at the end of the 2008/09 year will be removed and the account set back to zero as 2009/10 is a target year for the Government and no trading or banking can occur during that year. Service planning for 2009/10 will therefore have to pay particular attention to this point. The market situation with regards to LATS is there remains little or no opportunity for trading as there is an excess available and very few authorities are in significant deficit.

## **6 Works Delivery Plan**

- 6.1 The construction phase of the Jenkins Lane orange bag MRF finished in October. The MRF has now entered the 3 week phase of performance testing whereby on successful completion it will be issued with a certificate of completion by the Technical Advisor representing the banking consortium. The testing is due to finish on November 10<sup>th</sup> 2008. Inevitably the commissioning process has led to a loss of some recyclates in October. In addition, Octobers recycling performance will appear lower than it actually is, partly due to an accumulation of stocks waiting to be despatched.

## **7 Update on Project Team meetings**

- 7.1 The Project Team meets monthly and comprises ELWA, Shanks and Borough Officers. Two specific items are under review;
- a) The need for a new system of apportionment in respect of recycling tonnages from the new orange bag MRF which would include a contamination assessment and adjustment;
  - b) The accuracy of the tonnages collected from the bring sites.
- 7.2 ELWA officers will be submitting a proposal for a new apportionment method at the project team meeting on the 4<sup>th</sup> November.

## **8 Trials and Initiatives**

- 8.1 In September 2008 Shanks established a market for wood to be recycled / composted from the RRC sites. Since then they have employed extra staff on a trial basis at 2 of the RRC sites to see how much additional wood could be acquired. This is proving to be very successful with tonnages exceeding 500 tonnes per month.
- 8.2 Shanks are also working in conjunction with the Boroughs on various other trials such as extracting recyclates from Bulky waste at the RRC MRF, composition of orange bags and process efficiencies of the new orange bag MRF at Jenkins Lane and supporting recycling from street cleansing operations.
- 8.3 There are many further initiatives under discussion as part of the ABSDP process for 2009/10. Included in this is a growing list of important service delivery issues to address if recycling performance is to be improved in the future.

## **9 Conclusion**

- 9.1 The recycling performance for September falls short of ABSDP projections.
- 9.2 LATS allowances continue to be banked due to the diversion achieved on the project although there remains no market for trading. ELWA are currently in communications with the EA over the method of calculation.
- 9.3 There are short and medium term legislation changes or consultations that may have an impact on ELWA operations.
- 9.4 Pressure is still being applied to address the issue of PCT orange bags for clinical waste.
- 9.5 There are no reports currently of pressure for authorities within ELWA to offer free disposal to schools and hospitals for household waste.
- 9.6 There are significant changes in the market both UK and export regarding the value and acceptance criteria of recyclable materials.
- 9.7 Trials are ongoing by each constituent council and Shanks to improve performance.
- 9.8 The final piece of infrastructure as part of the IWMS contract has entered performance testing.

## **10 Recommendations**

- 10.1 It is recommended that Members:
  - i) note the performances against the new National Indicator targets as set out in Appendix A;
  - ii) note the revisions outlined regarding the waste framework directive (paragraph 4.1);
  - iii) note the potential impacts of the consultation on licence exemptions and the potential impact on Aveley 1 operations (paragraph 4.2);
  - iv) note the current position with regards to the orange bags that are being issued by the health authorities to households for clinical waste and the position of household hospital waste (paragraph 4.3 and 4.4);
  - v) note that there are other reports on the Agenda concerning the volatile market situation regarding recyclates(paragraph 4.5);
  - vi) note the commissioning and cumulative stocks at Jenkins Lane will contribute to a low contract recycling performance in October (paragraph 6.1);
  - vii) note the continued trials and initiatives to increase recycling performance (paragraph 8).

Mark Ash  
**ASSISTANT EXECUTIVE DIRECTOR**

### **Appendices**

A National Indicator table

### **Background Papers**

None



National Indicator Performance		KEY												YTD Performance		
		Quarter 2- 2008/09														
		April		May		June		July		August		September				Cumulative YTD
Indicator Number	Indicator	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	Planned	Actual	
1	NI 191 Residual Household waste per household (LBBD)	--	77	--	90	--	79	78	--	75	71	--	71	Not Set	470	--
2	NI 191 Residual Household waste per household (LBH)	73	77	73	81	73	70	74	72	68	67	72	67	434.3	436	X
3	NI 191 Residual Household waste per household (LBN) (See Note 1 below)	91	82	91	100	91	89	95	89	84	83	89	83	541.0	533	✓
4	NI 191 Residual Household waste per household (LBR)	--	62	--	71	--	63	70	--	64	65	--	65	Not Set	394	--
5	NI 192 Household waste recycled and composted (LBBD)	23.5%	21.0%	23.5%	23.5%	23.5%	26.1%	25.3%	23.5%	23.6%	26.2%	23.5%	26.2%	23.5%	24.3%	✓
6	NI 192 Household waste recycled and composted (LBH)	27%	23.1%	27%	27.6%	27%	30.7%	26.5%	27%	25.7%	28.0%	27%	28.0%	27%	27.0%	✓
7	NI 192 Household waste recycled and composted (LBN)	20%	17.7%	20%	11.8%	20%	13.1%	14.3%	20%	13.6%	15.2%	20%	15.2%	20%	14.2%	X
8	NI 192 Household waste recycled and composted (LBR)	25%	25.3%	25%	26.4%	25%	28.9%	26.1%	25%	25.9%	26.2%	25%	26.2%	25%	26.5%	✓
9	NI 193 Municipal waste landfilled (ELWA) See Note 2 below	60%	48%	60%	41%	60%	40%	43%	60%	#REF!	44%	60%	44%	60%	43%	✓

All data subject to ratification from Waste Data Flow

Note 1 - Local target based on Waste Strategy 2007

Note 2 - Local target based on Joint Waste Mangement Strategy.

