

Notice of Meeting

EAST LONDON WASTE AUTHORITY

Monday, 21 July 2008 - Civic Centre, Dagenham, 1:30 - 4:00 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.

14.07.08

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 23 June 2008 (Pages 1 - 5)**
- 3. External Audit - Audit Plan 2008/09 (Pages 7 - 23)**

PwC will be attending for this item only.

- 4. Budgetary Control Report to May 2008 (Pages 25 - 27)**
- 5. Contract Monitoring and Best Practice (Pages 29 - 32)**
- 6. Date of Next Meeting**

The next meeting will take place on Monday 29 September 2008 and Members are asked to consider a later start time of 2.00pm.

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

8. **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.

9. **Waste Management - 1st Quarter Performance (April to June 2008) (Pages 33 - 41)**

10. **Presentation by Shanks Waste Management Limited (Pages 43 - 51)**

Members are asked to receive and discuss with representatives of Shanks Waste Management Ltd, the attached presentation.

11. **Presentation by ELWA Officers (Pages 53 - 58)**

Members are asked to review Item 10 in accordance with the attached discussion plan also set out as a presentation.

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

EAST LONDON WASTE AUTHORITY

Monday 23 June 2008

(1.08 - 4.07 pm)

Present: Councillor M E McKenzie; Councillor S Kelly, Councillor M Aaron, Councillor P Murphy, Councillor P Sheekey, Councillor B Tebbutt, Councillor Mrs P A Twomey and Councillor A Weinberg

1568 Appointment of Chair

We have appointed Councillor McKenzie as Chair for the ensuing municipal year.

Councillors Kelly, Tebbutt, Murphy and Sheekey abstained from voting.

1569 Appointment of Vice Chair

We have appointed Councillor Kelly as Vice Chair for the ensuing municipal year.

1570 Apologies

None.

1571 Minutes - To confirm as correct the minutes of the last meeting held on 7 April 2008

We have agreed the Minutes of our meeting held on 7th April 2008.

1572 Membership 2008/09

We have received the Office Manager's report and welcomed Councillor Mark Aaron to the Authority as representative for London Borough of Redbridge. Noted the Authority membership as:

| | | |
|---------------------|----------------------|---------------------|
| Barking & Dagenham: | Cllr Milton McKenzie | Cllr Mrs Pat Twomey |
| Havering: | Cllr Steven Kelly | Cllr Barry Tebbutt |
| Newham: | Cllr Pat Sheekey | Cllr Patrick Murphy |
| Redbridge: | Cllr Alan Weinberg | Cllr Mark Aaron |

The Chair took this opportunity to welcome Mark Ash to the post of Assistant Executive Director at ELWA.

1573 ELWA Limited Directorship 2008/09

Having considered a report from the Office Manager on issues relating to ELWA's directorship on ELWA Limited, we have:-

- (i) appointed Councillor Weinberg as ELWA's 'A' Director on the ELWA Limited Board for the 2008/9 municipal year;

Limited Board for the 2008/9 municipal year;

- (ii) authorised the 'A' Director to act as ELWA's representative at the Annual General Meeting of ELWA Ltd;
- (iii) agreed that such appointment to take effect following prior consultation with the "B" shareholder;
- (iv) authorised the Chair to nominate an alternative 'A' Director should the need arise.

Councillors Kelly, Tebbutt, Murphy and Sheekey abstained from voting.

1574 Programme of Meetings

We have noted the agreed programme of meetings and discussed the question of visiting the key facilities and sites prior to our next meeting (21.07.08). We have agreed that we would like to visit the sites but have been unable to arrange a suitable time for all to attend. We have decided that Members will make their own ad hoc visits to the sites in conjunction with their Director accompanied by a representative of the ELWA team. We have instructed Officers to advise the Contractor of our decision.

1575 Final Financial Outturn Report 2007/08

Noted the report containing an analysis of expenditure, income and contingency and reserves and note that this is very much in line with budget monitoring reports previously received.