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

## EAST LONDON WASTE AUTHORITY

24 NOVEMBER 2008

### EXECUTIVE DIRECTOR'S REPORT

<b>IWMS CONTRACT - ANNUAL BUDGET &amp; SERVICE DELIVERY PLAN 2009/10</b>	<b>FOR APPROVAL</b>
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#### 1. Purpose

- 1.1. To receive and consider the proposals from ELWA Ltd in respect of the Annual Budget & Service Delivery Plan (ABSDP) for 2009/10.

#### 2. Background

- 2.1. The contractual structure in respect of Service Delivery Plans within the Integrated Waste Management Strategy (IWMS) Contract is set out in Appendix A. This explains that an ABSDP has to be agreed between the parties each year within the context of an Overall Service Delivery Plan that covers the whole period of the Contract, and the most recently approved 5 Year Service Delivery Plan. The year 2009/10 is the last year of the current 5 year Service Delivery Plan.
- 2.2. The contractual timetable requires that the ABSDP is to be agreed by the Authority by the end of November for the following financial year. The ABSDP process and timetable provides a firm foundation for the early consideration of the following year's service delivery plans and a mechanism by which Borough initiatives can be incorporated and disputed matters can be resolved.
- 2.3. In recent years the processes for preparing the ABSDP have increasingly involved Borough Officers in order to produce a 'joined-up' plan for the year ahead.

#### 3. ABSDP 2009/10

- 3.1. ELWA Ltd submitted a first draft of the 2009/10 ABSDP to ELWA at the end of October. The ABSDP submitted by ELWA Ltd is summarised in this report. There are a few detailed operational appendices that cannot be finalised until nearer the beginning of 2009/10. The contractual arrangements are that these additional detailed operational appendices are specified in the ABSDP but the detail is not completed until the end of February 2009.
- 3.2. Attached at Appendices B, C and D are summaries of the main operational aspects contained in the 2009/10 ABSDP submitted by ELWA Ltd, including a waste flow summary. A summary of the financial issues is included on the confidential agenda at Appendix E.

3.3. The main point on the 2009/10 ABSDP submitted by ELWA Ltd is that it complies with the Overall Service Delivery Plan and also with the last 5 Year Service Delivery Plan agreed by the Authority. The ABSDP wasteflows demonstrate how the contractual performance targets required of the IWMS Contractor will be met. This last point is given particular attention later in this report because of the underperformance in previous years against one of the main contractual targets i.e. the recycling target.

3.4. The headlines for 2009/10 are:-

- overall estimated tonnages for disposal in 2009/10 are expected to be 500,500 tonnes, a decrease on the 2008/09 ABSDP of 509,000 tonnes;
- diversion from landfill is planned to be 54% of total waste. This exceeds the contractual requirements for 2009/10 which is 40%, and exceeds the 2008/09 ABSDP which was 47%;
- contract recycling is forecast at 22% for 2009/10, the same performance was forecast for 2008/09. (It is to be noted the contract recycling within the ABSDP is calculated slightly differently to the recycling reported by Boroughs under the new National Indicator NI192. The latter is generally around 3% higher than the former);
- overall cost for the 2009/10 ABSDP is £50.6m which is a £2.9m (6%) increase on the 2008/09 ABSDP. A broad reconciliation of the increase for 2009/10 is as follows:-
 

- the extra cost of the £8 increase per tonne in landfill tax	+ 1.8m
- the extra cost of improved diversion from landfill (80% of £8)	+ 0.2m
- the extra cost of inflation (80% of RPIX) i.e. 3.73%	+ <u>1.8m</u>
	+ 3.8m
- less the saving from the reduction in overall tonnages	- <u>0.9m</u>
Net increase IWMS Contract Cost	+ <u>2.9m</u>

3.5. This ABSDP has not specifically identified any new requirements that might be placed upon ELWA or the Constituent Councils arising from the Government's review of the National Waste Strategy of the Mayor's review of the London waste strategies.

3.6. In addition to this ABSDP being agreed between ELWA and ELWA Limited, this year there has been a closer dialogue with Constituent Councils to try to identify their aspirations, for example, in respect of the new Local Government Performance Framework.

3.7. The first table in Appendix D shows the slower than anticipated but continuing improvement in recycling performance across ELWA following the implementation of the Integrated Waste Management Strategy and the contract with ELWA Ltd.

- 3.8. Borough by Borough analysis is becoming increasingly difficult as new facilities are commissioned which receive multiple waste inputs and as the pace of change of collection arrangements increases.
- 3.9. Recycling performance within each Constituent Council continues to be heavily dependant upon the performance of Shanks' infrastructure and also the infrastructure put in by Councils for doorstep collections. Estimated performance for 2009/10 consequentially varies across ELWA. This is shown on the second table in Appendix B, and the table assumes Shanks achieves the required contract recycling performance of 22% and the Borough collection arrangements continue as currently operated.