1576 Draft Annual Governance Statement for 2007/08 (New Governance Framework for Local Government)

We have received the Finance Director's Report together with the draft Code of Corporate Governance and draft Annual Governance Statement. We have noted the New Corporate Governance Framework for Local Government and considered and agreed the new local code of Corporate Governance. In addition we have considered and approved the draft Annual Governance Statement for the financial year ended 31 March 2008.

We have noted that the Action plan has highlighted areas for further consideration as the development of best practice in connection with contract monitoring and risk assessment/management and business continuity arrangements. Items for future review were arrangements for engaging with the public and management performance.

In respect of the last item, the Chair asked Members to be more proactive in their engagement as ELWA representatives.

1577 Draft Statement of Accounts 2007/08

We have received the Finance Director's report advising on changes in production and publication and note that the Accounts reflect the variances

mentioned in the Outturn Report. We have approved the 2007/08 Draft Statement of Accounts.

Councillor Tebbutt refrained from comment on this item.

1578 2008/09 Performance Indicators (previously included in the Best Value Performance Plan)

We have received and discussed the Contract Manager's report and the Assistant Executive Director's commentary on the Best Value Performance Statistics for 2007/08. We have discussed THE statistics and approved publication of the performance table on the ELWA website and authorised the Executive Director to approve the final version of the table for publication.

1579 Contract Performance - Summary for Year 2007/08 (including Landfill Allowance Trading Scheme (LATS) Performance)

We have noted the Assistant Executive Director's report and appendices on Contract Performance for the period April 2007 to March 2008. We have received commentary on tonnage data and contract payments, operations at the Reuse & Recycling Centres, commissioning of Jenkins Lane Bio-Mrf, Frog Island operations, contamination difficulties experienced with regard to Opti-bags and biodegradability testing.

Noted that the contract recycling rate had failed to meet target, despite an increase on the previous year's figure. The Contractor suffered a loss in recycling supplements as a consequence. Noted diversion from landfill had outperformed contracted targets and that Defra had put a notional value of £5 for accounting purposes on LATS allowances.

Members again raised their disquiet at the poor performance. In addition, it was agreed that a report explaining the different targets applying to the Boroughs and the Contractor would be circulated.

1580 Internal Audit – Progress Report 2007/08, Audit Plan 2008/09 and Planned Audit Coverage to March 2010

Received the Finance Director's report on the Authority's internal audit systems and procedures and his opinion that the overall systems are sound and that the core financial systems continue to operate effectively. He reported that more work needed to be done in respect of contract monitoring and compliance as well as some rather high level works on controls and corporate governance and financial management. We have:

- agreed the audit coverage as outlined for 2007/08 and future years.

1581 Budgetary Control Report to April 2008

We have noted the under spend of £255,000 against estimated budget for the month of April. The Finance Director drew our attention to the fact that the main

variation related to lower than expected payments to Shanks.east London because of lower tonnages of waste for disposal.

1582 Waste Management - April 2008

Received and noted the Assistant Executive Director's report and appendices. We have received commentary on tonnage data, site operations, contract monitoring, recycling performance and diversion from landfill.

Issues to note were that that the contractor had failed to meet targets for the first month of the first quarter as a result of lower tonnage and lower recycling performance. Recycling performance had been adversely affected by lower than expected green waste and contamination of orange bags. He reported that Shanks were trying to improve performance by revised working arrangements and securing new outlets for particular waste types. Diversion from landfill reached 52.3%.

Members raised concerns that the Boroughs were introducing new recycling schemes but the performance figures were not increasing.

1583 Public and Press

We have resolved to exclude the public and press from the remainder of the meeting by reason of the nature of the business transacted included the detailed business affairs of third parties which are exempt from publication by virtue of paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 as amended.)

1584 Waste & Recycling Performance

We have received the Executive Director's report and tabled documents. We have discussed at length and with some concern about the orange bag recycling performance and note that future reports on further trials and research into recycling performance will be provided.