#### **4. Landfill Tax**

- 4.1. As previously reported the rate of landfill tax will rise £8 per tonne in 2009/10 (from £32 in 2008/09 to £40 in 2009/10) and continue to rise at this rate for at least a further year.
- 4.2. The additional landfill tax cost to ELWA in 2009/10 could have approached £2m but both Shanks' higher diversion from landfill performance in 2009/10 and the overall lower tonnages for disposal from the Boroughs have mitigated this. The total estimated landfill tax payments in 2009/10 are £5.7m, an increase of £1.1m over the estimated sum of £4.6m for 2008/09.

#### **5. Implications for Landfill Allowances**

- 5.1. 2009/10 will be the fifth year of the Landfill Allowances Trading Scheme (LATS) introduced by the government to control the amount of biodegradable municipal waste being sent to landfill.
- 5.2. ELWA has a LATS total of 211,793 Allowances for the landfilling of municipal biodegradable waste in 2009/10. Landfill in excess of this would require the purchase of Allowances, at market price, from other Local Authorities.
- 5.3. The current over performance on diversion from landfill related to Bio MRF processes is helpful in respect of LATS because it:-
  - produces a product suitable for use as an energy source (thus avoiding landfill);
  - produces other products from the refinement section which can be recycled or composted (thus avoiding landfill);
  - reduces the weight of residual waste material (thus reducing weight sent to landfill).
- 5.4. In 2009/10 the ABSDP suggests that the amount of biodegradable waste landfilled is likely to be less than ELWA's Landfill Allowance and therefore ELWA will have a surplus of Allowances to trade. However, the value of these allowances in 2009/10 is likely to be very low and there is no significant benefit expected.

## 6. Strategic Risk Assessment

- 6.1. Most of the major risks associated with the ABSDP 2008/09 have been resolved by the largely satisfactory operation of the Shanks infrastructure, the construction of which is now completed.
- 6.2. There continues to be certain risks related to uncertainty about the overall levels of waste to be disposed of. Every additional 1% of waste above the predicted levels would require £400k of withdrawals from the contingency or from reserves. In respect to 2009/10 the recommended deferral of the approval of the ABSDP for a few months will allow the waste tonnage predictions to be reviewed again before the levy is set in February 2009, thus helping to reduce the exposure to this risk. The other main operational risk remaining is that one of the contractual targets will not be met i.e. the primary recycling target of 22%. In more detail the risk can be broken down into three main issues:-
  - a) The most recent uncertainty concerning current performance is whether there will be markets for the recycling materials collected by the Boroughs and for the materials produced by the refinement section of the Bio Mrfs. There is a market trend towards higher-quality recyclates and this trend is expected to continue throughout this year and next.
  - b) The continuing uncertainty in respect of Shanks' ability to produce significant quantities of glass recycling and the compostable elements of residual waste from the Bio Mrf. To date the levels of these materials have been lower than expected.
  - c) New arrangements for dealing with orange bags and some bulky waste have just opened at Jenkins Lane. It is too early to judge the likely future performance of these new operations but there have been 'teething problems' in some recent weeks.

## 7. Supplementary Proposals for the ABSDP 2009/10

- 7.1. The ELWA Management Board considered the strategic risk assessment and considered proposals that might minimise the exposure to waste growth and poor recycling performances in the future. The policy recommendations in the accompanying report on the 5year Service Delivery Plan address these issues.
- 7.1 But the Board also concluded that, in respect to 2009/10, an increased financial incentive to ELWA Ltd for recycling performance above 22% could be justified on the following grounds:
  - the Boroughs wish to achieve higher recycling/composting performances to meet their targets under the new national performance framework;
  - the proposed enhanced incentive would be paid for performance above 22%, thus helping to encourage performance up to that level;
  - it is a positive response to the contractor in the current circumstances rather than a negative one;

- there is no overall increase in cost to ELWA because additional recycling/composting incentivised by this proposal would reduce landfill and therefore reduce landfill taxes that would otherwise be borne by the Authority.

7.2 Accordingly there is an additional proposal recommended in this report concerning the ABSDP 2009/10 which is to increase the supplement payable to ELWA Ltd for every tonne of recycling or composting above 22% by approximately £10.

7.3 The Board also considered the rapidly unfolding market crisis affecting the recycling sector. This is referred to in more detail in the Waste Management Report elsewhere on the agenda.

7.4 The Board concluded that it would be premature to consider a specific response and would await developments but recognised that outlets for current recycling streams could be threatened, particularly if the quality of the recyclates is poor or significantly contaminated.

## **8. Financial Implications**

8.1. The Finance Director's report on the levy forecast for the next 3 years takes into account the financial information in this report.

8.2. Once approved the financial implications of the approved ABSDP for 2009/10 are included in the levy report for 2009/10 which comes before the Authority for approval in February 2009. In addition, contingency provisions will be considered in respect of possible variations to circumstances within the ABSDP during the course of the forthcoming year.

8.3. The overall cost of waste disposal under the IWMS Contract for 2009/10 of £50.6m is lower than had been predicted because Boroughs have been successful in reducing overall waste levels and because the contractor has been successful in diverting more waste from landfill. It is also to be noted that 2009/10 is the second full year when the basic cost per tonne is at its maximum in real terms (i.e. excluding inflation). The only significant cost increases in future years, that can be currently anticipated, are those which arise from increases in waste volumes plus the unavoidable increases in landfill taxes and inflation. This long term contractual capping of future costs puts ELWA in a strong financial position compared to many other Waste Disposal Authorities who are more exposed to increases in costs related to increases in disposal cost and landfill taxes.

8.4. A review of financial incentives to the contractor has been under consideration for some time and a specific proposal has been made in paragraph 7 to increase the financial supplement to the contractor for recycling performance above 22%. This is an interim proposal for agreement as part of the 2009/10 ABSDP. There would be a small financial saving to the Authority if this supplement became payable (ie. performance exceeded 22%) because landfill tax would be avoided. The saving is approximately £5k for each additional 1% of recycling performance above 22%.

## **9. Conclusion**

- 9.1. The ABSDP is an important planning and budgeting document for the Boroughs and ELWA Ltd and ELWA.
- 9.2. The ABSDP for 2009/10 submitted by the Contractor is compliant with the long term Service Plans previously approved. In general terms, and subject to markets, officers are more confident that 22% recycling will be achieved in 2009/10, but there continues to be significant uncertainties.
- 9.3. The IWMS Contract requires the ABSDP to be agreed by ELWA by 30 November. ELWA Ltd's agreement would be required if there were to be a delay in approval beyond the 30<sup>th</sup> November, and that agreement has been gained.
- 9.4. The ABSDP 2008/09 should be seen as a 'stepping stone' to the next 5 Year Service Delivery Plan which is effective from 1<sup>st</sup> April 2010. There is a separate report on the agenda regarding the latter.
- 9.5. Continual consideration is being given to improving performance and one specific proposal is made in respect of 2009/10 in paragraph 7.

## **10. Recommendation**

### 10.1. Members are recommended:-

- i) to receive the report of officers and note the main risks and uncertainties concerning the 2009/10 ABSDP;
- ii) to approve the 2009/10 ABSDP in principle but delay final approval until February, by which time the level of uncertainty concerning waste growth and some new operations should have been reduced. (See paragraph 6).
- iii) to approve an interim increase for 2009/10 in the supplement payable to the Contractor for recycling and composting performance in excess of the contractual target of 22% (see paragraph 7 & 8).

Tony Jarvis  
**EXECUTIVE DIRECTOR**

## **Appendices**

- A Background
- B Operational Summary
- C Waste Flow Summary
- D Performance
- E Financial Information

## **Background papers**



**EAST LONDON WASTE AUTHORITY**

**1 Background To Service Delivery Plans and the Works Delivery Plan**

- 1.1 The IWMS Contract contains specific requirements regarding Service Delivery Plans. These requirements are summarised below.
- The Overall Service Delivery Plan (OSDP) of ELWA Ltd is a Plan that covers the 25 years of the Contract. This large document is a schedule to the Contract and is essentially the operational and technical proposal by Shanks Waste Services (SWS) to meet ELWA's requirements.
  - The 3 or 5 Year Service Delivery Plan (SDP) follows a similar format to the OSDP but provides a greater level of detail. The first 5 Year SDP is also a schedule to the Contract. The second and subsequent 3 or 5 Year SDPs will be submitted for approval by ELWA in the future but must be prepared so that they are consistent with the OSDP. (The 3 year SDP for the period 2007/08 to 2009/10 was approved at the last Authority meeting).
  - The Annual Budget and Service Delivery Plan (ABS DP) follows a similar format to the other SDPs but provides a greater level of detail, particularly in respect of financial matters. The first ABS DP, relating to the period up until 31<sup>st</sup> March 2003, was finalised and incorporated as a schedule to the Contract. In subsequent years, the ABS DP is considered in the Autumn prior to the commencement of the relevant financial year to which it relates. This will ensure that the levy report in February can fully reflect the likely expenditure commitments arising from the Contract.

**2 Background To The Works Delivery Plan**

- 2.1 Another schedule to the Contract is the Works Delivery Plan (WDP) which sets out ELWA Ltd's proposals to develop the sites and construct new facilities. This is an important document and contains timetables for the completion of the works. These timetables have been slightly pushed backwards in time because of some delays in obtaining planning permissions in respect of the proposed developments.
- 2.2 The Works Delivery Plan reaches its conclusion in 2008/09 when all the new facilities are completed and in full operation.

**3 Implications Of The Service Delivery & Works Delivery Plans**

- 3.1 The OSDP, the first 5 Year SDP and the first ABS DP are all schedules to the Contract and are contractually binding.
- 3.2 The 3 Year SDP for the period 2007/08 to 2009/10 was approved by the Authority on 16<sup>th</sup> October 2006 and is now an additional schedule to the IWMS Contract.
- 3.3 Various penalties can be applied by the Authority if these Plans, once approved, are not adhered to and met. In extreme circumstances, the Authority could terminate the Contract.

- 3.4 The Plans and timetables are however subject to change in some circumstances which are beyond the Contractor's control. These circumstances would include, for example, force majeure events beyond the control of the Contractor
- 3.5 The financial aspects of the ABSDP are important in the preparation of the ELWA levy. The SDP and WDP are important operationally and set out the arrangements dealing with Borough waste collections and the periods of construction and improvements to Civic Amenity sites.