We have agreed that it would be beneficial for Members to meet informally to discuss borough initiatives and trials and to share ideas.

1585 Contract Performance

Councillor Weinberg declared a prejudicial interest in this item and left the meeting.

The remaining Members have received the joint report of the Executive Director, Legal Adviser and External Legal Adviser, together with the appendix. We have noted and discussed the options and advice provided by the external legal adviser and thanked him for attending the meeting. We have agreed to defer consideration of the strategic way forward until the next meeting when the first quarter performance for 2008/09 will be reported.

We have asked officers to request a copy of the Contractor's presentation on Contract Performance for the first quarter and send it to us at least a week before our meeting on 21st July 2008.

1586 Closed Landfill Strategy

We have noted the Executive Director's report, appendix and commentary on progress and future steps. We have agreed to receive a future report on further negotiations and further information about the achievement of value for money from these sites.

1587 Any other business

We have agreed to hold a short workshop on the potential for Refinancing the IWMS Contract after our meeting in September and have asked officers to make the necessary arrangements.

Chair:

Dated:

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

EAST LONDON WASTE AUTHORITY

21 JULY 2008

EXECUTIVE DIRECTOR'S REPORT

| | |
|------------------------------------|------------------------|
| EXTERNAL AUDIT PLAN 2008/09 | FOR INFORMATION |
|------------------------------------|------------------------|

1. Purpose

- 1.1 To receive a report on the External Auditor's Audit Plan.
- 1.2 This document explains how the Audit Commission will review and audit the Authority in respect of the year 2008/09. The Audit Plan has been discussed with the Managing Director and Finance Director and is attached at Appendix A.
- 1.3 Members are advised that Mike Robinson and Chris Hughes, PwC, will be in attendance to answer questions.

2 Recommendations

- 2.1 Members are asked to:-
 - i) receive a report on the External Auditor's Audit Plan for the year 2008/09.

Tony Jarvis
EXECUTIVE DIRECTOR

Appendices

A Audit Plan

Background Papers

None

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May 2008

East London Waste Authority 2008/09 Audit Plan - DRAFT



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May 2008

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan for 2008/09, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting East London Waste Authority.

We would like to thank members and officers of the Authority for their help in putting together this Plan.

If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Mike Robinson or Chris Hughes.

Yours faithfully,

PricewaterhouseCoopers LLP

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In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Audit Plan has been prepared to inform the officers and Members of the East London Waste Authority (the Authority) about our responsibilities as your external auditors and how we plan to discharge them.

The responsibility for the stewardship of public funds is placed upon the Members and officers of the Authority. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Authority and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Authority for their help in putting together this Plan.

Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2008/09, including the 2008/09 final accounts audit which we will undertake in Summer 2009.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement) issued in April 2008 and both are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Authority, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Risk assessment

Planning of our audit

We have considered the Authority's operations and have assessed the extent to which we believe there are potential business risks and audit risks.

We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements or on your arrangements for the use of resources. We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our Interim Audit later this year. If appropriate, we will issue a separate opinion audit plan for our audit of the financial statements in January 2009.

At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:

- as the Authority has employed its own staff from 1 April 2007, the Accounts will need to recognise the pension liability in respect of these staff and comply with Financial Reporting Standard (FRS) 17 retirement benefits; and
- the Authority will need to comply with changes to the SORP introduced in 2007.