#### **4 Conclusion**

- 4.1 The contractual arrangements concerning Service Delivery Plans and the Works Delivery Plan are quite specific and provide a firm foundation for the achievement of contractual targets. They also provide the flexibility to review and update plans as necessary over the life of the Contract.

2009/10 ABSDP

Operational Summary

**Waste Flows**

Borough vehicles will generally continue to deliver to their current destinations. Some variations will result from the opening of the orange bag Mrf at Jenkins Lane and the freeing up of capacity at the Frog Island RRC Mrf.

ELWA Ltd intends to internalise the processing of ELWA's waste now that all the infrastructure planned to be built under the IWMS contract has been completed, thus placing less reliance on third party transfer stations and Mrfs than in previous years. ELWA Ltd will still retain the option of using third parties to ensure service continuity in case of service disruption or site unavailability

**Bring Systems**

The existing bring sites will continue to be operated and maintained by a number of subcontractors under the management of ELWA Ltd. In conjunction with the Constituent Boroughs, ELWA Ltd will attempt to find more locations for bring sites to be developed. The selection of bring sites will be in accordance with the Bring site protocol agreed by the project team. Focus will also be given to reviewing existing bring sites in relation to the productivity of the site and if need be the site will be relocated to another location.

**Reuse and Recycling Centres**

The RRC sites will continue to operate as at present. New recycling outlets for the different types of materials are continually being explored. Dirty wood is one such opportunity that is being exploited with the potential to deliver significant additional recycling performance. Subject to capacity, residual waste from the RRC sites will be taken to the RRC MRF at Frog Island for processing to extract additional recyclates from this material.

**Frog Island RRC MRF**

This facility will be mainly utilised to process residual wastes from the RRC sites. The available hours of this facility for waste receipt will be 24 hours 7 days a week, and this will allow some third party waste to be processed, for which ELWA receives a royalty. All Borough vehicles will be able to deliver all waste (except gully detritus) to this facility and not use third party sites. This should increase the recycling achieved by this facility to almost 9000 tonnes.

**Frog Island and Jenkins Lane BioMRFs**

No changes will be made to the operation of the BioMRFs. An increase is anticipated in the despatch of Solid Recovered Fuel (SRF) due to increased confidence in this material at the cement kilns. This will contribute 60,000t to the overall diversion figure.

Markets are developing for the materials being separated at the refinement section of the BioMRFs and accordingly approximately 5% is now being added to overall contract recycling and composting performance in respect of the metals, glass and fine materials being extracted from residual waste.

### **Doorstep Collections**

The ABSDP provides for the continuing system of co-mingled doorstep collections of orange bags and the continuation of the LBBD pilot on separate collections. However SEL will remain committed to the ongoing trials of separate collection. SEL are not fully supportive of separate glass collections but will continue to receive this material, if separately collected, at the IRC. The commingled orange bags will continue to be separated from the mixed loads at Frog Island and Jenkins Lane and transferred to the new orange bag MRF at Jenkins lane for processing.

### **Jenkins Lane Orange Bag MRF**

The new orange bag MRF at Jenkins Lane is assumed (in the draft ABSDP) to process 21,000 tonnes of orange bags collected by three of the Boroughs. The tonnage despatched to reprocessors will be less than this reflecting the assumption that the MRF will work at 93% efficiency and the assumption that there will be a deduction of 23% arising from the removal of contamination. In addition to the processing of orange bags the Jenkins Lane MRF building will have the ability to process bulky waste delivered in from the Boroughs. This material traditionally went to third parties or the RRC site where very minimal recycling of this material was carried out. This new facility aims to maximise the amount of recycling from this bulky material.

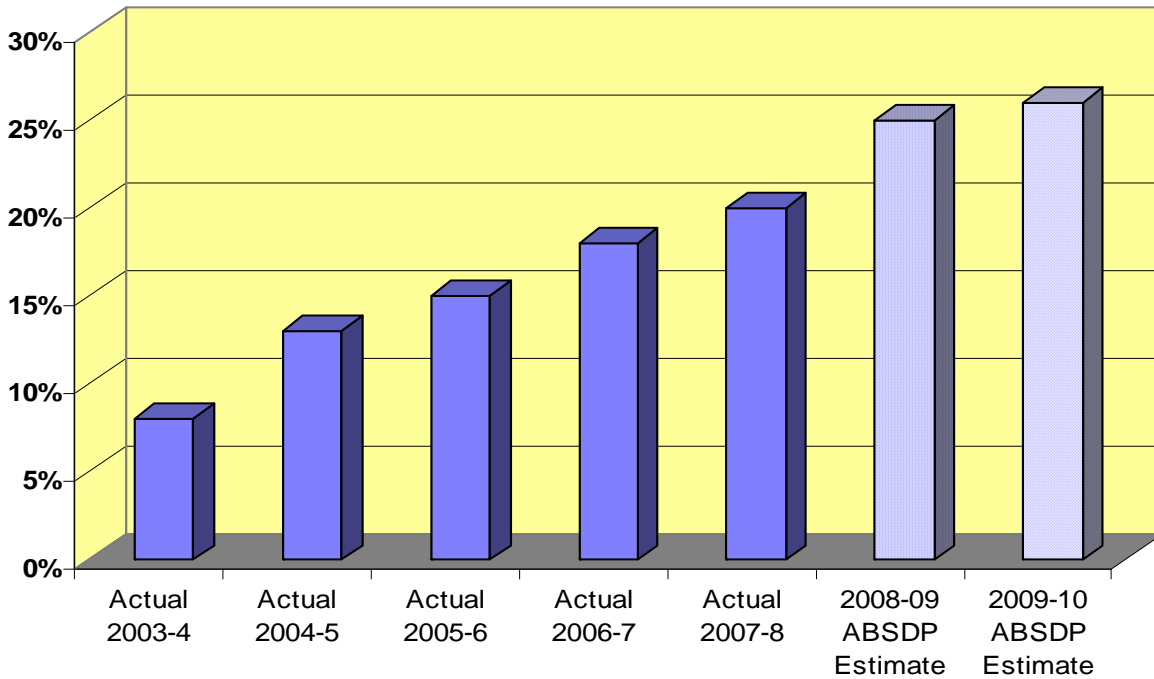
### **Summary of Performance Increase Activities**