We have considered our understanding of how your control procedures mitigate business risks. Based on this assessment we have scoped our core work in each of these areas.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant business risks relevant to our audit responsibilities and our response to those risks. Significant audit risks are those risks requiring special audit attention in accordance with auditing standards.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Agenda Item 3 - Appendix A

Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

| Significant Business Risk | Mitigating actions by audited body | Our approach |
|--|---|---|
| <p>Relationship with Shanks Waste Management Ltd</p> <p>It is crucial that the Authority continues to maintain a good working relationship with Shanks to ensure that the objectives of the Integrated Waste Management Service Contract are met. The primary targets concern meeting the National and Municipal Waste Strategy targets for recovery and recycling.</p> | <p>Management has a number of controls in place, including partnership interfaces at all levels, contract monitoring procedures, governance arrangements and dispute resolution procedures.</p> | <p>We will discuss the Authority's governance arrangements regarding Shanks with the Chief Executive and Finance Director. Our work in this area is likely to increase given the transition from CPA to CAA (see page 9 below).</p> |

2008/09 Audit Fee

Fees

We have proposed an audit fee of £36,200, which is broken down as follows:

| | 2008/09 | 2007/08 |
|-----------------------------------|---------------|---------------|
| Accounts | 19,000 | 19,000 |
| Use of Resources and data quality | 17,200 | 17,200 |
| Total | 36,200 | 36,200 |

Our fee for accounts work includes the following:

- Audit of the financial statements for 2008/09
- Work on whole of government accounts for 2008/09

Our fee for use of resources and data quality work includes the following:

- Use of Resources assessment; and
- Review of data quality and specified performance indicators.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2009;
- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Our approach to the audit

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- Use of Resources.

We are required to issue a two-part audit report covering both of these elements.

Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Authority. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit. From 2008/09 these will be based on International Financial Reporting Standards (IFRS).

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Agenda Item 3 - Appendix A

This conclusion is based on 12 Code criteria, which the Audit Commission have published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our use of resources conclusion we will seek to rely on:

- Your self assessment against the criteria;
- Your Internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Authority.

As noted above, our conclusion will be issued as part of the audit report on your 2008/09 financial statements.

Mandatory work for 2008/09

Use of Resources

We will be required to carry out work at the Authority for the 2008/09 Comprehensive Performance Assessment (CPA) in respect of the use of resources.

The use of resources assessment is a key part of CPA and will be conducted in all Authorities. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Authority. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

The Audit Commission defines the scope and methodology for the work required to form the use of resources assessment and the links between this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The audit and inspection year 2008/09 marks the year of transition from Comprehensive Performance Assessment (CPA) to Comprehensive Area Assessment (CAA).

This will be the last year in which the Audit Commission will carry out corporate assessments and programme service inspections on the current basis as part of the CPA framework. From April 2009, they will be implementing Comprehensive Area Assessment (CAA), jointly with the other public service inspectorates.

As part of the transition to CAA the scope of the use of resources assessment will broaden to reflect 'new' areas such as commissioning. It will also encompass a wider definition of resources, covering natural resources, people and information technology.

Our use of resources judgements will therefore serve two purposes: as a basis for value for money conclusions and as an input into the first results of CAA which will be reported in autumn 2009.

Local Government Data Quality Reviews

We will be required to review data quality and performance indicators specified by the Audit Commission.

Our approach will comprise of three stages:

- Review of the overall management arrangements to secure data quality
- Completeness checks of reported performance information
- Data quality spot checks

Our team and independence

| Audit Team | Responsibilities |
|--|--|
| <p>Engagement Director <i>Mike Robinson – 1st year on the audit</i> Tel: 020 7804 3687 E-mail: mike.s.robinson@uk.pwc.com</p> | <p>Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.</p> |
| <p>Engagement Manger <i>Chris Hughes – 1st year on the audit</i> Tel: 020 7804 3392 E-mail: chris.hughes@uk.pwc.com</p> | <p>Engagement Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Report on the Accounts Audit and Annual Audit Letter.</p> |

Our team members

It is our intention that staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) or who as a director for another audit or advisory client of the firm should notify us, so that we can appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Authority, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Members of the Authority. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Authority with the outputs of our audit.