1. Increased despatches of Solid Recovered Fuel to cement kilns contributing to a 7% improvement in diversion from landfill performance.
2. More markets for materials separated at the refinement section;
3. Improved market for dirty wood composting;
4. Much reduced use of third party transfer stations and MRFs;
5. Return to the reprocessing of residual materials from the RRC sites in the RRC MRF;
6. increased recovery efficiency of orange bags from BioMRFs and specialised Orange Bag MRF at Jenkins Lane;
7. continued support for Borough initiatives and separated doorstep collections.

<b>ABSDP 2009/10</b>			
<b>Waste Flow Summary - First Draft</b>			
	<b><u>Tonnes</u></b>	<b><u>ABSDP %</u></b>	<b><u>Target %</u></b>
Total Contract Waste	<u>500,454</u>	<u>100</u>	
Bring site Recyclates	6,527		
Havering Orange Bag Recyclates	5,704		
B&D Orange Bag Recycling	4,953		
Newham Orange Bag Recycling	4,353		
Other Recycling (inc Green collections)	4,226		
Redbridge Box Recyclates	11,325		
CA Waste Recyclates Processed	37,439		
Jenkins/Frog Is RRC Mrf Recyclates Processed	11,785		
BioMrf - Recyclates Processed	16,470		
BioMrf – Material composted	7,310		
<b>TOTAL CONTRACT RECYCLING &amp; COMPOSTING PERFORMANCE IN ABSDP 2009/10</b>	<b>110,092</b>	<b>22</b>	<b>22</b>
RRC Mrf Secondary Recycling	10,021		
RRC Secondary Recycling	4,990		
Total Secondary Recycling	15,011		
<b>OVERALL CONTRACT RECYCLING &amp; COMPOSTING PERFORMANCE (INCLUDING SECONDARY RECYCLING)</b>	<b>140,114</b>	<b>25</b>	<b>25</b>
Other Diversion From Landfill via Ecodeco Process	143,066		
Other Diversion From Landfill via London Waste (Clinical Waste)	469		
<b>OVERALL DIVERSION FROM LANDFILL INCLUDING RECYCLING &amp; COMPOSTING IN ABSDP 2009/10</b>	<b>283,649</b>	<b>54</b>	<b>40</b>

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### BVPI / NI Performance



#### ESTIMATED RECYCLING PERFORMANCE IN THE 2009/10 ABSDP

DESCRIPTION	BARKING & DAGENHAM	HAVERING	NEWHAM	REDBRIDGE	ELWA
Contract Waste (Tonnes)	100,602	134,733	144,964	120,201	500,500
Total Household Waste (T)	84,422	115,469	120,045	102,529	422,465
Total Residual Household Waste (T)	61,384	80,588	97,712	72,809	312,493
Total Number of Housholds	70,030	98,732	100,373	98,431	367,566
Recycling - Subject to Markets (T)	23,039	34,881	22,333	29,721	109,974
NI 191 Target %	Not set	809	1024.50	Not set	N/A
NI 191 ABSDP estimate %	876	816	973	739	N/A
NI 192 Target %	25.5%	30.0%	22.0%	27.5%	N/A
NI 192 ABSDP estimate %	27.3%	30.2%	18.6%	29.0%	N/A

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*(Contact Officers: Tony Jarvis - Tel 020 8270 4965)***EAST LONDON WASTE AUTHORITY****24 NOVEMBER 2008****EXECUTIVE DIRECTOR'S REPORT**

<b>SERVICE DELIVERY PLAN 2010/11 TO 2014/15 (5 YEAR)</b>	<b>FOR CONSIDERATION</b>
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**1 Purpose**

- 1.1 To consider ELWA's policy direction in respect of the preparation of the 5 Year Service Delivery Plan to come into effect on 1<sup>st</sup> April 2010.
- 1.2 To request Waste Plans from the Constituent Councils for the 5 year period commencing 1st April 2010.

**2 Background**

- 2.1 The 5 year Service Delivery Plan is a strategic document agreed between ELWA and ELWA Ltd. It is a contractual document that becomes binding on the parties once agreed.
- 2.2 The current 5 Year Service Delivery Plan ends on 31st March 2010 and the next 5 Year Service Delivery Plan will be negotiated during 2009 for commencement on 1st April 2010.
- 2.3 The previous reports, leading up to the recommendations in this report, are in background papers.
- 2.4 The report on the outcome of the informal ELWA and Borough Workshop on the 2nd October has been circulated separately.