| Stage of the audit | Output | Timing |
|-----------------------|---|------------------------------------|
| Audit planning | Audit Plan | June 2008 |
| Audit Reports | <p>Report on accounts audit incorporating specific reporting requirements under Auditing Standard (ISA (UK&I) 260), including:</p> <ul style="list-style-type: none"> Any expected modifications to the audit report Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust Material weaknesses in the accounting and internal control systems identified as part of the audit Our views about the qualitative aspects of your accounting practices and financial reporting Any other relevant matters of governance interest and Summary of findings from our use of resources audit work to support our value for money conclusion. <p>Opinion on the Financial Statements and conclusion on the Authority's arrangements for its Use of Resources</p> | September 2009 |
| | Whole of Government Accounts Audit Report | September 2009 |
| | Annual Audit Letter | October 2009 |
| | Other Audit Reports We will report as appropriate on the results of any targeted audit work we carry out | November 2009 |
| | | To be agreed in Terms of Reference |

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to East London Waste Authority and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Agenda Item 3 - Appendix A

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

In the event that, pursuant to a request which East London Waste Authority has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. East London Waste Authority agrees to pay due regard to any representations which PwC may make in connection with such disclosure and East London Waste Authority shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, East London Waste Authority discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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*(Contact Officers: Jay Gohil: 020 8708 5086)***EAST LONDON WASTE AUTHORITY****21 JULY 2008****FINANCE DIRECTOR'S REPORT**

| | |
|--|------------------------|
| BUDGETARY CONTROL REPORT TO 31st MAY 2008 | FOR INFORMATION |
|--|------------------------|

1 Introduction

- 1.1 This budgetary control report compares ELWA's actual expenditure for the two months ended 31st May 2008 with the original revenue estimates approved in February 2008 and is based on information supplied by Shanks.east london and the four Councils.
- 1.2 Budgetary control reports are presented for monitoring and control purposes.

2 Revenue Estimates

- 2.1 Based on the profiled budget of £7,799,000 and the actual net expenditure on services of £7,529,000, the underspend for the period is £270,000 (see Appendix A). After the first two months of the 2008/09 financial year it is very difficult to draw any firm conclusions as it is still an early stage in the year.
- 2.2 The main variation continues to relate to the payment to Shanks.east london which is lower than that anticipated in the Annual Budget & Service Delivery Plan by £232,000 as a result of less tonnes requiring disposal during the months of April and May 2008 than previously forecast (see separate report elsewhere on the agenda on Contract Monitoring for further details).
- 2.3 ELWA's original Contingency sum for 2008/09 is £550,000 and comprises of a £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 is no utilisation to date.
- 2.4 Due to market conditions there have been no sale of surplus LATS allowances to date. Officers will continue to review the situation.
- 2.5 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

- 3.1 The Prudential Indicators for 2008/09, previously agreed by the Authority, covering borrowing, lending and capital expenditure limits are monitored by the Finance Director on a monthly basis. The Authority's Treasury Management and Capital activities for the two months ended May 2008 remain within the limits set.