**3 Strategic Importance**

- 3.1 The 5 Year Service Delivery Plan commencing on 1<sup>st</sup> April 2010 is strategically important because all of the waste disposal infrastructure required of ELWA Ltd has now been completed and expected future performance can now be assessed. If performance improvements are required, above that expected, the next 5 year Plan must provide the focus for agreeing those improvements.
- 3.2 In practice all Boroughs are currently engaged in a review of their waste collection infrastructure. ELWA and Shanks are supporting a number of trials to ascertain the optimal way ahead.

**4 Key Policy Issues for ELWA**

- 4.1 The Joint Waste Management Strategy, agreed by ELWA and the Boroughs in 2006, sets the strategic goals for 2010 and later years. These are set out in Appendix A and include the 30% recycling and composting target from 2010/11 and a 45% diversion from landfill target from that date. From a waste disposal point of view the infrastructure built under the IWMS Contract (and the related incentives and penalties within it) have been sufficient to achieve target performance in respect of the

diversion from landfill. This achievement is significant in terms of environmental benefits (greenhouse gases) and financial benefits (savings in landfill tax).

4.2 However, experience has shown that current waste disposal infrastructure and the current waste collection arrangements have not been sufficient to achieve target performance in respect of recycling and composting.

4.3 To achieve target performance on recycling and composting in the next five year plan for 2010/11 to 2014/2015 it would be necessary to first re-address some of the fundamental policy issues that have determined the operational arrangements in the Service Delivery Plans up to now.

4.4 The fundamental policy issues can be simplified as:-

- the assumption that waste would grow by 3% pa;
- the assumption that co-mingled collections (of orange bags and residual waste) would continue;
- the assumption that recycling material collected at the doorstep would be of a satisfactory quality to be accepted by reprocessors.

## **5 The Total Amount of Waste Collected**

5.1 The original Service Delivery Plans agreed in 2002 assumed waste would grow by 3% pa.

5.2 Consideration should now be given to replacing this assumption of growth with an assumption that the amount of residual waste collected must be controlled and if possible reduced. There are a number of reasons for this including:

- the municipal waste arisings in the four Boroughs continue to be amongst the highest in London;
- the cost to local taxpayers of waste disposal has risen dramatically (mainly because of landfill tax increases) such that an average tonne of waste costs perhaps £80 to dispose of, This figure is increasing by at least, 10% p.a. if that waste is landfilled;
- since the signing of the IWMS Contract, Government environmental strategies have risen up the public agenda and are being converted into legislation (eg. the landfill allowance regime requires a significant reduction of landfilled waste if penalties are to be avoided);
- environmental responsibilities (including 'polluter pays' principle) are similarly being enforced in respect of non-household waste;
- to encourage the use of recycling containers;
- the amount of residual waste collected by Boroughs is now a key indicator (and also a Target for some Authorities) under the new Local Government Performance Framework.

5.3 The improved controls over wasteflows introduced by Shanks at the commencement of the Contract have been successful in constraining waste growth. However, further measures need to be considered.

5.4 ELWA, itself, does not generate waste and must respond to the arisings within the four Boroughs delivered to it by the Boroughs' and by the Borough's residents.

5.5 Therefore the policy thrust from ELWA is best phrased as a recommendation to the Boroughs:

New Policy 1 (for the 5 Year SDP 2010/11 – 2014/15)	It is ELWA's policy that, during the period 2010/11 to 2014/15, Constituent Councils, in pursuance to waste minimisation principles, consider introducing some constraints on the amount of residual waste collected.
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5.6 This policy can be implemented in a number of ways by the Boroughs but the intention would be that implementation would complement other waste management and street scene improvements. This policy could be 'cost neutral' to the Boroughs because savings in the amount of waste passed to ELWA for disposal will produce pro-rata savings in the ELWA levy, which could offset increased costs.

## **6 The Collection of Recyclates**

6.1 The original Service Delivery Plans assumed co-mingled collections in three Boroughs and assumed very little attention would be given to the issue of contamination in those collections.

6.2 The current Borough collection arrangements and the current performance of Shanks are both under scrutiny in respect of recycling performance and contamination issues. New policies for the next 5 year plan are necessary to reduce losses of recyclates during collection and processing, and to increase the quality of the recycling material being collected and sent to reprocessors.

6.3 Previous reports to the Authority (see Background Papers) have identified a number of potential opportunities to increase recycling and reduce contamination from orange bag collections. In summary the main points are:

- a) there is currently a high proportion of contamination (non recyclable material) in many orange bags, but better communications and on-street enforcement activity can significantly reduce this problem,
- b) a significant proportion of the recyclable material in orange bags can be lost during the co-mingled collection and transportation processes, but current trials are indicating that the loss can be almost eliminated by separate collections,
- c) a further significant proportion of the recyclable material can be lost in the separation and screening processes at Frog Island and Jenkins Lane, but the closure of the current opti-bag separation processes will eliminate those losses

6.4 The policy thrust is again most appropriately phrased as a recommendation to the Boroughs:

New Policy 2 (for the 5 year SDP 2010/11-2014/15)	It is ELWA's policy that, in the period 2010/11 to 2014/15, Constituent Councils cease the co-mingled collection of dry recyclates and residual waste from the doorstep, to be replaced with the separate collections of recyclates and a system of quality control to reduce contamination in the recyclable material collected.
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6.5 This policy can be implemented in a number of ways but it is recognised that there are likely to be financial implications that will need to be considered. The broad financial implications of new Policy 2 are considered in the next paragraph.