4 Recommendation

4.1 Members are asked to note this report.

Geoff Pearce
FINANCE DIRECTOR

Appendix

A Budget Monitoring Statement to 31st May 2008

Background Papers

None

EAST LONDON WASTE AUTHORITY
BUDGET MONITORING STATEMENT TO 31st MAY 2008

| <u>EXPENDITURE</u> | <u>Original Budget 2008/09 £'000</u> | <u>Profiled Budget to 31.5.08 £'000</u> | <u>Total Actual to 31.5.08 £'000</u> | <u>Variance to 31.5.08 £'000</u> |
|---|---|--|---|---|
| <u>Employees</u> | 436 | 73 | 71 | -2 |
| <u>Premises Related Expenditure</u> | 151 | 25 | 13 | -12 |
| <u>Transport Related Expenditure</u> | 14 | 2 | - | -2 |
| <u>Supplies and Services</u> | | | | |
| Payments to Shanks.east London | 47,701 | 8,266 | 8,034 | -232 |
| Other (inc cost of Support Services) | 608 | 101 | 97 | -4 |
| <u>Third Party Payments</u> | | | | |
| Disposal Credits | 100 | 17 | 17 | - |
| Recycling Initiatives | 205 | 34 | 34 | - |
| Tonne Mileage | 600 | 100 | 100 | - |
| Rent payable - property leases | 267 | 44 | 44 | - |
| <u>Capital Financing Costs</u> | 256 | 43 | 43 | - |
| TOTAL GROSS EXPENDITURE | 50,338 | 8,705 | 8,453 | -252 |
| <u>Income</u> | | | | |
| Commercial Waste Charges | -3,988 | -665 | -665 | - |
| Interest on Balances | -1,430 | -238 | -248 | -10 |
| Other Income | -20 | -3 | -11 | -8 |
| TOTAL INCOME | -5,438 | -906 | -924 | -18 |
| Contingency Allocated | 550 | - | - | - |
| NET EXPENDITURE ON SERVICES | 45,450 | 7,799 | 7,529 | -270 |
| Levy Receivable | -36,300 | -6,366 | -6,366 | - |
| PFI Grant Receivable | -4,355 | -726 | -726 | - |
| Transfer to PFI Contract Reserve | 4,355 | 726 | 726 | - |
| Transfer from PFI Contract Reserve | -7,400 | -1,233 | -1,233 | - |
| Contribution from Reserve Reserves | -1,750 | -292 | -292 | - |
| REVENUE SURPLUS FOR PERIOD | 0 | -92 | -362 | -270 |

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*(Contact Officer: Mark Ash - Tel. 020 8270 4964)***EAST LONDON WASTE AUTHORITY****21 JULY 2008****JOINT REPORT OF THE OPERATIONS DIRECTOR AND
ASSISTANT EXECUTIVE DIRECTOR**

| | |
|--|---------------------|
| CONTRACT MONITORING AND BEST PRACTICE | FOR APPROVAL |
|--|---------------------|

1 Purpose

- 1.1 To review the monitoring and management system of the Integrated Waste Management Strategy (IWMS) contract.

2 Background

- 2.1 The Authority has raised concerns at previous meetings about the robustness of the contract management regime for the SEL contract. These concerns have echoed matters raised at the ELWA Management board and in response work has commenced to improve on current arrangements.
- 2.2 Major service changes, arising from the construction of the £100M of new infrastructure, are now complete. It is therefore timely to develop Best Practice in terms of routine contract monitoring. The objective will be to develop Best Practice for contract monitoring which also satisfies the New Corporate Governance Framework for Local Government.
- 2.3 In determining what changes to make the following reviews were undertaken.
- Establish Best Practice by reviewing guidance released by Audit Commission, London Centre of Excellence, HM Treasury, National Audit Office, Cabinet Office, Office for National Statistics, Office of Government Commerce and the Improvement and Development Agency;
 - Reviewing internal and external audit reports;
 - Reviewing existing practices and comparing against Best Practice.

- 2.4 This report highlights areas that can be improved.

3 Areas for Improvement**3.1 Contract monitoring**

- 3.1.1 On site monitoring is currently carried out by three different groups of staff i.e. staff from the constituent councils, staff from ELWA and staff from London Remade.
- 3.1.2 On site monitoring covers Bring sites, RRC sites and Key facilities.

- 3.1.3 The frequency of inspections and parameters to be checked are controlled via Service Level Agreements (SLA) in respect of constituent councils' staff and London Remade.
- 3.1.4 Follow up action is instigated as required, by ELWA Officers.

Areas for improvement

- 3.1.5 In reviewing files the audit trail of how some issues were being resolved lacked full clarity. A clear route of escalation is proposed. There are two proposed escalation routes:
- Internal escalation – Escalation of a problem or potential problem can be made through the ELWA management and Member structure.
 - External escalation – The point at which the problem or potential problem is raised with the contractor.
- 3.1.6 A Continuous Action Log will be used to track issues raised and their progress

3.2 Contract Review Meetings

- 3.2.1 Currently fortnightly review meetings take place between the contractor and an ELWA officer.

Areas for improvement

- 3.2.2 It is recommended that the current review meetings remain in place at the same frequency. It is proposed that a new agenda be introduced to encompass the new control and reporting mechanisms, including:
- the items that require the contractor's signature, and
 - notification to the contractor of any items that have been escalated.
- 3.2.3 An internal fortnightly meeting is proposed to tie in with the above meeting between ELWA officers to consolidate information and decide on actions to be taken. Once per month the Executive Director would join this meeting.
- 3.2.4 It is proposed that quarterly meetings are scheduled to review the previous quarters performance against the ABSDP involving ELWA officers and senior Shanks Management.

3.3 Reporting of Performance

- 3.3.1 At present contract documents and processes do not generate one clear document which allows performance data to be shared.
- 3.3.2 Follow up actions are currently ad hoc unless penalties are incurred under the payment mechanism.

Areas for improvement

- 3.3.3 The performance and monitoring data should be recorded in a format that facilitates analysis and trending. The format should allow for decisions to be made and recorded on trend performance and prompt automatic escalation of a problem.
- 3.3.4 New reporting formats are developed which separate the issues of monitoring and performance annexed with contract performance indicator tables. These new formats, if agreed, will be used from September 2008.
- 3.3.5 The ABSDP each year will create further service milestones which need to be specifically monitored to ensure goals are met. These milestones will be reported in the new reporting format.

4 Financial Implications

- 4.1 At the current time there are no perceived financial implications as a result of these proposals as they are intended not to be onerous. However should unsuspected events occur or poor performance becomes more extensive, then current resource levels might be inadequate to maintain the proposed standard of monitoring outlined in this report.

5 Legal Implications

- 5.1 All amendments are designed to fall within the specification of the contract for monitoring and therefore no contractual or legal implications are foreseen.
- 5.2 As with all contractual matters issues of dispute and differences of interpretation can arise and recourse to legal advice should continue to be available.

6 Conclusion

- 6.1 The Contract monitoring and management proposals are designed to improve:
- contract monitoring and escalation of issues;
 - contract review meetings;
 - reporting of performance against targets;
 - reporting of project milestones.
- 6.2 In addition:
- Arrangements are focused on desired outcomes.
 - Performance measurements are not overly burdensome on the Authority or Shanks and are intended to avoid perverse reactions.
 - Problems are dealt with in a timely fashion with clear accountability through the escalation procedure.
 - All systems are designed to deliver continuous improvement.
 - The systems are fully auditable.

7 Recommendations

7.1 It is recommended that Members:

- i) note that a thorough review of Best Practice of contract monitoring has been undertaken with references and guidelines set out in background papers;
- ii) agree to the recommendations in the report in respect of the areas for improvement.

Shirley Clark / Mark Ash

OPERATIONS DIRECTOR / ASSISTANT EXECUTIVE DIRECTOR

| Appendices | | | |
|--------------------------|-------------|---|---|
| | Date | Description | Title |
| None | | | |
| Background Papers | | | |
| A | 23/06/08 | Finance Director's Report | Draft Annual Governance Statement |
| B | 2001 | Framework for Performance Information. (HM Treasury, Cabinet Office, National Audit Office, Audit Commission, Office for National Statistics) | Choosing the Right FABRIC |
| C | 2005 | Toolkit (Office of Government Commerce) | Successful Delivery Toolkit |
| D | 2008 | Guidance (Office of Government Commerce) | Improving Performance – Project evaluation and benchmarking |
| E | 2000 | Management Paper (Audit Commission) | Aiming to improve – the principles of performance measurement |
| F | 2007 | Manual of Best Practice (London Centre of Excellence) | You and your contractor |
| G | 2002 | Practical Guide (Improvement & Development Agency) | Making Performance Management work |

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