## 7 Financial Implications.

7.1 The financial implications for the Authority have been projected in the following table. For the purposes of this exemplification it has been assumed that the overall amount of waste for disposal has reduced by 5% and the overall amount of recycling has increased by 5%, by the end of a three year period, as a result of the phased implementation of the two policies.

7.2 The first line of figures in the table represents the original financial model for the IWMS Contract (updated for landfill tax increases) and a comparison with the current three year financial projection in the second line demonstrates the beneficial financial impact already achieved to date by waste minimisation. The third line of figures is the new projection.

Scenario	2010/11 £m	2011/12 £m	2012/13 £m
Original IWMS Financial Model	61.2	65.2	69.1
Current 3 year Projection	53.9	57.0	60.4
Exemplified Policy Impact	53.0	55.0	58.0

7.3 Separate collection of doorstep dry recyclates (financial aspects)

- a) The precise arrangements within each Borough for the separate collection of recyclates continue to be the subject of detailed consideration and trials. Changes are most viable when implemented alongside other waste management and street scene policies. It is likely that there are cost implications for the Boroughs.
- b) However in proposing this policy ELWA is able to bring into the financial equation an offer from ELWA Ltd to pass back to ELWA savings from ceasing the opti-bag operations. The Opti bag operations at Frog Island and Jenkins Lane separate the orange bags from residual waste. The savings to ELWA Ltd from ceasing opti-bag operations at both sites was assessed in the summer as an ongoing £1¼m p.a.

- c) The ELWA Management Board are considering ways in which the Authority could ease the transition to separate collections and bring forward the date when the additional source of funding from ELWA Ltd can be achieved.

#### 7.4 To improve quality of recyclates collected (financial aspects)

- a) A major element of improving the quality of recyclates collected is to cease co-mingled collections, thus avoiding the losses of recyclates during collection and separation from residual waste, and avoiding the high levels of contamination that have arisen in the past. The cost implications are discussed in the previous paragraph.
- b) Increased communication and enforcement activities are also a key element in achieving improved quality of recyclates. Quality is becoming an imperative for accessing recycling processors. However, these activities are not necessarily separate from other initiatives to improve the street scene and minimise waste. ELWA's detailed involvement in such activities is not seen as a practical option but the Authority has approved a contribution of £150k towards an enhanced communications strategy.

### 8 Conclusion

- 8.1 The Authority should consider adopting new policies to clarify its position for future Service Delivery Planning, particularly when addressing the performance improvements required in the next 5 year plan commencing in 2010/11.
- 8.2 The main issues to be addressed by new policies are Waste Minimisation and Recycling Performance.
- 8.3 Two high-level policies are recommended to address these issues and change the original assumptions in the existing contractual documents.
- 8.4 Fundamental improvements in recycling performance may also arise from a review of the financial incentives to Shanks. These will also be considered for the next 5 year Service Delivery Plan.
- 8.5 Broad proposals need to be clarified by the Spring of 2009 for negotiation and agreement with ELWA Ltd in the summer of 2009. It is therefore suggested that Medium Term Waste Plans from the Boroughs by the Spring of 2009 (in respect of the following 5 years) would help to plan the consequential operational requirements on ELWA and ELWA Ltd.

### 9 Recommendation

- 9.1 The Authority considers the following policies in respect to preparation of the Service Delivery Plan for 2010/11 to 2014/15:-
  - a) New Policy 1 – It is ELWA's policy that Constituent Councils, during the period 2010/11 to 2014/15, in pursuance to waste minimisation principles, consider introducing some constraints on the amount of residual waste collected.

- b) New Policy 2 – It is ELWA's policy that Constituent Councils, in the period 2010/11 to 2014/15, cease the co-mingled collection of dry recyclates and residual waste from the doorstep, to be replaced with the separate collections of recyclates and a system of quality control to reduce contamination of the recyclable material collected.

9.2 It is also recommended that the Authority requests Boroughs to prepare Medium Term Waste Plans for the Spring of 2009 for consideration alongside ELWA's negotiation with ELWA Ltd of the contractual 5 Year Service Delivery Plan to be implemented from the 1st April 2010.

Tony Jarvis  
**EXECUTIVE DIRECTOR**

<b>Appendix</b>		
Appendix A Strategic Goals for ELWA and the IWMS Contract		
<b>Background papers</b>		
29/09/08	Report	Waste Management to August 2008
29/09/08	Report	Partnership Communications Strategy
29/09/08	Report	Carbon Counting
23/06/08	Report & Minute 1578	Best Value Performance Indicators 2007/08
23/06/08	Report & Minute 1579	Contract Performance 2007/08
23/06/08	Report & Minute 1584	Waste and Recycling Performance
26/11/07	Report & Minute 1536	Waste and Recycling Performance
07/04/08	Report & Minute 1565	Waste and Recycling Performance

**EAST LONDON WASTE AUTHORITY**

**Recycling and Recovery Targets**

<b>IWMS Contract</b>					
Summary of Performance target	2003/4	2005/6	2007/8	2010/11	2015/16
Minimum Performance Requirement	12% Recycling	25% Recycling	25% Recycling 40% Recovery	30% Recycling 45% Recovery	33% Recycling 67% Recovery

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